



MAINSTREET EQUITY CORP.

1

2005 ANNUAL REPORT

Corporate Profile

Mainstreet Equity Corp. is a Canadian real estate company focused on acquiring and managing multi-family residential properties in the mid-market. Founded in 1997, Mainstreet works to create value by purchasing under-performing properties, renovating them to a branded standard, improving operating efficiencies and repositioning them in the market for greater returns. The company occasionally divests properties to redirect capital into new, higher potential investments. As of December 15, 2005, Mainstreet owns and operates more than 3,800 units in Vancouver/Lower Mainland (Surrey), Calgary, Edmonton and Greater Toronto Area.

The Annual General Meeting of shareholders of Mainstreet Equity Corp. will be held on January 27, 2006 at 10:00 a.m., in the offices of Warren Tettensor Amantea law firm, 1413 – 2 Street SW, Calgary, Alberta.

The annual report, including the letter to shareholders and management's discussion and analysis, may contain forward-looking statements that involve risks and uncertainties regarding the outlook for Mainstreet's business and results of operation. The nature of these risks and uncertainties could cause actual results, performance or achievements to differ materially from those indicated. Management believes that the expectations reflected in its forward-looking statements are reasonable but no assurance can be given that the expectations will prove to be correct and the forward-looking statements in this annual report should not be unduly relied upon.

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MAINSTREET CREATES VALUE.

By transforming undervalued rental properties into high performers, we have built a portfolio of properties with a market worth of more than \$300 million.

300

MILLION DOLLARS



MAINSTREET
EQUITY CORP.



AR2005

MAINST.BIZ

\$300,000,000

MARKET VALUE



MAINSTREET
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MESSAGE TO SHAREHOLDERS

30

PER CENT

MESSAGE TO SHAREHOLDERS

“Mainstreet’s total portfolio grew by 30 per cent compared to 2004 as a result of acquiring 817 apartment units in our four focus markets...”

At Mainstreet, we are value creators.

Since the company went public in 1998, we have increased the value of our portfolio from approximately \$17 million to more than \$300 million as of September 30, 2005. This represents a compound annual growth of more than 50 per cent over seven years.

As a mid-market leader, Mainstreet creates value by acquiring under-performing, multi-family real estate properties and enhancing their value through renovations, improved operating efficiencies and refinancing under long-term debt insured by Canada Mortgage and Housing Corporation. Then we reposition the properties in the market at higher rental rates and lower costs.

Properties that have been enhanced and repositioned in the market for improved returns I refer to as “stabilized” properties. Those that have not yet completed the value enhancement process I call “non-stabilized” properties. While these non-stabilized properties undergo renovations, they are vacant and not actively earning rental revenues for about 12 to 24 months. At year-end 2005¹, Mainstreet’s property portfolio consisted of 3,550 apartment units in total. Of that, 2,581 units, about 73 per cent, had been stabilized and 969 units were in various stages of value enhancement.

2005 HIGHLIGHTS

The following highlights include activities and achievements in our 2005 fiscal year ending September 30, 2005, as well as subsequent activities to December 15, 2005:

- Mainstreet’s *total portfolio grew by 30 per cent* compared to 2004 as a result of acquiring 817 apartment units in our four focus markets – Vancouver/Lower Mainland (Surrey), Calgary, Edmonton and Greater Toronto Area – at a total cost of \$47 million during 2005. After fiscal year-end, we acquired an additional 255 units at a cost of \$15 million.
- The company’s asset base in *Vancouver/Lower Mainland (Surrey)* grew by 226 per cent to 666 units in 2005. After fiscal year-end, we acquired an additional 150 units in the region. Tight rental supply, high values on competing purchase property, and favourable long-term demographics make this a desirable target market for Mainstreet.

- Our Calgary vacancy rate fell dramatically to 2 per cent as of December 15, 2005, compared to the average annual vacancy rates of 13 per cent in 2004 and 6.4 per cent in 2005. A high proportion of apartment units reached stabilized status and became more attractive to the rental market.
- The company's overall vacancy rate fell to 4.2 per cent on stabilized units (as of December 15, 2005), a reduction of approximately seven points and three points compared to the average vacancy rates of 11 per cent in 2004 and 7 per cent in 2005.
- Effective December 1, due to the stabilization of apartments and market forces, Mainstreet has implemented rent increases in our Alberta portfolio. This is expected to contribute positively to Mainstreet's financial performance in 2006.
- \$16 million of debt was consolidated under long-term financing at an average fixed interest rate of 5 per cent, compared to the original average floating rate of 6 per cent. Most of this debt is refinanced under 10-year terms.

FINANCIAL PERFORMANCE

The acquisitions in 2005 had a positive impact on Mainstreet's rental revenues. Rental income increased 21 per cent to \$23.8 million from \$19.7 million in 2004.

But the short-term cost of these acquisitions contributed to a downward effect on funds from operations² ("FFO") in 2005. In 2005, FFO totaled \$1.1 million (11 cents per share) compared to \$2.2 (24 cents per share) in 2004. The decline in FFO is due to a couple of key factors. Mainstreet incurred annual interest charges of \$2.7 million associated with a private placement of \$33 million principal amount in convertible debentures completed in 2004. As well, the non-stabilized properties acquired in 2005 had a further negative effect on FFO due to the higher vacancy rates and added costs associated with renovations.

Mainstreet's financial performance is expected to strengthen in 12 to 24 months when the new acquisitions are stabilized. When these apartment units are renovated, refinanced and returned to the market at higher rental rates and more favourable operating costs, it is expected they will generate revenues that will offset annual interest expenses.

CHALLENGES FOR 2005

In 2005, Mainstreet faced a number of challenges that also contributed to the downward effect on funds from operations. External factors included:

- increase in cost structure due to the economic boom and resulting higher wages in Alberta;
- high construction costs due to a shortage of skilled and unskilled labour, and rising material costs;
- rising utilities costs, especially natural gas;
- increased property taxes; and
- longer time to stabilize Toronto assets due to two reasons: 1) the Ontario Landlord and Tenant Act, which is more restrictive compared to Alberta, and 2) soft rental market conditions in Ontario which slowed down the process of leasing up a building; those conditions have now begun to improve.

REFLECTING MARKET VALUE

One of the key challenges facing any organization in the real estate sector is seeing its value represented accurately in the market. In 2005, Mainstreet took a number of steps to help reflect our true value in our share price.

- We sought a market appraisal through an independent real estate appraiser with Accredited Appraiser Canadian Institute (AACI) designation, to determine the market value of properties held in our portfolio as of September 30, 2005. The appraisal of \$309 million reflects a surplus of \$120 million compared to our book value of about \$189 million.
- In 2005, management has focused on trying to broaden Mainstreet's investor base. To that end, two major shareholders, one of whom is a member of Mainstreet's Board of Directors, have authorized a private placement for a majority of their holdings. This represents a substantial redistribution of 35 per cent of the company's existing 9.2 million shares outstanding. We believe this step will help widen our shareholder base, attract more investors and improve liquidity. However, there can be no assurance that the private placement will be completed and the effects it may have on the price of Mainstreet shares.

- A change in our accounting policy in June 2005 will use a different methodology to account for financing and certain operating costs associated with renovations related to enhancing and repositioning properties. This change will have a positive impact on the way funds from operations are represented on our financial statements. (See Note 2 in Notes to the Financial Statements for the year ended September 30, 2005.)

OUTLOOK

2005 was a challenging year for Mainstreet, but also a year that established great optimism for the future. We have successfully grown our portfolio of high quality properties in the short-term and are working hard to stabilize and reposition properties as quickly as possible without compromising quality and potential long-term benefits. Our story is a good example of that old cliché: short-term pain for long-term gain.

As we move into 2006, we will continue to take advantage of our position as a mid-market leader in our focus markets. Our three main objectives in 2006 will be to:

- closely monitor the renovation progress on the current non-stabilized properties in order to change their status to stabilized and become active revenue-earning assets;
- use remaining proceeds of approximately \$19 million from the 2004 private placement of convertible debentures to acquire under-performing assets that are excellent candidates for value enhancement and will support future growth; and
- increase geographic diversification by growing the property base in selected areas of the Mainstreet's focus markets.

Mainstreet is positioned for significant growth in 2006. We believe we have several competitive advantages that will help us achieve our objectives and realize the long-term benefits of our acquisition program. First, we have proven we know how to identify high-potential opportunities and then realize significant value through our Value Chain operating model.

Second, we are well capitalized and supported by advanced information systems that will help us carry out our immediate and longer-term growth plans.

Third, the long-term demographics in our focus markets are attractive. About 65 per cent of Mainstreet's portfolio is situated in Calgary and Edmonton, which continue to lead the country in economic growth. These two cities are expected to be among the top urban centres for economic growth in 2006, driven largely by the global demand for oil and natural gas. As well, the Vancouver/Lower Mainland (Surrey) and Greater Toronto Area are also recognized in Canada³ for strong economics, population growth, capital appreciation and upswing potential on rents, and Mainstreet has established offices in these regions.

Finally, and most importantly, we have a stellar team of people at Mainstreet – including our directors, management team and entire staff, many of whom have been with us since the beginning. Thank you all for your contributions to our successful growth over the years. I would also like to welcome Mr. Richard Grimaldi, who joined our Board of Directors on January 27, 2005. Mr. Grimaldi is the former Managing Director of Institutional Accounts for GE Capital, New York. We look forward to benefiting from his depth of experience in the real estate industry.

In closing, on behalf of everyone at Mainstreet, I wish to send special thanks to our shareholders for their support and confidence in our long-term plan. As we create value through accretive real estate transactions we will continue to grow our company using current capital structure, which we believe in turn will add significant shareholder value.

“signed”

Bob Dhillon
President and CEO

December 15, 2005
Calgary, Alberta

1. Mainstreet's 2005 fiscal year refers to the period from October 1, 2004 to September 30, 2005.

2. Funds from operations (“FFO”) is a widely accepted measure of a Canadian real estate company's performance, and is calculated by taking net income after discontinued operations and adding non-cash items including future income taxes and amortization. FFO is not a recognized measure under Canadian generally accepted accounting principles (“GAAP”), and the method used to determine the amount may differ from that used by other real estate companies.

3. Based on information reported by Statistics Canada.



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MAINSTREET

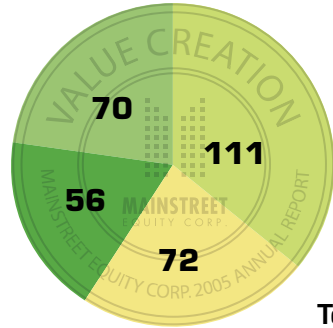
VALUE CREATION

3,550

UNITS

VALUE CREATION

Overview of Properties



MARKET VALUE BY CITY

(\$ millions)

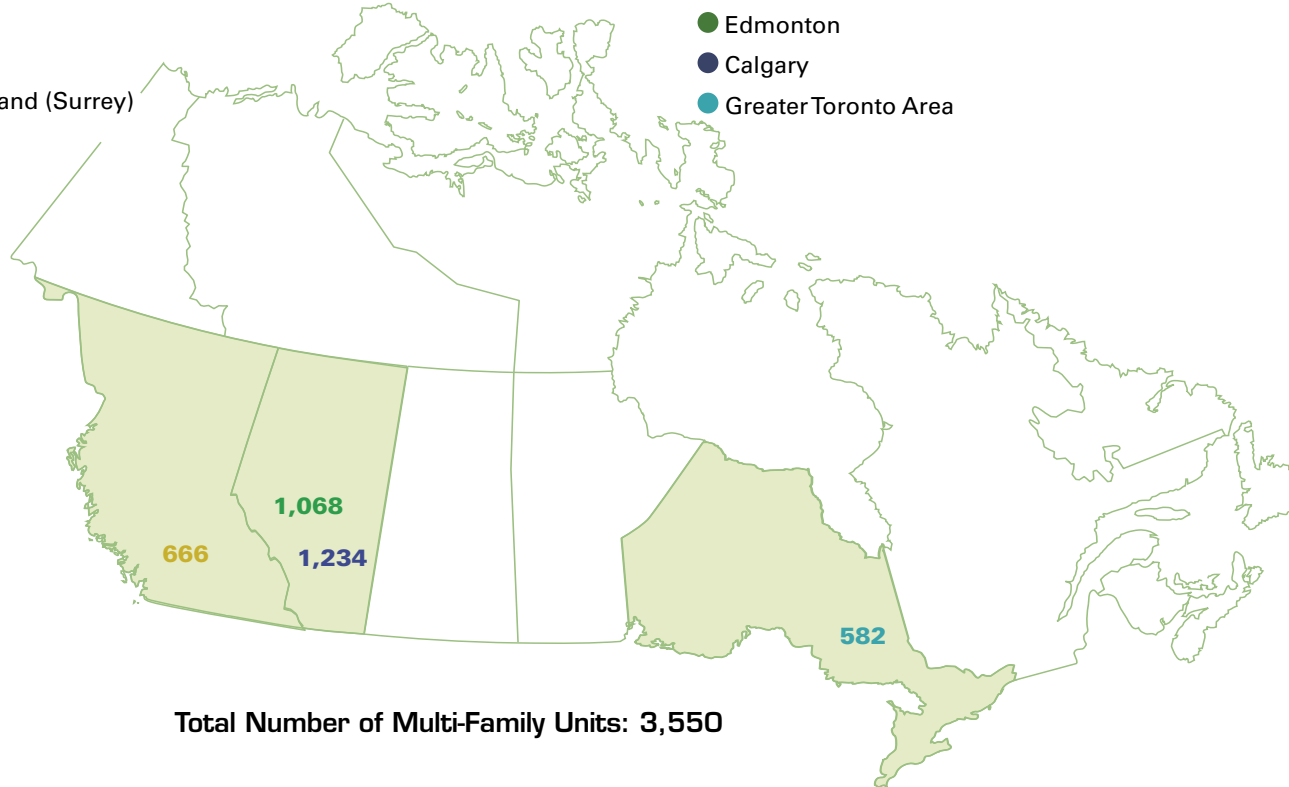
- Calgary
- Edmonton
- Vancouver/Lower Mainland (Surrey)
- Greater Toronto Area

Total Value: \$309 million

"Mainstreet's portfolio consisted of **3,550 apartment units** as of September 30, 2005."

GEOGRAPHIC DISTRIBUTION OF UNITS

- Vancouver/Lower Mainland (Surrey)
- Edmonton
- Calgary
- Greater Toronto Area



Total Number of Multi-Family Units: 3,550



The Mainstreet **VALUE CHAIN**

THE MAINSTREET BRAND

Over the past seven years, Mainstreet has developed a strong brand that adds further value to our product. When tenants and prospective tenants see the Mainstreet logo on a stabilized building, they know what to expect – improved and well maintained exteriors and common areas, aesthetic and high quality interior finishing, security system, upgraded elevators, energy efficient equipment, and superior round-the-clock maintenance service. We create a high level of quality that is uncommon in the mid-market.



Acquisitions

We identify and acquire under-performing properties that offer high potential for attractive long-term returns.

Capital improvements

We upgrade buildings with energy-efficient fixtures, minor structural changes and Mainstreet-branded interior designs that feature standardized high quality paint, floor coverings, cupboards and appliances.

Operational efficiency

We minimize operating costs through professional management, and the use of energy-saving equipment and information systems such as automatic debits for rental payments, which help us manage cash flow more effectively.

Value enhancement

We reintroduce stabilized apartment units to the market with increased tenant occupancy and higher rental rates, which improves Mainstreet's long-term cash flow.

Financing

We refinance properties with higher principal under long-term arrangements, usually 10-year terms, insured by Canada Mortgage and Housing Corporation. This gives us improved cash flow to fund renovations and future acquisitions.

Divestitures

Occasionally, where appropriate, Mainstreet will sell mature real estate properties to redirect capital into newer, higher potential properties.



CLUSTERING

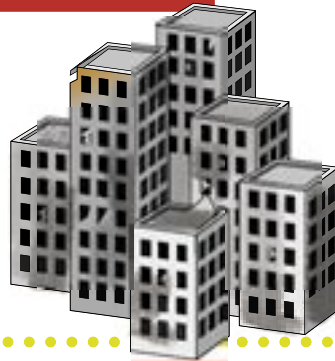
One of the ways Mainstreet improves operating efficiency is by clustering our properties. Clustering means that Mainstreet acquires buildings within a five-block radius of other buildings we already own. This allows us to achieve economies of scale that many of our mid-market competitors cannot. Rather than managing each property on an individual basis, we in effect manage a larger and more efficient complex. That allows us to:

- reduce the cost of having multiple superintendents;
- administer fewer property maintenance contracts;
- lower our advertising expense;
- install on-site computer terminals to reduce head office administration; and
- market and rent properties more efficiently.

VALUE CREATION MODEL

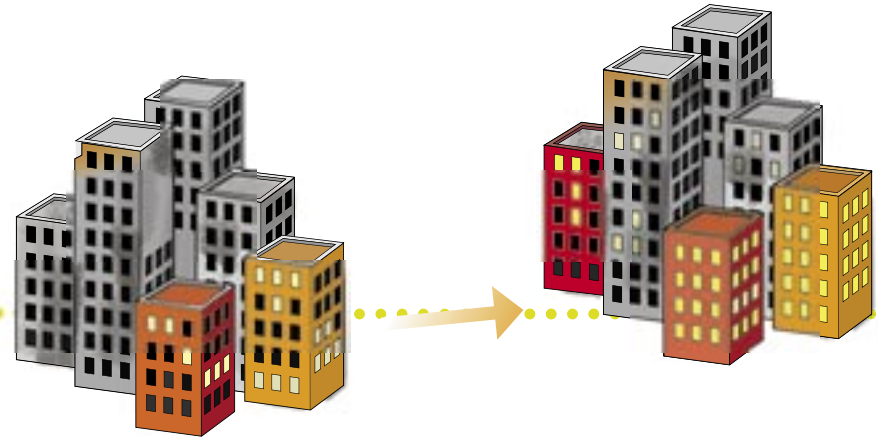
Potential Value. To be improved.

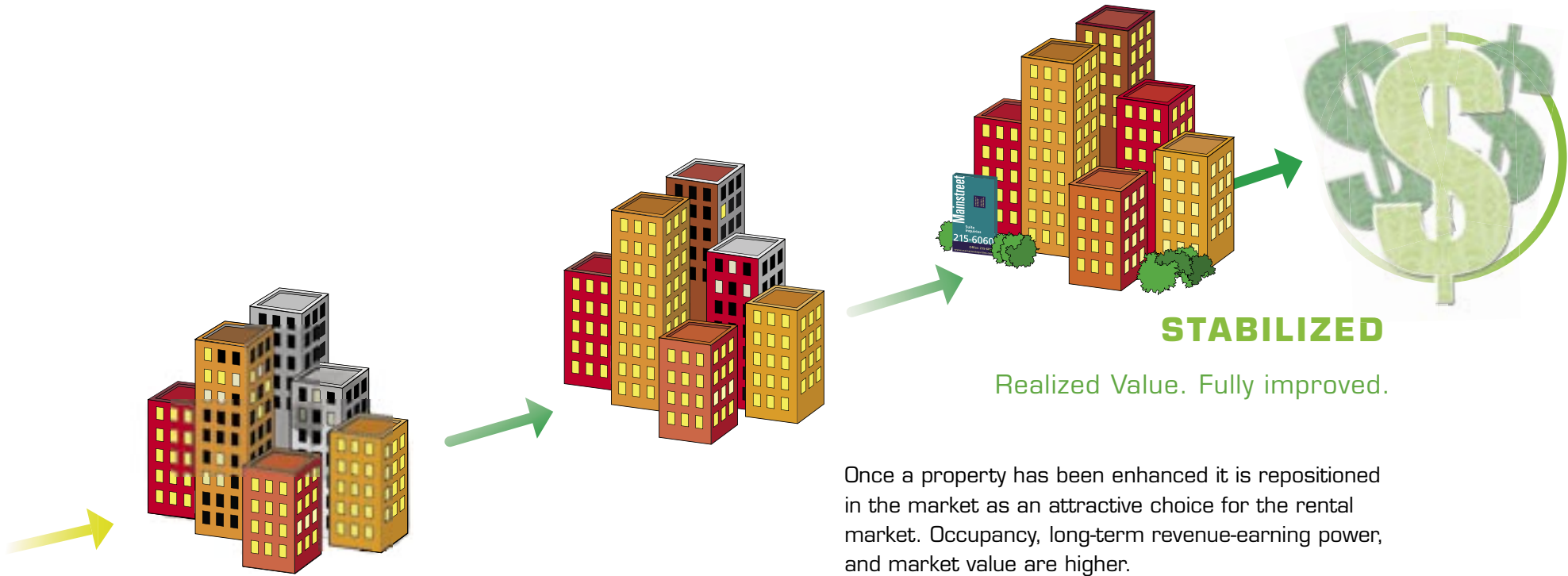
NON-STABILIZED



Value creation starts with the acquisition of under-performing, multi-family properties that can be transformed into high-performing assets. The next stage is to invest in renovations and operating enhancements to raise the properties to the high standards of the Mainstreet brand.

During the renovation stage, units are vacant, resulting in low occupancy and additional capital investment. This stage of the stabilization process has a short-term downward effect on cash flow.





12 – 24 months



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MANAGEMENT'S DISCUSSION AND ANALYSIS

50

PER CENT

MANAGEMENT'S DISCUSSION & ANALYSIS

"Since the company went public in 1998, we have increased the value of our portfolio from approximately \$17 million to more than \$300 million ... This represents a compound annual growth of more than 50 per cent over seven years."

The following management's discussion and analysis (the "MD&A") reviews Mainstreet Equity Corporation's operations and financial condition for the fiscal year ending September 30, 2005. The results from fiscal year 2005 are directly comparable to those from fiscal year 2004. This section should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in this annual report. This MD&A is intended to provide information on the Corporation's performance, financial position and outlook, and was prepared as of December 15, 2005. All amounts expressed are in CDN\$ unless noted otherwise.

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

The forward-looking statements contained herein are expressed qualified by this cautionary statement.

BUSINESS OVERVIEW

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

The Corporation owns a diversified portfolio of multi-family residential properties in four geographic markets: Vancouver/Lower Mainland, Calgary, Edmonton and the Greater Toronto Area. The total portfolio includes 2.7 million square feet and 3,550 residential units, consisting of townhouses, garden-style apartments, and mid-rise and high-rise apartments. As of September 30, 2005, 88% of these units were rented, 7% were being renovated and the remainder were vacant because of market conditions.

Since 1997, the Corporation's portfolio has increased from 10 buildings to 63 buildings, while the appraised value of properties within this portfolio has grown from about \$17 million to more than \$300 million as of September 30, 2005.¹

1. Market value of the properties held on September 30, 2005 as determined by an independent real estate appraiser (AACI – Accredited Appraiser Canadian Institute) in the appraisal report dated December 1, 2005. The actual selling value of these properties may be substantially different and will depend on market conditions at the time of the sale.

BUSINESS STRATEGY

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

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

REVIEW OF FINANCIAL AND OPERATING RESULTS

SUMMARY OF FINANCIAL RESULTS

(fiscal year ending September 30, 2005)

(thousands of dollars except for share amounts)

	2005	2004 restated	2003 restated	% change from 2004	% change from 2003
Gross revenues	\$ 24,624	\$ 19,740	\$34,010	25%	(28%)
Net (loss) income					
- after gains from property disposition ¹	\$ (3,469)	\$ (1,578)	\$ 2,744	(120%)	(226%)
- before gains from property disposition	\$ (3,533)	\$ (1,578)	\$ (368)	(124%)	(860%)
Funds from operations ²					
- after gains from property disposition	\$ 1,050	\$ 2,223	\$ 5,711	(53%)	(82%)
- before gains from property disposition	\$ 986	\$ 2,223	\$ 2,599	(56%)	(62%)
Net operating income ³	\$ 14,006	\$ 11,476	\$11,020	22%	27%
Net operating margin (%)	59%	58%	64%	2%	(8%)
EBITDA ⁴					
- after gains from property disposition	\$ 12,614	\$ 9,932	\$13,471	27%	(6%)
- before gains from property disposition	\$ 12,537	\$ 9,932	\$ 9,656	26%	30%
Total assets	\$214,872	\$146,616	\$143,604	47%	50%
Long-term debt, including debenture	\$ 204,101	\$135,639	\$130,615	50%	56%
Net (loss) income per share – basic					
- after gains from property disposition	\$ (0.38)	\$ (0.17)	\$ 0.30	(124%)	(227%)
- before gains from property disposition	\$ (0.38)	\$ (0.17)	\$ (0.04)	(124%)	(850%)
Funds from operations per share – basic					
- after gains from property disposition	\$ 0.11	\$ 0.24	\$ 0.62	(54%)	(82%)
- before gains from property disposition	\$ 0.11	\$ 0.24	\$ 0.28	(54%)	(61%)

1. Property disposition refers to sale of a 31-unit residential apartment building on June 9, 2005. The property was acquired and sold at the same time. A gain of \$64,000, after taxes, was realized.

2. Funds from operations ("FFO") is calculated as net earnings before depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance. It is not, however, a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The GAAP measurement most directly

comparable to FFO is net income (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.

3. **Net operating income** is rental income minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses or depreciation and amortization expenses. It is used by Mainstreet to measure its operational performance. Net operating income is not, however, 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.

4. **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.

In 2005, the Corporation reported a net loss of \$3.47 million (\$0.38 per share) after gains from disposition and a net loss of \$3.53 million (\$0.38 per share) before gains from disposition. This is compared with a net loss of \$1.58 million (\$0.17 per share) in 2004.

For the year ended September 30, 2005, the Corporation recorded funds from operations, after gains from property disposition, of \$1.05 million (\$0.11 per share) compared with \$2.2 million (\$0.24 per share) in 2004.

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

FUNDS FROM OPERATIONS

(thousands of dollars)	2005	2004	% change
Net (loss) income			
- after gains from property disposition	\$ (3,469)	\$ (1,578)	(120%)
Accretion of debentures charged to interest	\$ 457	–	–
Depreciation	\$ 5,313	\$ 4,665	14%
Future income tax	\$ (1,251)	\$ (864)	(45%)
Total funds from operations	\$ 1,050	\$ 2,223	(53%)
Funds from operations per share – basic			
- after gains from disposition	\$ 0.11	\$ 0.24	(54%)
- before gains from disposition	\$ 0.11	\$ 0.24	(54%)

The following factors contributed to the Corporation's net loss and funds from operations in 2005:

- an additional financing expense of \$2.7 million, which Mainstreet incurred as debenture interest;
- ongoing renovation of properties acquired in Ontario;
- acquisition of seven residential properties totalling 817 residential apartments units, all of which required substantial renovations to upgrade to Mainstreet standards; during the period of renovation, the associated higher vacancy rates, rent concession, advertising and bad debt expenses adversely affected the financial performance of the Corporation in 2005; and
- an increase in general and administrative expenses due to expansion of our property base.

The Corporation expects to strengthen its financial performance by offsetting interest expenses with additional rental revenues generated in future years. This will be accomplished when apartment units under renovation are completed and returned to the market at higher rental rates. As well, the Corporation will continue to grow through acquisitions.

Effective April 1, 2005, the Corporation changed its accounting policy for property carrying costs incurred during the period of major renovations of apartment units. (See Note 2 in Notes to the Financial Statements for the year ended September 30, 2005.) This change was carried out to better reflect the economic impact of major property and apartment unit renovations. Major renovations consist primarily of new flooring, appliances, lighting fixtures, painting and electrical work, moving walls and minor structural work.

Under the new policy, carrying costs consisting of finance and certain operating costs such as insurance, utilities and property taxes incurred during renovations, but lasting no longer than three months, are capitalized as part of real estate property building improvements and amortized over their estimated useful life of five years. The Corporation has applied the new policy retroactively, restating prior period financial statements. The cumulative effect of the policy change is to increase real estate properties and retained earnings, as of September 30, 2005, by \$841,000. The effect of the change on prior years is as follows:

<i>(thousands of dollars except for share amounts)</i>	2005	2004
Increase (decrease) in real estate properties	\$ 115	\$ 230
Decrease in property operating costs	\$ (145)	\$ (186)
Decrease in financing costs	\$ (144)	\$ (180)
Increase in depreciation costs	\$ 174	\$ 136
Decrease in net loss	\$ (115)	\$ (230)
Decrease in net loss per share		
- basic	\$ (0.01)	\$ (0.02)
- diluted	\$ (0.01)	\$ (0.02)

REVENUES

<i>(thousands of dollars)</i>	2005	2004	% change
Rental revenues	\$ 23,895	\$ 19,695	21%
Property dispositions	\$ 77	\$ –	–
Interest income	\$ 652	\$ 45	1,349%
Gross revenues	\$ 24,624	\$ 19,740	25%

Rental income increased by 21% to \$23.9 million from \$19.7 million in 2004. This resulted mainly from growth in the Corporation's property base.

In 2005, the Corporation sold a 31-unit residential apartment building for a gain of \$77,000 before taxes. The property was acquired and sold at the same time.

The substantial increase in interest income was due to an increase in cash balances after the issuance of \$33 million convertible debentures in October 2004.

RENTAL OPERATIONS

<i>(thousands of dollars except as noted)</i>	2005	2004	% change
Same assets rental revenues	\$ 20,024	\$ 19,270	4%
Acquisition rental revenues	\$ 3,871	\$ 425	811%
Total rental income	\$ 23,895	\$ 19,695	21%
Weighted average number of units	3,123	2,668	17%
Average rental rate per unit per month (dollars)	\$ 638	\$ 615	4%
Weighted average square feet (thousands)	2,427	2,103	15%
Average rental rate per square foot per month (dollars)	\$ 0.82	\$ 0.78	5%

Overall, rental income rose 21% to \$23.9 million (or \$638 per unit each month) in 2005 from \$19.7 million (or \$615 per unit each month) in 2004.

Rental revenues, from new property acquisitions during the year, jumped dramatically by 811% compared to newly acquired properties in 2004, to \$3.9 million on the strength of seven new buildings, totalling 817 units acquired during the year.

Rental revenues from “same assets” properties (properties owned for the entire years of 2004 and 2005) increased 4% in 2005, to \$20 million from \$19.3 million in 2004. This modest increase resulted primarily from newly renovated apartment units reintroduced into the rental market.

RENTAL OPERATIONS BY PROVINCE

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

Alberta

Mainstreet's Alberta operations showed strong growth across the board in 2005. Rental income increased by 11% to \$16.6 million from \$14.9 million in 2004. This growth was offset somewhat by higher operating expenses. Vacancies dropped significantly to 7.4% from 11.2% in 2004. Overall, net operating income improved by 13% to \$10.3 million from \$9.1 million in 2004. Operating margins rose one point to 62% from 61%.

<i>(thousands of dollars except per unit data)</i>	2005	2004	% change
Rental income	\$ 16,553	\$ 14,930	11%
Operating expenses	\$ 6,227	\$ 5,806	7%
Net operating income	\$ 10,326	\$ 9,124	13%
Weighted average number of units	2,253	2,142	5%
Average rent per unit per month	\$ 612	\$ 581	5%
Operating costs per unit per month	\$ 230	\$ 226	2%
Average vacancy rate	7.4%	11.2%	(34%)
Operating margins	62%	61%	2%

British Columbia

Mainstreet's British Columbia operations showed dramatic improvement in financial results for 2005. Rental income increased 89% to \$2.9 million from \$1.5 million in 2004. This increase was due largely to Mainstreet's expansion of its total number of rental units in the Vancouver/Lower Mainland (Surrey) market, to 666 units from 204 units in 2004. Overall, net operating income nearly doubled (up 90% to \$1.8 million from \$0.96 million in 2004) and operating margins increased one point to 63% from 62%.

<i>(thousands of dollars except per unit data)</i>	2005	2004	% change
Rental income	\$ 2,932	\$ 1,548	89%
Operating expenses	\$ 1,095	\$ 586	87%
Net operating income	\$ 1,837	\$ 962	91%
Weighted average number of units	396	204	94%
Average rent per unit per month	\$ 617	\$ 632	(2%)
Operating costs per unit per month	\$ 230	\$ 239	(4%)
Average vacancy rate	11.4%	9.8%	16%
Operating margins	63%	62%	2%

Ontario

Mainstreet's Ontario operations showed significant growth. Rental income rose 37%, mainly as a result of growth in the Corporation's property base in the Greater Toronto Area, with the addition of 260 units in 2005. This was offset somewhat by a high vacancy rate and increased operating expenses due to higher wages, utilities and property taxes. The average vacancy rate for the year dropped slightly to 18.2% from 18.8% in 2004. The vacancy rate remained high due to continued renovation of the existing and new acquired properties. Furthermore, the rental market condition in Ontario remained soft in 2005.¹

1. Canada Mortgage and Housing Corporation rental market 2004.

<i>(thousands of dollars except per unit data)</i>	2005	2004	% change
Rental income	\$ 4,410	\$ 3,217	37%
Operating expenses	\$ 2,567	\$ 1,827	41%
Net operating income	\$ 1,843	\$ 1,390	33%
Weighted average number of units	474	322	47%
Average rent per unit per month	\$ 775	\$ 833	(7%)
Operating costs per unit per month	\$ 451	\$ 473	(5%)
Average vacancy rate	18.2%	18.8%	(3%)
Operating margins	42%	43%	(2%)

OPERATING COSTS

<i>(thousand of dollars)</i>	2005	2004	% change
Same assets operating expenses	\$ 8,304	\$ 8,073	3%
Acquisition operating expenses	\$ 1,585	\$ 146	986%
Total operating costs	\$ 9,889	\$ 8,219	20%

Overall, operating costs (after utility rebate¹) increased 20% to \$9.9 million in 2005 from \$8.2 million in 2004. Most of the increase in operating costs was due to the growth in the Corporation's property base, which grew to 3,550 units from 2,721 units in 2004.

Operating costs for “same assets” properties (properties owned for the entire years of 2004 and 2005) totaled \$8.3 million, an increase of just 3% from \$8 million in 2004. Higher natural gas (heating) prices, property taxes and maintenance costs all contributed to increased expenses.

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

GENERAL AND ADMINISTRATIVE EXPENSES

(thousands of dollars except per unit data)	2005	2004	% change
Total	\$ 2,121	\$ 1,589	33%
Per unit per month	\$ 57	\$ 50	14%

General and administrative (“G&A”) expenses include the cost of corporate activities such as salaries and professional fees. These expenses rose 33% in 2005 to \$2.1 million from \$1.6 million in 2004. Monthly G&A costs per unit increased 14% over the year.

The main contributors to higher overall G&A costs in 2005 were the growth in the Corporation’s property base, from 2,721 to 3,550 units, and increases in audit, legal and professional fees in 2005.

The Corporation will continue its expansion program in 2006 in Alberta, Ontario and British Columbia markets. As these expansion plans are carried out, G&A expenses on a per unit basis are expected to improve over the long term.

FINANCING COSTS

(thousand of dollars)	2005	2004	% change
Same assets mortgage interest	\$ 6,846	\$ 6,931	(1%)
Acquisition mortgage interest	1,236	61	1,926%
Net loss on early settlement of mortgage loan	17	–	
Debenture interest	2,789	100	2,689%
Amortization of finance charges	\$ 768	\$ 357	115%
Total financing costs	\$ 11,656	\$ 7,449	56%

Overall, financing costs on long-term debt increased 56% to \$11.7 million from \$7.4 million in 2004. This reflected additional financing to cover the Corporation’s acquisition and refinancing programs in 2004 and 2005, and payment of \$2.8 million in debenture interest in 2005.

More specifically, the year’s financing costs included:

- “same assets” (properties owned for the entire years of 2004 and 2005) mortgage interest that the Corporation paid on long-term debt for properties owned for the entire years of 2004 and 2005. These expenses were \$6.8 million, down 1% from \$6.9 million in 2004. This was due to a decrease in interest rates and the use of CMHC-insured loans, which allows the Corporation to refinance long-term debt under more favourable terms;
- “acquisition” mortgage interest that the Corporation pays on long-term debt for properties acquired in 2004 and 2005. These expenses were \$1.24 million, up significantly from the previous year. The higher expenses for 2005 correspond with the significant growth in the Corporation’s property base; and
- *amortization of finance charges*, which include CMHC insurance premiums paid for CMHC-insured loans. The increase in 2005 charges resulted from increased financing flowing from Mainstreet’s aggressive acquisition and refinancing programs and issuance of \$33 million convertible debentures.

CAPITAL INVESTMENT

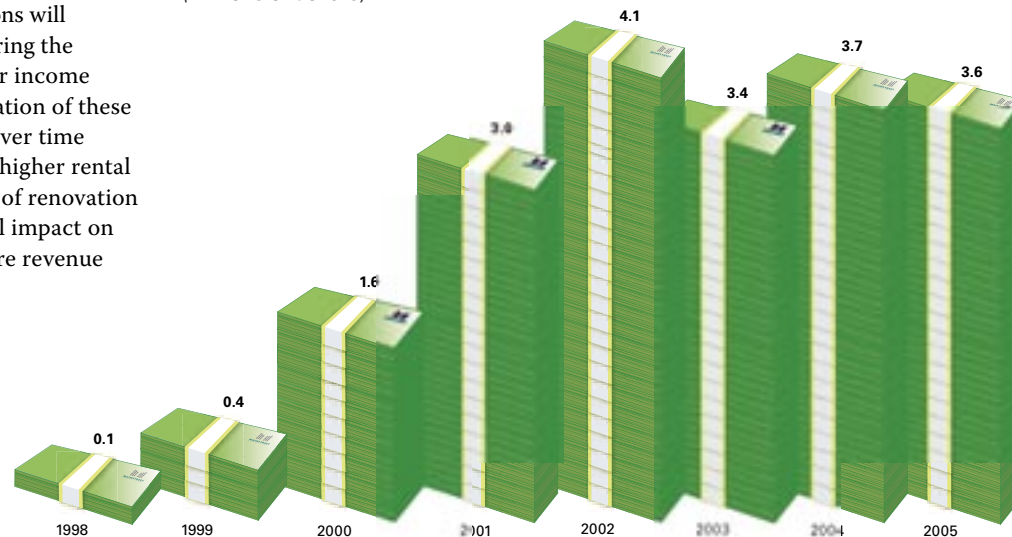
Reinvesting in properties – the Corporation’s capital assets – through renovations is a core part of Mainstreet’s Value Chain business philosophy. These activities enable the Corporation to improve the attractiveness of properties to tenants, reduce operating costs and enhance long-term property values.

In 2005, the Corporation spent \$3.6 million on property improvements, specifically for exterior upgrades such as new siding and insulation, and interior upgrades such as carpet and paint, new appliances and energy-efficiency measures. This enabled the Corporation to reintroduce 218 renovated apartments, or 6% of the property base, into the market at higher rental rates during the year.

About \$4 million of renovations are planned for 2006. These improvements will be financed through existing cash balances, funds from operations and refinancing of existing properties. With 817 under-performing properties acquired in 2005, substantial renovations will be required to upgrade these properties to Mainstreet's branded standard. During the renovation period, revenue is expected to be low as units are not available for income generation through rental. The Corporation expects to complete the stabilization of these properties in the next 12 to 24 months. Revenue and income will increase over time when more and more units are renovated and reintroduced to the market at higher rental rates. Uncertainties include turnover rate of the existing tenants, availability of renovation workers, increase in labour and material costs, all of which will have material impact on the timing and cost of the completion of renovation and thus affect the future revenue and income.

TOTAL INVESTMENTS IN RENOVATIONS

(millions of dollars)



SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except for share amounts)

	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
			restated	restated	restated	restated	restated	restated
Rental income	\$ 6,711	\$ 6,596	\$ 5,439	\$ 5,149	\$ 4,942	\$ 4,949	\$ 4,784	\$ 5,020
Interest income	\$ 144	\$ 152	\$ 189	\$ 167	\$ 5	\$ 7	\$ 15	\$ 18
Gains on disposition of real estate property	—	\$ 77	—	—	—	—	—	—
Total revenues	\$ 6,855	\$ 6,825	\$ 5,628	\$ 5,316	\$ 4,947	\$ 4,956	\$ 4,799	\$ 5,038
Net (loss) income	\$ (1,122)	\$ (499)	\$ (923)	\$ (925)	\$ (307)	\$ (522)	\$ (593)	\$ (156)
Earnings (loss) per share								
- basic	\$ (0.12)	\$ (0.05)	\$ (0.10)	\$ (0.10)	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.02)
- diluted	\$ (0.12)	\$ (0.05)	\$ (0.10)	\$ (0.10)	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.02)

During the fourth quarter ending September 30, 2005, the Corporation acquired one new building with 15 units and refinanced a \$5.8 million conventional mortgage to a CMHC insured mortgage. Other activities with material impact on the Corporation's quarterly financial results comparison include:

- In 2004, the Corporation changed its estimation of the period covered by the CMHC insurance premium, and amortized the insurance period over the amortization period of 25 years rather than over the terms of the respective mortgages.¹
- The average tenant vacancy rate for the Corporation's properties was 11.4% for the quarter, compared with 9.5% for the fiscal year.
- Heating costs for the quarter were lower than the 2005 average due to warmer summer weather conditions.
- Understatement of depreciation charges for the third quarter 2005 was adjusted in the fourth quarter 2005.

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

ACQUISITIONS

(thousands of dollars except as noted)

	2005	2004
	Calgary, Edmonton, Surrey and Toronto	Calgary
Geographic markets		
Suites (number)	817	115
Square feet (thousands)	753	83
Total purchase costs	\$ 47,114	\$ 6,675
Average price per square foot (dollars per square foot)	\$ 63	\$ 80
Average price per unit ¹	\$ 58	\$ 58

1. Does not include cost of significant capital improvements.

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

In 2005, the Corporation purchased seven buildings in Calgary, Edmonton, Surrey and the Greater Toronto Area for \$47.1 million, adding 817 units and 753,000 square feet to its portfolio. The acquired buildings are in attractive areas of each market, where they can be grouped with nearby Mainstreet properties for operating efficiencies.

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

DIVESTITURES

In 2005, one building was sold in Alberta for a gain of \$77,000 before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Working capital requirements

In the normal course of business, the Corporation requires sufficient working capital to cover operating, mortgage and debenture interest expenses as well income taxes payments. In 2005, after payments of all required expenses, the Corporation generated funds from operations of \$1.05 million. The Corporation expects that funds generated from operations

will be sufficient to meet the working capital requirements in 2006. The Corporation also has an operating line of credit of \$0.8 million and there was no amount drawn against the line of credit as of the year-end date.

Other capital requirements

The Corporation also requires sufficient capital to finance continued growth and capital improvement.

During 2005, Mainstreet generated \$1.05 million in funds from operations. The Corporation also has an operating line of credit of \$0.8 million.

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

As of September 2005, the Corporation had the following contractual obligations. These will be met by existing cash balances, funds from operations and the renewal of mortgage loans on maturity.

CONTRACTUAL OBLIGATIONS

PAYMENTS DUE BY PERIOD

<i>(thousands of dollars)</i>	Total	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Mortgages payable	\$ 175,010	\$ 37,431	\$ 95,955	\$ 19,122	\$ 22,502
Debentures	\$ 29,091	—	—	—	\$ 29,091
Total contractual obligation	\$ 204,101	\$ 37,431	\$ 95,955	\$ 19,122	\$ 51,593

As of September 30, 2005, the Corporation's overall mortgage levels were at 93% (2004 – 95%) of real estate property net book value. About 70% (2004 – 77%) of the Corporation's mortgage portfolio was CMHC-insured.

LONG-TERM DEBT

MORTGAGE SCHEDULE

<i>(thousands of dollars)</i>	Floating rate debt	Fixed rate debt	Total Mortgage
CMHC-insured	—	\$ 122,719	\$ 122,719
Non-CMHC-insured	\$ 44,846	\$ 7,445	\$ 52,291
Total	\$ 44,846	\$ 130,164	\$ 175,010

FIXED RATE DEBT

<i>(thousands of dollars)</i>	Amount	Average interest rate (%)
CMHC-insured	\$ 122,719	5.43%
Non-CMHC-insured	\$ 7,445	4.17%

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

As of September 30, 2005, mortgages payable were \$175 million, compared with \$135 million in the previous year. This increase is the result of the Corporation's continued growth, including the refinancing of existing debt and the assumption of debt on new acquisitions.

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

In 2005, Mainstreet converted \$16.2 million of 5.81% mortgages to CMHC-insured loans at an average rate of 5.06%. Mainstreet's overall weighted average interest rate on long-term debt has decreased slightly from the previous year. At September 30, 2005, the weighted average interest rate was 5.4%, compared with 5.5% in 2004.

Mortgage Maturity Schedule ¹	Balance Maturing (thousands of dollars)	% of Debt Maturing	Weighted Average Rate on Expiry (%)
2006	\$ 34,253	20%	5.8%
2007	\$ 43,309	24%	5.5%
2008	\$ 50,069	29%	5.2%
2009	\$ 9,355	5%	4.9%
2010	\$ 11,746	7%	4.8%
Subsequent	\$ 26,278	15%	5.7%
Total	\$ 175,010	100%	5.4%

1. At year-end September 30.

INTERNAL CONTROLS

The Corporation has established internal controls to provide reasonable assurance on the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. There were no significant changes in Mainstreet's internal controls in 2005. The Chief Executive Officer and the Chief Financial Officer were responsible for designing and evaluating the internal controls and concluded that the existing disclosure controls and procedures are effective to provide reasonable assurance on the reliability of financial reporting for the financial year ended September 30, 2005.

SHARE CAPITAL

As of September 30, 2005, issued and outstanding common voting shares were 9,238,333.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to disclose contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

REVENUE RECOGNITION

Revenue from a rental property is recognized when a tenant commences 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 expected in the market area. At September 30, 2004, the Corporation applied the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3063 Impairment of Long-Lived Assets. 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.

In 2004, the Corporation also adopted the recommendations of:

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

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

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

PROPERTIES HELD FOR RESALE

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

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 costs of the properties over their estimated useful lives as follows:

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

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

DEFERRED CHARGES

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

STOCK OPTION PLAN

The Corporation has a stock option plan, which is described in Note 11. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

For stock options issued after January 1, 2003, the fair value of the stock options is determined at the date of grant using an acceptable option pricing model. The fair value

is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. No stock options have been issued after January 1, 2003.

CRITICAL ACCOUNTING ESTIMATES

DEPRECIATION

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

PROPERTY ACQUISITIONS

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

IMPAIRMENT OF ASSETS

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

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

CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2005, the Corporation changed its accounting policy with respect to property carrying costs incurred during the period of major renovations to apartment units. This was undertaken to better reflect the economic impact of major property and apartment unit renovations. Such major renovations usually consist primarily of new flooring, lighting fixtures, appliances, painting and electrical work. Under the new policy, carrying costs consisting of financing and certain operating costs such as property taxes, insurance and utilities, incurred during the period of renovation but for no longer than three months, are capitalized as part of real estate property building improvements. Such capitalized costs are amortized over their estimated useful life of five years. The Corporation has applied the new policy retroactively with restatement of prior period financial statements. The cumulative effect of the change in accounting policy is to increase real estate properties and retained earnings, as at September 30, 2005 in the amount of \$841,000. The effects of the change on prior years are as follows:

	2005	2004
Increase (decrease) in Real Estate Properties	\$ 115	\$ 230
Decrease in property operating expense	\$ (145)	\$ (186)
Decrease in finance cost	\$ (144)	\$ (180)
Increase in depreciation	\$ 174	\$ 136
Decrease in net loss	\$ (115)	\$ (230)
Decrease in loss per share		
- basic	\$ (0.01)	\$ (0.02)
- diluted	\$ (0.01)	\$ (0.02)

CHANGES IN ACCOUNTING ESTIMATES

In 2004, CMHC amended its fee structure relating to mortgage insurance premiums. Historically, on conversion of mortgage loans to CMHC insured mortgage loans, CMHC charged an insurance premium of 2.5% to 3.5% on the principal loan amounts. The insurance covered the entire amortization period of mortgage loans, which was generally 25 years. If the loan was refinanced on or prior to maturity, the original CMHC premium would be forfeited and a new premium would apply. The Corporation does not normally renew

the mortgage loan on maturity but will apply for new financing with CMHC based on the then current market value of the property. As such, the Corporation has adopted a policy to amortize the CMHC insurance premium over the terms of the mortgage loans. In 2004, CMHC changed its policy and, upon refinancing of a mortgage loan, will apply a full credit equal to the remaining balance of the insurance premium relating to the original mortgage loan to the insurance premium of new mortgage loan. In response to the change in CMHC's policy, the Corporation changed its estimation of the period over which the CMHC insurance premium relates and amortizes the insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages.

FINANCIAL INSTRUMENTS

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

TRANSACTIONS WITH RELATED PARTIES

The \$1 million debenture was issued to a corporation in 2001 of which a Mainstreet director is a director and a shareholder. This transaction was completed with the same terms and conditions as those issued to third parties for the existing debenture.

The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation; rather, he receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. The commissions received during 2005 amounted to \$466,000 (2004 – \$53,000).

The Corporation paid legal and professional fees and reimbursements in the amount of \$41,000 (2004 – \$19,000) to a law firm of which a director and officer of the Corporation is a partner.

PROPOSED TRANSACTIONS

Subsequent to the September 30, 2005 year-end, the Corporation committed to acquire various properties, consisting of 255 units of residential apartments, for consideration of \$14.9 million in Surrey, British Columbia, and Edmonton, Alberta. The acquisitions will be financed through a combination of cash, mortgages and vendor take back loans. The transactions were completed on December 14, 2005. The Corporation will continue to carry out its program to renovate these residential apartments to Mainstreet's branded standard and expects that income and cash flow will increase over the next 12 to 24 months when these units are renovated and reintroduced to the market at higher rental rates.

The Corporation set up an employee share purchase plan to assist its directors, officers and employees in purchasing Mainstreet common shares. The total loans of \$1.25 million were advanced to Mainstreet employees; the loans are interest free with a repayment period of four years. The Corporation expects this arrangement will enable the retention of valuable employees on a long-term basis.

RISK MANAGEMENT

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

VACANCY RISK

The Corporation is subject to tenant vacancy risk when renters become first time home buyers, purchasing low cost housing/condos, which are affordable at today's low interest rate. 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. In 2005, condominium developers lowered prices and provided attractive financing to attract rental tenants into the housing market. At the same time, lower interest rates encouraged some tenants to purchase homes for the first time.

Mainstreet addresses this risk by enhancing customer satisfaction, diversifying its portfolio in different geographic markets in Canada, maintaining its focus on affordable mid-market, multi-family accommodation and advertising and offering rental incentives 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's business is exposed to the risk of rising interest rate environments. The Corporation addresses this risk by creating a balanced mortgage portfolio with varying terms to maturity and by refinancing long-term debt, wherever possible, at more advantageous terms. This includes reducing the fixed debt load by converting significant sums of mortgage financing into longer-term, less-expensive CMHC-insured debt.

UTILITY RISKS

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

OUTLOOK

Entering 2006, Mainstreet is focused on three objectives:

- Closely monitor the renovation progress on the current non-stabilized properties in order to change their status to stabilized and become active revenue-earning assets. Stabilized properties are those buildings where 90% of the units have been enhanced through renovations, improved operating efficiencies and possibly refinancing. Non-stabilized

properties are those buildings that have yet to undergo, or are currently undergoing, the stabilization (value enhancement) process.

- Use remaining proceeds from the debenture to acquire under-performing assets that are excellent candidates for value enhancement and will support future growth.
- Increase geographic diversification by growing the property base in each of the Corporation's four key market areas: Vancouver/Lower Mainland (Surrey), Edmonton, Calgary and Greater Toronto Area.

MARKET CONDITIONS

Management believes the multi-family rental market will improve gradually in the near term and long term (based on projections in CMHC Rental Market Report 2005).

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

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

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

GEOGRAPHIC DIVERSIFICATION

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

Most of the Corporation's portfolio (about 65%) is in Alberta, which continues to lead the country in economic and job growth. Calgary and Edmonton, the Corporation's two key Alberta markets, are expected to be among the top urban centres for economic growth in 2006, driven largely by the global demand for oil and gas.

The Corporation is also committed to expanding its presence in other geographic markets such as the Greater Toronto Area and the Vancouver/Lower Mainland (Surrey). These continue to be among the best Canadian areas for strong and diverse economies, population growth, capital appreciation and upswing potential on rents – all requisites for growth in the real estate business. (*Sources: Statistics Canada, CMHC*)

Mainstreet has set up offices in Ontario and Vancouver/Lower Mainland (Surrey) to grow its portfolio in those regions. In 2005, the number of units in Ontario increased by 81% to 582 units, and the number of units in Vancouver/Lower Mainland (Surrey) increased by 226% to 666 units. The Corporation plans to further expand its presence in these markets through

acquisitions in 2006. The Corporation's goal is to increase the size of its total property portfolio from 3,550 units at the end of 2005 to about 5,000 units by the end of 2006. This target will enable Mainstreet to achieve significant growth while maintaining operating efficiencies in these areas.

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

Because it will take time to acquire properties that meet Mainstreet's investment criteria (i.e. Mainstreet only acquires properties with excellent potential to add value) and complete the renovations of non-stabilized properties, interest payments on the debentures of \$2.7 million per year may negatively affect financial performance in 2006. As properties are acquired over the year and more renovated suites are re-entered to the rental market at high rental rates, the Corporation expects to strengthen financial performance and continue to enhance shareholder value over the long term.

ADDITIONAL INFORMATION

Additional information regarding the Corporation 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 have approved the financial statements on the recommendation of the Audit Committee.

(signed)

Bob Dhillon
Director

(signed)

Joe Amantea
Director

AUDITORS' REPORT

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of Mainstreet Equity Corp. as at September 30, 2005 and 2004 and the statements of loss, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Calgary, Alberta
November 25, 2005

Deloitte & Touche LLP
Chartered Accountants

	2005	2004
		(restated, Note 2)
ASSETS		
Real estate properties (Note 4)	\$ 189,138	\$ 142,198
Other assets (Note 5)	1,549	736
Deferred charges	4,763	2,690
Restricted cash (Note 6)	903	774
Cash	18,519	218
	\$ 214,872	\$ 146,616
LIABILITIES		
Mortgages payable (Note 7)	\$ 175,010	\$ 134,639
Debenture (Notes 8 & 9)	29,091	1,000
Accounts payable	2,152	1,964
Refundable security deposits	903	774
Future income taxes (Note 10)	164	1,415
	\$ 207,320	\$ 139,792
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	2,050	1,900
Equity component of convertible debenture	4,047	—
Retained earnings	1,455	4,924
	7,552	6,824
	\$ 214,872	\$ 146,616

See accompanying notes to the financial statements.

(signed)

Bob Dhillon
Director

(signed)

Joe Amantea
Director

BALANCE SHEET

For the years ended September 30, 2005 and 2004
(Thousands of dollars)

STATEMENTS OF LOSS AND RETAINED EARNINGS

For the years ended September 30, 2005 and 2004
(Thousands of dollars, except per share amounts)

	2005	2004
		<i>(restated, Note 2)</i>
Revenue		
Rental income	\$ 23,895	\$ 19,695
Gain in disposition of a real estate property	77	–
Interest income	652	45
	24,624	19,740
Expenses		
Property operating expenses	10,018	8,305
Utility rebate <i>(Note 18)</i>	(129)	(86)
General and administrative expenses	2,121	1,589
Financing costs	11,656	7,449
Depreciation	5,313	4,665
	28,979	21,922
(Loss) earnings before income taxes	(4,355)	(2,182)
Income taxes (recovery) expense <i>(Note 10)</i>		
- current	365	260
- future	(1,251)	(864)
	(886)	(604)
Net (loss) earnings	(3,469)	(1,578)
Retained earnings, beginning of year	4,924	6,502
Retained earnings, end of year	\$ 1,455	\$ 4,924
(Loss) earnings per share <i>(Note 13)</i>		
- basic	\$ (0.38)	\$ (\$0.17)
- diluted	\$ (0.38)	\$ (\$0.17)

See accompanying notes to the financial statements.

	2005	2004
Cash obtained from (used in):		
Operating activities		
Net (loss) earnings	\$ (3,469)	\$ (1,578)
Items not affecting cash		
Accretion of debentures charged to interest	457	–
Depreciation	5,313	4,665
Future income taxes	(1,251)	(864)
	1,050	2,223
Net change in non-cash operating balances	(625)	856
Cash flow from operating activities	425	3,079
Financing activities		
Financing of real estate properties	54,722	15,009
Repayment of secured debts on revenue producing properties, and other debts	(26,196)	(15,365)
Issue of shares	150	–
Issue of convertible debenture-equity component (net of issue cost)	4,047	–
Issue of convertible debenture-liability component (net of issue cost)	28,634	–
Redemption of debenture	(1,000)	–
Deferred charges (net of amortization)	(2,073)	79
	58,284	(277)
Investing activities		
Purchase of and addition to real estate properties	(40,408)	(5,485)
Net increase (decrease) in cash and cash equivalents	18,301	(2,683)
Cash and cash equivalents (bank indebtedness), beginning of year	218	2,901
Cash and cash equivalents (bank indebtedness), end of year	\$ 18,519	\$ 218
Cash and cash equivalents (bank indebtedness) comprise of:		
Cash (bank indebtedness)	\$ 163	\$ (112)
Short-term deposits	18,356	330
	\$ 18,519	\$ 218
Income taxes paid	\$ 267	\$ 329
Interest paid	\$ 10,575	\$ 7,272

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2005 and 2004
(Thousands of dollars)

NOTES TO FINANCIAL STATEMENTS

For the years ended September 30, 2005 and 2004
(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. Actual results may differ from those estimates.

Revenue recognition

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

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

Revenue producing real estate properties

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

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

In 2004, the Corporation also adopted the recommendations of:

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

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

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

Properties held for resale

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

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

Deferred charges

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

Stock option plan

The Corporation has a stock option plan, which is described in Note 11. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

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

Risk management and fair value

a) Interest rate risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$34 million are subject to renewal in the next year. Increases in the interest rate may adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by CMHC. This added level of insurance offered to lenders allow the Company to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

b) Credit risk

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

c) Fair value

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of the Corporation and their carrying values as of September 30, 2005 and 2004 are as follows:

	2005		2004	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Mortgages payable	\$ 175,010	\$ 178,383	\$ 134,639	\$ 137,185
Convertible debentures	\$ 29,091	\$ 29,091	–	–
Debentures	–	–	\$ 1,000	\$ 1,000

d) Utilities

The Corporation's business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. The Corporation closely monitors gas prices and, when prices look more attractive, looks for long-term contracts under these prices. In addition, installing energy-saving measures in all buildings during renovations is a key priority.

Earnings per share

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

Use of estimates

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

2. CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2005, the Corporation changed its accounting policy with respect to property carrying costs incurred during the period of major renovations of apartment suites, to better reflect the economic impact of major property and apartment suite

renovations. Such major renovations usually consist primarily of new flooring, lighting fixtures, appliances, painting and electrical work. Under the new policy, carrying costs consisting of financing and certain operating cost such as property taxes, insurance and utilities, incurred during the period of renovation but in any event no longer than three months are capitalized as part of real estate property building improvements. Such capitalized costs are amortized over their estimated useful life of five years. The Corporation has applied the new policy retroactively with restatement of prior period financial statements. The cumulative effect of the change in accounting policy is to increase real estate properties and retained earnings, as at September 30, 2005 in the amount of \$ 841,000. The effects of the change on prior years are as follows:

	2005	2004
Increase (decrease) in Real Estate Properties	\$ 115	\$ 230
Decrease in property operating expense	(145)	(186)
Decrease in finance cost	(144)	(180)
Increase in depreciation	174	136
Decrease in net loss	\$ (115)	\$ (230)
Decrease in loss per share		
– basic	\$ (0.01)	\$ (0.02)
– diluted	\$ (0.01)	\$ (0.02)

3. CHANGES IN ACCOUNTING ESTIMATES

In 2004, CMHC amended its fee structure relating to mortgage insurance premiums. Historically, on conversion of mortgage loans to CMHC insured mortgage loans, CMHC charged an insurance premium of 2.5% to 3.5% of the loan amounts. The insurance covered the entire amortization period of mortgage loans which was generally 25 years. If the loan was refinanced on or prior to maturity, the CMHC premium would be forfeited and the new premium would be charged. The Corporation does not normally renew the mortgage loan on maturity but will apply for new financing with CMHC based on the new market value of the property. As such, the Corporation has adopted a policy to amortize the CMHC insurance premium over the terms of the mortgage loans. In 2004, CMHC changed its policy and, upon refinancing of a mortgage loan, will apply a full credit equal to the remaining balance of the insurance premium relating to the original mortgage loan to the insurance premium of new mortgage loan. In response to the change in CMHC's policy, the

Corporation changed its estimation of the period over which the CMHC insurance premium relates and amortizes the insurance premium over the amortization period of 25 years rather than over the terms of the respective mortgages.

4. REAL ESTATE PROPERTIES

	2005			2004		
	Cost	Accum. Amortization	Net Book Value	Cost	Accum. Amortization	Net Book Value
Land	\$ 51,996	\$ –	\$ 51,996	\$ 36,874	\$ –	\$ 36,874
Buildings	135,712	7,798	127,914	101,874	4,745	97,129
Building improvements	16,675	7,947	8,728	13,800	5,783	8,017
Furniture and fixtures	819	319	500	401	223	178
	\$ 205,202	\$ 16,064	\$ 189,138	\$ 152,949	\$ 10,751	\$ 142,198

Acquisitions of apartment buildings

	2005	2004
Mortgages arranged	\$ 28,638	\$ 628
Debt assumed at fair value	8,058	4,665
Cash paid	10,418	1,382
Total purchase price	\$ 47,114	\$ 6,675

Allocation of the purchase price

Land	\$ 15,122	\$ 1,974
Buildings	31,992	4,701
	\$ 47,114	\$ 6,675

Units acquired	817	115
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The properties purchased during the year required a considerable amount of capital improvements. Efforts are currently underway to remove the current tenant base and to begin renovating the properties. As such, upon review of the leases and the tenant

relationships relating to the buildings acquired, the Corporation has established that there is no significant value associated with above and below value leases, in place leases or customer relationships associated with the properties.

Therefore, the Corporation has placed a minimal value on the intangible assets acquired on acquisition.

Disposition

During the year, the Corporation acquired a 31-unit apartment building for \$1,720,000 and disposed it at the same time for \$1,797,000, resulting in a gain before income tax of \$77,000. As the property was not operated by the Corporation, there are no discontinued operations.

5. OTHER ASSETS

	2005	2004
Accounts receivable	\$ 295	\$ 173
Other receivable	380	138
Deferred rent concession	67	62
Deposits and prepayments	807	363
	\$ 1,549	\$ 736

6. RESTRICTED CASH

Restricted cash represents deposits from tenants for apartment security deposits.

7. MORTGAGES PAYABLE

Mortgages payable bearing interest at a weighted average rate of 5.41% (2004 – 5.47%) per annum, are payable in monthly principal and interest installments totalling \$1,003,000 (2004 – \$ 827,000), maturing from 2006 to 2018 and are secured by specific charges against specific properties, having a carrying value of \$189,138,000 (2004 – \$142,198,000), and several personal guarantees of certain directors to the extent of \$31,568,000 (2004 – \$31,568,000).

	2005	2004
	\$ 175,010	\$ 134,639

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

Year	Amount
2006	\$ 37,431
2007	45,159
2008	50,796
2009	7,469
2010	11,653
Subsequent	22,502
	<u>\$ 175,010</u>

8. DEBENTURE

The 10% debenture was redeemed at par for \$1,000,000 on October 13, 2004.

9. CONVERTIBLE DEBENTURES

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

In accordance with Section 3861.19 of the CICA Handbook, the convertible debentures were divided into liability and equity components measured at their respective fair market values at the time of issue. The \$ 4,047,000 (net of issue cost) equity component represents the holder's conversion right and is included in shareholders equity. Issue costs related to the liabilities component were deferred and amortized over the term of the debt of seven years.

10. INCOME TAXES

The Corporation has non-capital losses of \$ 4,487,000 available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The losses will expire in 2012.

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

	2005	2004
Statutory tax rate	34.54%	34.54%
Computed expected tax	\$ (1,504)	\$ (833)
Non-taxable portion of capital gain	(13)	–
Non-deductible interest on convertible debenture	157	–
Others	98	(6)
Adjustment for change in statutory tax rate	11	(25)
Large corporation tax	365	260
Provision for income tax	<u>\$ (886)</u>	<u>\$ (604)</u>

The future income tax liability is comprised of the following:

	2005	2004
Tax assets related to operating losses	\$ (1,534)	\$ (1,349)
Tax liabilities related to differences in tax and book basis	1,698	2,764
	\$ 164	\$ 1,415

11. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Issued and outstanding, beginning of the year	9,188,333	\$ 1,900	9,188,333	\$ 1,900
Issued pursuant to exercise of options	50,000	150	–	–
Issued and outstanding, end of year	9,238,333	\$ 2,050	9,188,333	\$ 1,900

During the year ended September 30, 2005 and 2004, there were no stock options granted by the Corporation.

12. STOCK OPTION PLAN

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

A summary of the Corporation's stock option plan as of September 30, 2005 and 2004, and changes during the years ended on those dates is presented below:

	2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock option				
Outstanding, beginning of year	120,000	\$ 3.82	120,000	\$ 3.82
Expired	(20,000)	\$ 4.15	–	–
Exercised	(50,000)	\$ 3.00	–	–
Outstanding, end of year	50,000	\$ 5.00	120,000	\$ 3.82
Options exercisable, end of year	50,000		120,000	

The following table summarizes information about stock options outstanding at September 30, 2005 and 2004:

	2005		2004	
	Number of Shares Outstanding at September 30, 2005	Weighted Average Remaining Contractual Life	Number of Shares Outstanding at September 30, 2004	Weighted Average Remaining Contractual Life
Exercise Prices				
\$3.00	–	–	50,000	0.17 years
\$4.15	–	–	50,000	0.83 years
\$5.00	50,000	0.08 years	20,000	1.08 years
	50,000	0.08 years	120,000	0.60 years

All stock options are fully vested.

13. (LOSS) EARNINGS PER SHARE

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

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

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

	2005	2004
		<i>(restated, Note 2)</i>
Numerator		
Net (loss)	\$ (3,469)	\$ (1,578)
Denominator		
– Denominator for basic earnings per share		
Weighted average shares	9,231,758	9,188,333
Effect of diluted earnings per share	–	–
– Denominator for diluted earnings per share	9,231,758	9,188,333
Basic earnings per share	\$ (0.38)	\$ (0.17)
Diluted earnings per share	\$ (0.38)	\$ (0.17)

The diluted earning per share calculation does not include the impact of the weighted average shares of 344 for the options outstanding at September 30, 2005 due to losses reported for the year then ended. If included, the impact would be anti-dilutive; and therefore, it is not included in the computation of diluted loss per share.

14. GUARANTEES

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

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

15. 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.

16. RELATED PARTY TRANSACTIONS

- The \$1 million debenture was issued to a company of which a Mainstreet director is a director and a shareholder. This transaction was completed with the same terms and conditions as those issued to third parties for the existing debenture.
- The President and Chief Executive Officer receives no compensation for his services as an officer of the Corporation, rather, he receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. The commissions received during the year amounted to \$466,000 (2004 – \$53,000).
- The Corporation paid legal and professional fees and reimbursements amounted to \$41,000 (2004 – \$19,000) to a law firm of which a director and officer of the Corporation is a partner.

17. BANKING FACILITIES

The Corporation has an operating line of credit of \$820,000 carrying interest at prime rate. As at September 30, 2005, no amount has been drawn on this line of

credit (2004 – \$Nil). General security agreement with charges against three specific properties, demand debenture in the amount of \$1,200,000 and assignment of rents are given as collateral for this line of credit.

18. UTILITY REBATE

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

19. SEGMENTED INFORMATION

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

	2005	2004
		<i>(restated, Note 2)</i>
Alberta		
Rental income	\$ 16,553	\$ 14,930
Operating expenses	6,227	5,806
Net operating income	10,326	9,124
Gain on disposition of a real estate property	77	–
Identifiable assets and liabilities		
Real estate properties	107,615	104,309
Mortgages payable	\$ 106,907	\$ 103,140
British Columbia		
Rental income	\$ 2,932	\$ 1,548
Operating expenses	1,095	586
Net operating income	1,837	962
Identifiable assets and liabilities		
Real estate properties	39,147	12,171
Mortgages payable	\$ 31,620	\$ 10,422

Ontario

Rental income	\$ 4,410	\$ 3,217
Operating expenses	2,567	1,827
Net operating income	1,843	1,390
Identifiable assets and liabilities		
Real estate properties	42,376	25,718
Mortgages payable	\$ 36,483	\$ 21,077
Total		
Rental income	\$ 23,895	\$ 19,695
Operating expenses	9,889	8,219
Net operating income	14,006	11,476
Gain on disposition of real estate property	77	–
Identifiable assets and liabilities		
Real estate properties	189,138	142,198
Mortgages payable	\$ 175,010	\$ 134,639

20. SUBSEQUENT EVENTS

Subsequent to the year end September 30, 2005, and the date on which the Board of Directors approved these financial statements on December 9, 2005, the Corporation committed to acquire various properties, consisting of 255 unit of residential apartments, for consideration of \$14.9 million in Surrey, BC and Edmonton, AB. The acquisitions will be financed through a combination of cash, mortgages and vendor take back loans. The transactions were completed on December 14, 2005.

The Corporation set-up an employee share purchase plan to assist its directors, officers and employees in purchasing Mainstreet shares. The total loans of \$1.25 million were advanced to Mainstreet employees on October 31, 2005. The loans are interest free with a repayment period of four years.

TOP 10 REASONS WHY MAINSTREET INVESTS IN APARTMENTS

1. NEED

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

2. ENCOURAGING DEMOGRAPHICS

High levels of immigration have been a key driver of rental demand in 2005, with the majority of new immigrants initially settling in rental housing¹. Others who favour rental housing – including singles, the 50-65 age group and “echo boomer” generation (ages 20-29) – are increasing in numbers, creating greater demand for multi-family rental units over the next decade. The number of echo boomers alone is projected to rise by about 200,000 between now and 2011².

3. BUYING BELOW REPLACEMENT

Including labour, land and materials, it costs an average of \$150,000 per unit to build new rental apartment units. Mainstreet's acquisition costs range, on average, from \$50,000 to \$70,000 per unit. Our ability to find and negotiate the purchase of these undervalued properties presents a huge opportunity to create value.

4. GREAT ACCESS TO MORTGAGE FUNDING

Mainstreet is eligible to obtain insured mortgage loans through the Canada Mortgage and Housing Corporation (CMHC). This allows us to finance up to 85 per cent of a property's value, which means we need less equity to purchase a property and can achieve a greater return on investment.

5. 40-YEAR LOW INTEREST RATES

Interest rates – the number one cost in the multi-family rental business – remain at a 40-year low³. This allows us to refinance our long-term debt under more favourable terms and long-term CMHC-insured loans.

6. STABLE CASH FLOW

The apartment rental business provides a source of predictable cash flow because most of our apartment operating and financial expenses are fixed and stable. And because apartment

buildings are occupied by a greater number of tenants, vacancies do not have a significant impact on overall revenues.

7. CLASSIFIED AS A “SAFE ASSET”

The Canadian multi-family sector remains the strongest of all North American real estate sectors and continues to be the only real estate sector in North America where all markets receive the highest “green” ranking by Moody's Investor's Service. For the first half of 2005, Moody's ranked the multi-family rental market at 94 points out of 100.

8. POSITIONED AS A MARKET LEADER

Mainstreet's target market – mid-market apartment buildings – is large, representing about 60 per cent of the rental units in our geographic focus areas. Because most of these buildings are operated by individual owners, there is minimal competition for rental properties and that creates opportunity for Mainstreet to acquire under-performing properties and create value.

9. COMPETITIVE ADVANTAGE

Today, owning and operating rental apartment buildings is much more complex than is used to be. Mainstreet has all the necessary elements for success – infrastructure, capital, expertise in the renovation process, and many years of direct experience. We buy right, have strong relationships with contractors, a skilled marketing team to lease up the buildings, and a capable team to manage the Mainstreet brand and maintain properties.

10. PERFECT TIMING

The multi-family rental market has been soft for about four years. When interest rates are low, some renters will opt to buy homes, creating a dip in the rental market. When this happens, it's easy to overlook this market's long-term potential. Today, demand is beginning to rise and vacancy rates are beginning to fall. Now is the perfect time to take advantage of market conditions and acquire high potential value rental properties at below-market prices.

1. Canada Mortgage and Housing Corporation

2. Statistics Canada

3. Canada Mortgage and Housing Corporation

Other information you can find on our website (www.mainst.biz):

TSX Stock Quote

News Releases

Investor Overview

Our Portfolio

Corporate Information

OFFICERS

President and CEO
Bob Dhillon
Calgary, AB
Secretary
Joe Amantea
Calgary, AB
Chief Financial Officer
Johnny Lam
Calgary, AB
VP, Operations
Don Murray
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB
Darrell Cook
Calgary, AB
Bob Dhillon
Calgary, AB
Rich Grimaldi
Westport, CT
Lawrence Tapp
Langley, BC

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB
Joe Amantea
Calgary, AB

Darrell Cook
Calgary, AB

Audit Committee

Chair
Lawrence Tapp
Langley, BC
Darrell Cook
Calgary, AB
Rich Grimaldi
Westport, CT

Human Resource Committee

Chair
Joe Amantea
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SOLICITORS

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Calgary, AB

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

BANKER

TD Canada Trust
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Toronto Stock Exchange
(Trading Symbol: MEQ)

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