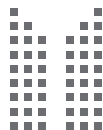


MAINSTREET EQUITY CORP.

*Focused on Value Creation & Growth*

2010 Annual Report



**MAINSTREET**  
EQUITY CORP.

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

As part of our strategic and continual efforts to maximize value for shareholders, Mainstreet has embraced a commitment to minimizing variable costs (such as General & Administrative expenses) wherever possible. This commitment has extended into our 2010 Annual Report. As we feel the true value of any financial report resides in the **information** rather than the **presentation**, we have moved away from a report heavy on visual impact and high in production costs to one that is tightly focused on the information that really matters to readers.

For additional information about Mainstreet Equity Corp, see the Corporation's profile at SEDAR ([www.sedar.com](http://www.sedar.com)).

Key Metrics.....	1	Balance Sheets .....	30
Message from the President & CEO.....	2	Statements of Loss and	
Performance Indicators.....	6	Comprehensive Loss and Deficit .....	31
Management's Discussion and Analysis.....	8	Statements of Cash Flows.....	32
Management's Report.....	28	Notes to the Financial Statements.....	33
Auditors' Report.....	29	Corporate Information .....	IBC

## Forward-Looking Information

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

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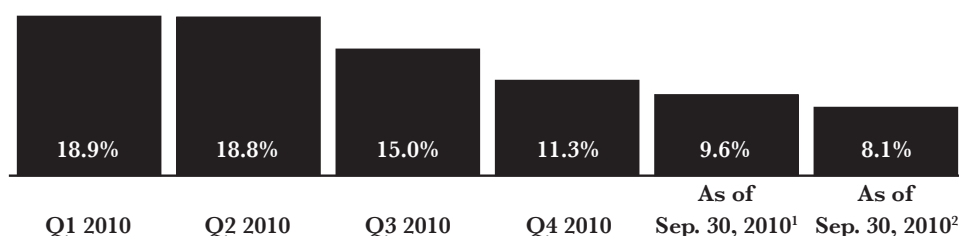
Management closely monitors factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and will update those forward-looking statements where appropriate in its quarterly financial reports.

## KEY METRICS | 2010 PERFORMANCE HIGHLIGHTS

<b>Funds from Operations (FFO) – Continuing Operations</b>	Up 46% to \$7.7 million (vs. \$5.3 million in 2009)
<b>Rental Revenue</b>	Up 3% to \$53.1 million (vs. \$51.7 million in 2009)
<b>Rental Revenue – Same Assets Properties</b>	Down 5% to \$47.9 million (vs. \$50.2 million in 2009)
<b>Net Operating Income (NOI) – Continuing Operations</b>	Up 6% to \$33.2 million (vs. \$31.3 million in 2009)
<b>NOI – Same Assets Properties</b>	Down 2% to \$29.6 million (vs. \$30.3 million in 2009)
<b>Operating Margin</b>	62% (vs. 61% in 2009 / 57% in 2008)
<b>Operating Margin – Same Assets Properties</b>	62% (vs. 60% in 2009 / 58% in 2008)
<b>Total Acquisition and Capital Expenditures</b>	\$55.3 million (vs. \$42.7 million in 2009)
<b>Stabilized Units</b>	105 properties (4,795 units) out of 134 properties (6,419 units)
<b>Growth</b>	480 units, representing a portfolio increase of 8%
<b>Growth Subsequent to Year-end</b>	510 units, representing a further portfolio increase of 8%
<b>Refinancing</b>	\$48.3 million (69% of Mainstreet's total floating and maturing debt as at September 30, 2009) refinanced to \$73.3 million long-term CMHC-insured mortgages – average interest rate is 4.39% (from 5.43%)
<b>Total debt consolidation as of September 30, 2010</b>	99%
<b>Appraised market value of portfolio (Sept. 30, 2010)</b>	Approximately \$752 million
<b>Cash on Balance Sheet</b>	\$1.4 million (\$0.14/share)
<b>Cash on Balance Sheet as at November 30, 2010</b>	\$12 million (\$1.16/share)

## NOTEWORTHY

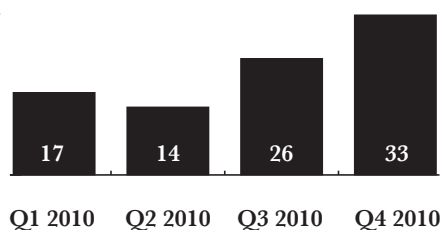
### VACANCY RATE TRENDS



1. Including properties closed for renovations 2. Excluding properties closed for renovations.

### FUNDS FROM OPERATIONS PER SHARE EXCLUDING FINANCING COST

(Cents)



## MESSAGE FROM THE PRESIDENT & CEO

### 2010 IN REVIEW | Mainstreet Solidifies a Foundation for Ambitious, Opportunistic Growth

For Mainstreet Equity Corp, 2010 was a transitional year.

Through a focused set of bold strategic moves aimed at meeting recessionary forces head-on, we solidified the foundation of our business and positioned the Corporation for significant future growth and continued success.

How did Mainstreet do it?

- To maximize cash flow, we worked tirelessly to bring down our vacancy rates.
- We aggressively refinanced our debt into long-term, lower interest mortgage loans to minimize the costs and risks of floating debt.
- We took advantage of recessionary conditions to restructure and build our human resources (especially our senior management team) and our internal operations and construction management systems in anticipation of our next wave of growth.
- We focused diligently on reducing expenses and improving operating margins (to 62% versus 61% in 2009 and 57% in 2008).

In the process, we believe Mainstreet experienced a fundamental transformation. From a lean entrepreneurial corporation in our opinion we have evolved into a strong corporate entity with the systems, processes and people required to enlarge our position as a leading consolidator of mid-market, add-value rental apartments in key Western Canadian markets.

### NOTEWORTHY ACHIEVEMENTS IN RECESSIONARY TIMES

#### **1 | Reduced vacancy rate to 8.1% (9.6% including properties closed for renovation) on September 30, 2010, from 17.2% at year-end 2009**

Driven by the fact that every 1% reduction in vacancy within our portfolio of stabilized properties adds over \$670,000 (before rental concessions) to Mainstreet's bottom line, the Corporation focused diligently throughout 2010 on bringing down its vacancy rate. Our target for year-end was a vacancy rate in the single digits, which we are proud to have achieved.

#### **2 | Ended the year with the highest FFO (\$0.33 per common share before financing cost) in a single quarter since Mainstreet's inception**

Thanks in large part to our relentless efforts to lower our vacancy rate and minimize our variable costs, Mainstreet earned record Funds from Operations (Continuing Operations) of \$3.4 million before financing cost in Q4 2010 at an average vacancy rate of 11.3%. With our vacancy rate improving, we expect a significant increase in our future FFO.

#### **3 | Reduced our average interest rate to 4.73% in 2010 (from 4.93% in 2009) by refinancing 69% of our floating and maturing debt into long-term, lower interest commitments. As of year-end, Mainstreet had consolidated 99% of its total debt into mid- to long-term fixed-rate mortgages.**

Mainstreet's single greatest non-capital cost is interest paid on mortgage loans. To minimize the cost of debt while mitigating the Corporation's exposure to interest risk, we have been aggressive in our efforts to refinance as much floating and maturing debt as possible into long-term, lower interest mortgages, most of them fixed-rate and CMHC-insured.

Our average interest rate of 4.73% as at September 30, 2010, represents annualized savings of \$800,000 over our average rate of 4.93% in 2009.

In 2010, Mainstreet locked \$48.3 million of its debt into long-term, lower interest loans. Subsequent to year-end, we have obtained approval from CMHC to refinance approximately \$36 million of matured debts and a clear-title property, which will raise an additional \$28 million for growth. Of this \$36 million in approved loans, \$22 million has been financed at an interest rate of 3.85% for a 10-year term.

#### **4 | Expanded our portfolio of properties by 8% (480 units) in 2010 and an additional 8% (510 units) in the first quarter of 2011, setting the stage for a year of opportunistic acquisitions in 2011**

During 2010, Mainstreet strategically expanded its presence in its key Western Canadian markets: Calgary, Edmonton, Saskatoon and Vancouver/Lower Mainland. While we grew Mainstreet's portfolio of properties by 8%, we strategically limited our growth in order to focus our attention and resources on solidifying Mainstreet's foundation and optimizing our position for opportunistic growth in 2011.

Subsequent to year-end, with that foundation firmly in place, we added an additional \$43 million in acquisitions to our portfolio of properties – a further portfolio increase of 8% in a single quarter. This marks our return to an ambitious growth strategy for 2011 and, if the right conditions persist, beyond.

With more than 25% of Surrey's total supply chain now residing in our portfolio, Mainstreet believes it is realizing its ambition of becoming *the* leader in the Western Canadian mid-market, add-value space.

#### **Additional Highlights – 2010**

- Kept G&A expenses at the same cost-per-unit level as in 2009, even with significant additions to our senior management team.
- Repurchased and cancelled 28,212 common shares at an average price of \$9.90 per common share.

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#### **A COMPELLING SNAPSHOT OF THE 'BIG PICTURE'**

While discussions of such details as vacancy rates, FFO, interest rates and operate margins are important, we also want to remind investors that everything Mainstreet does serves the broad strategic mission of our Corporation – namely, to *create long-term value* for our shareholders.

We do this by continually reinvesting cash to acquire, renovate and reposition apartment buildings in select high-growth Western Canadian locations – assets that are accretive to our revenue and cash flow and that significantly increase shareholder value over the long term.

Independent appraisals by Altus Group and Colliers International put the market value of Mainstreet's portfolio of properties at \$752 million as at September 30, 2010 (exclusive of residual land value and condo conversion value, and not including Mainstreet's \$43 million in acquisitions subsequent to year-end). With outstanding debts of \$401 million, Mainstreet boasts a Net Asset Value per basic share of \$33.8 – which in our opinion, an irrefutable demonstration of how we've created shareholder value with limited dilution since the Corporation's inception, when Mainstreet's portfolio had a market value of approximately \$17 million.

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#### **STRATEGIC GOALS FOR 2011**

Market-driven softness in rental revenues coupled with continued low interest rates make this the perfect time for an opportunistic company like Mainstreet to expand its portfolio.

Depressed revenues due to higher vacancies and lower rental rates have softened property values in the mid-market, add-value space compared to two to three years ago. As management believes revenues on the properties it acquires will return to (and ultimately surpass) their previous levels, this creates outstanding add-value potential to new acquisitions and presents an ideal condition for Mainstreet to grow aggressively in 2011.

As always, we will execute this strategy around the macro fundamentals that have made Mainstreet so successful all along: purchasing only mid-market, add-value properties well below replacement cost in select Western Canadian cities with strong GDP, robust potential in-migration, and limited supply of rental product.

MEETING THE RECESSION HEAD-ON:  
**A Snapshot of Mainstreet's Bold Strategic Moves in 2010**

Hire top talent not available during boom times.

Consolidate debt at low interest rates.

Minimize costs to maximize margins.

Buy back and cancel shares.

Reduce vacancy rates.

Increase cash flow.

Grow.

---

## CHALLENGES

To meet head-on the higher vacancy rates and softer rental markets typical of recessionary times, Mainstreet took a very aggressive position on concessions in 2010, resulting in \$3.7 million in costs and decreased revenue for the year. Mainstreet sees a potential for ongoing concessions in 2011 as we persist in our efforts to minimize our vacancy rate. We also anticipate continued challenges with bad debts and higher than normal rates of tenant turnover in 2011, although we should see increases in our top-line revenue if the economy's gradual recovery continues.

Mainstreet's greatest challenge in 2011, however, will be the cycle time of stabilizing new acquisitions. The Corporation only buys properties that require extensive renovations to bring them into line with Mainstreet's branded standard; and during stabilization, vacancy rates are higher than usual. All 510 units Mainstreet acquired in Q1 2011 require significant renovation, and this will impact our overall vacancy rates and cash flow during the year.

Accretive growth also has a temporary negative impact on the Corporation's cash flow.

## OUTLOOK

To fulfill Mainstreet's strategic goals for 2011, capital is crucial. As of year-end, Mainstreet held clear titles on assets with a book value of \$52 million and an appraised value of \$67 million – assets Mainstreet can monetize for growth. The Corporation also has a \$22 million line of credit at its avail; and at year-end, we had \$1.4 million cash on our balance sheet (\$12 million as at November 30, 2010).

CMHC has tightened its restrictions around income property investments (typically by speculative condo investors), requiring down payments of at least 20% for CMHC-insured loans on rental properties. As a certain percentage of condo purchases typically migrate into the rental universe, these tighter restrictions are anticipated to have a positive impact on Mainstreet's vacancy rates because of their potential to reduce rental market infiltration by speculative condo purchases and, over the longer term, curtail demand for the construction of new multi-family condominiums.

New CMHC rules impacting first-time homebuyers (wherein borrowers must meet qualification standards for a five-year fixed-rate mortgage even if they choose a mortgage with a lower interest rate and shorter term) should also benefit our business by making it more difficult for our mid-market renters to transition into home ownership.

Moreover, continued improvement in the economic climate through 2011 should have positive impacts on both our vacancy rates and our rental rates.

With our vacancy rates down, cash flow up, renovations nearly complete on our existing properties, 99% of our debt locked into low-interest, long-term mortgages, and a talented senior management team in place, we believe we are well positioned to do more of what we do best: ***acquire underperforming assets and create value for our shareholders.***

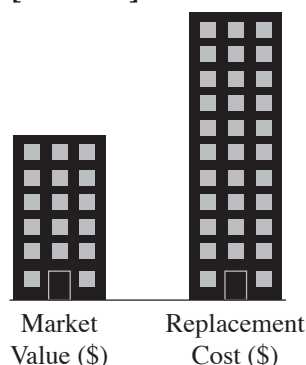
[Signed]

"Bob Dhillon"  
President & CEO

December 13, 2010  
Calgary, Alberta

## FUNDAMENTALS

### [MACRO]



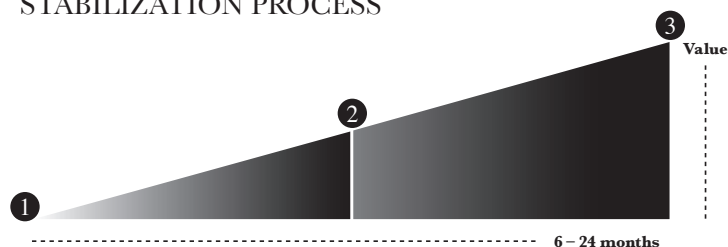
#### THE #1 DRIVER IN THE RENTAL APARTMENT BUSINESS

...is the fact that existing rental apartments are trading at prices significantly below replacement cost (the cost to build new apartments).

Increasing demand and limited supply in the rental market are expected to create favourable market conditions for existing rental apartments in years to come.

### [MAINSTREET]

#### STABILIZATION PROCESS



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

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

**2. Value Chain** (see page 9 for details) – These properties undergo renovations and enhanced operating efficiencies to raise the properties to the high standards of the Mainstreet brand. During this stage, units are vacant, resulting in low occupancy, additional capital investment and temporarily reduced cash flow.

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

#### THE WESTERN CANADIAN ADVANTAGE



With dedicated focus, Mainstreet pursues its vision to become the western Canadian mid-market multi-family owner/operator. During fiscal 2011 and up to December 13, 2010, we acquired a total of 990 units in Western Canada – 49 in Saskatoon, 411 in Surrey, and 530 in Edmonton and Calgary. Mainstreet has strategically zeroed in on each of these locations for their exceptional value, limited supply and promising growth dynamics.

525  
Abbotsford

1,360  
Surrey

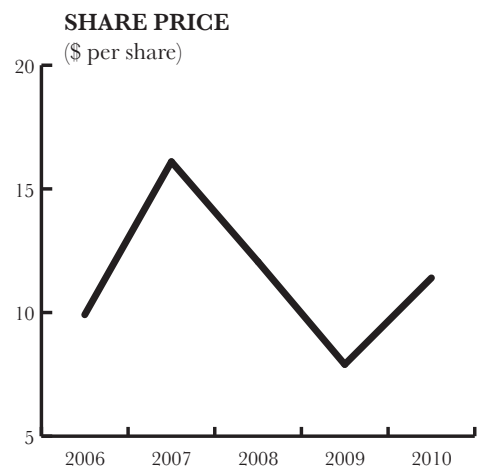
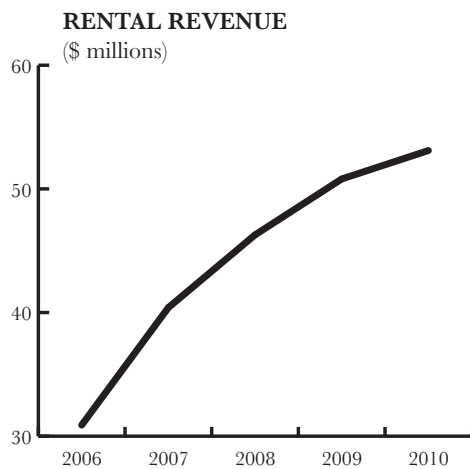
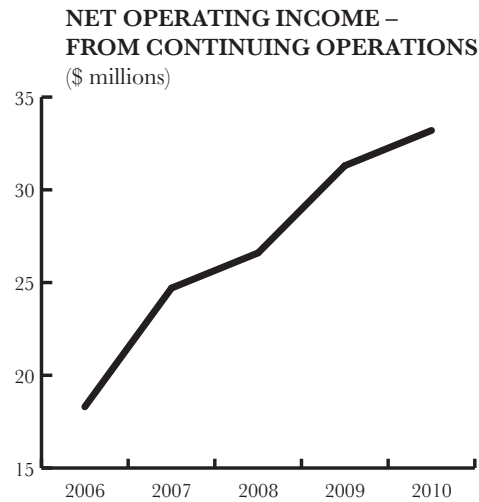
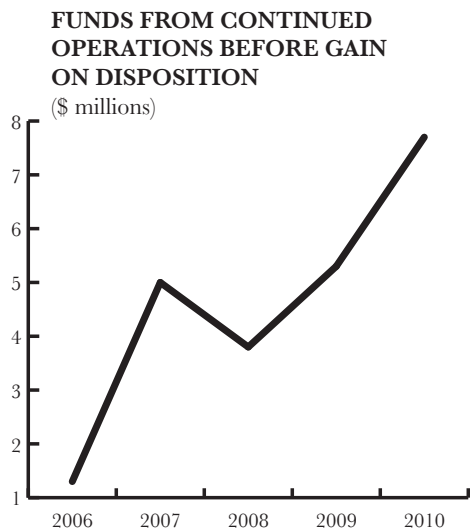
1,436  
Calgary

2,137  
Edmonton

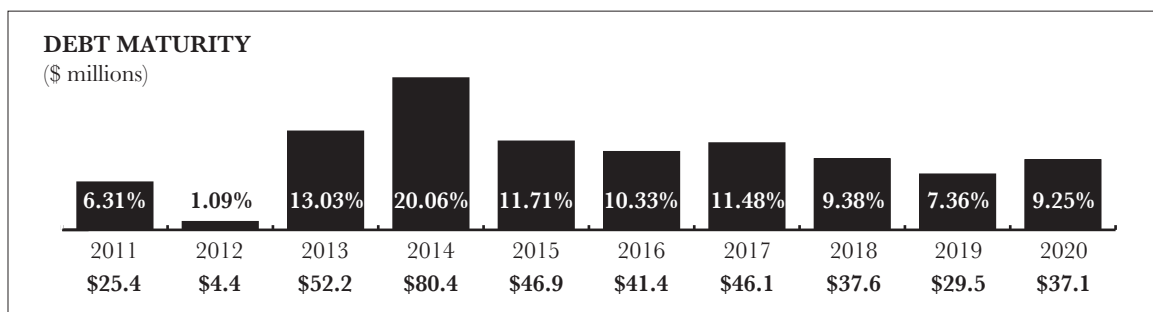
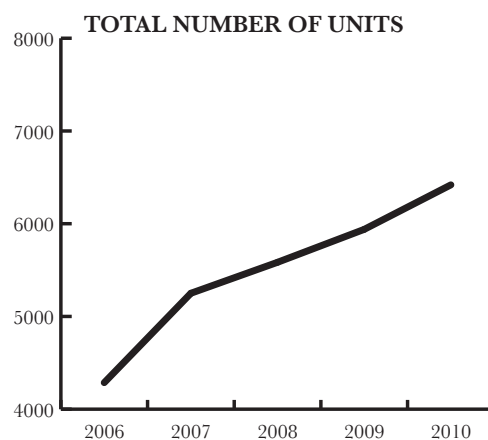
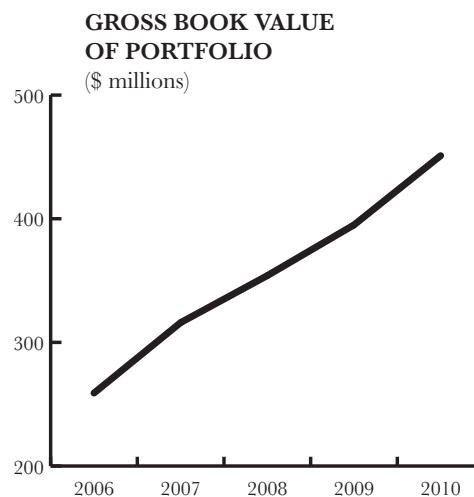
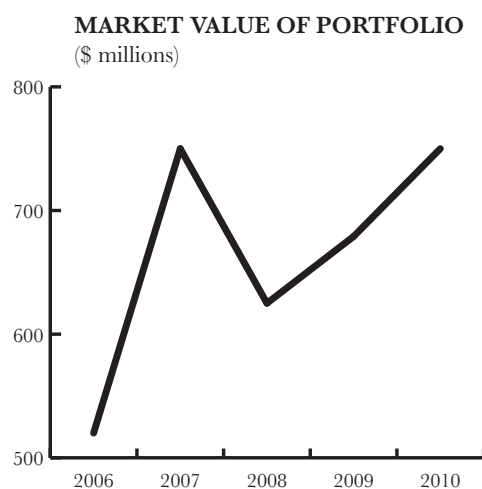
807  
Saskatoon

664  
GTA

PERFORMANCE INDICATORS







## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an explanation of the financial condition and results of operations of Mainstreet Equity Corp. ("Mainstreet" or "Corporation") as at and for the fiscal year ended September 30, 2010. The results from fiscal year 2010 are directly comparable with those from fiscal year 2009. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in the Annual Report. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada. The intent of this MD&A is to provide information about the Corporation's performance, financial position and outlook, and it was prepared as of December 10, 2010. This MD&A has been reviewed and approved by the Audit Committee and Board of Directors of the Corporation and is effective as of December 10, 2010. All amounts expressed are in Canadian dollars. Additional information regarding the Corporation is available under the Corporation's profile at SEDAR ([www.sedar.com](http://www.sedar.com)).

### Forward-Looking Information

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### BUSINESS OVERVIEW

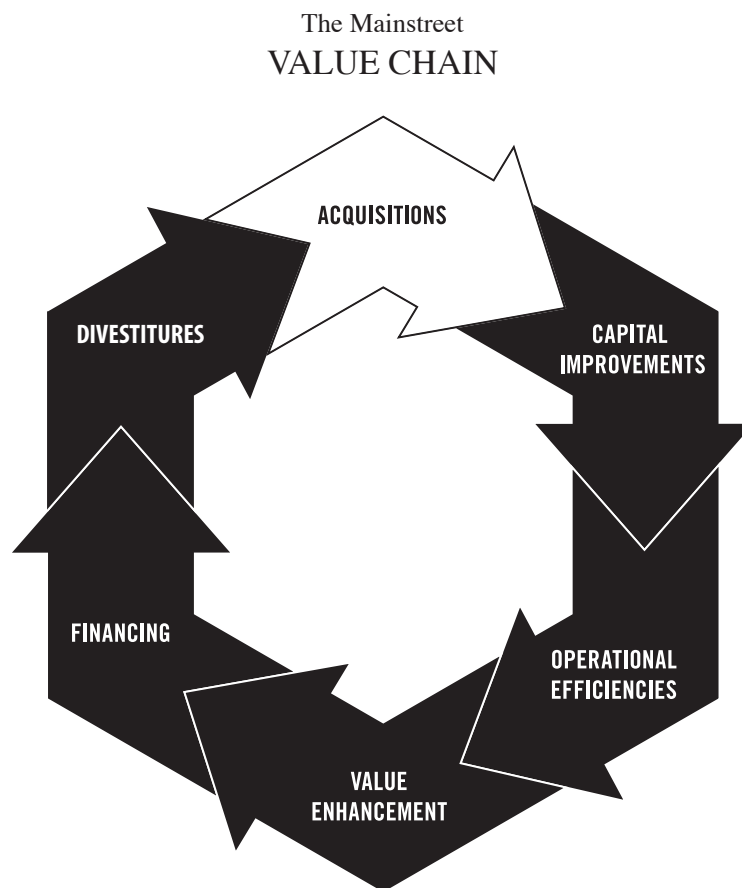
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland, Calgary, Edmonton, Saskatoon and the Greater Toronto Area.

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

## BUSINESS STRATEGY

Mainstreet's goal is to become Western Canada's leading provider of affordable mid-sized, mid-market rental accommodations – typically properties with fewer than 100 units. In pursuit of this goal, the Corporation adheres to its six-step “Value Chain” business model:

- **Acquisitions.** Identify and purchase underperforming rental units at prices well below replacement costs.
- **Capital improvements.** Increase the asset value of Mainstreet's portfolio by renovating acquired properties.
- **Operational efficiencies.** Minimize operating costs through professional management, efficient technology and energy-saving equipment. To maximize operational efficiencies and maintain high standards of service, Mainstreet's operations use internally trained personnel rather than third-party, fee-for-service management companies and contractors.
- **Value enhancement.** Reposition renovated properties in the market as Mainstreet branded products for higher rents, and build and sustain customer loyalty through high levels of service.
- **Financing.** Maintain a sound capital structure with access to low-cost, long-term Canada Mortgage and Housing Corporation (“CMHC”) insured mortgage loans.
- **Divestitures.** Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.



## ACQUISITION AND GROWTH

(000s of dollars)

	Three Months Ended Sept. 30,		Year ended Sept. 30,	
	2010	2009	2010	2009
	Edmonton	Saskatoon	Calgary, Edmonton, Saskatoon and Surrey	Abbotsford, Edmonton Saskatoon and Surrey
Rental units (number)	53	159	480	413
Total purchase costs	\$ 5,326	\$ 10,050	\$ 45,416	\$ 29,995
Average price per unit	\$ 100	\$ 63	\$ 95	\$ 73

Following strict criteria, Mainstreet identifies and acquires underperforming rental properties that offer high potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In Q4 2010, Mainstreet purchased 53 apartment units in Edmonton, Alberta, for \$5.3 million. At \$100,000, the average price per unit was, in management's opinion, well below market value and replacement cost.

For fiscal year 2010, the Corporation acquired in total 480 apartment units in Surrey, BC; Calgary and Edmonton, Alberta; and Saskatoon, Saskatchewan for total considerations of \$45.4 million. It has grown its portfolio by 8% (from 5,939 units to 6,419 units) since the previous fiscal year-end (September 30, 2009).

## Aquisition and Growth by Region

	Number of Units			
	September 30, 2010	Acquisitions during the year	October 1, 2009	% growth
Calgary and Edmonton, Alberta	3,269	248	3,021	8%
Abbotsford and Surrey, British Columbia	1,657	183	1,474	12%
Saskatoon, Saskatchewan	807	49	758	6%
Mississauga and Toronto, Ontario	664	—	664	—
<b>Total revenue-producing units</b>	<b>6,397</b>	<b>480</b>	<b>5,917</b>	<b>8%</b>
Units held for resale (Calgary, Alberta)	22	—	22	—
<b>Total units</b>	<b>6,419</b>	<b>480</b>	<b>5,939</b>	<b>8%</b>

Mainstreet's portfolio now includes 6,419 residential units consisting of townhouses, garden-style apartments, and mid-rise and high-rise apartments. One of these properties (22 units in Calgary) is being held for resale.

As of September 30, 2010, 90% of these units were rented, 8% were being renovated and the remainder were vacant because of current market conditions. Since 1997, the Corporation's portfolio has increased from 10 to 134 buildings, while the appraised market value of properties within this portfolio has grown from about \$17 million to approximately \$752 million as of September 30, 2010.<sup>1</sup>

Subsequent to year-end, Mainstreet acquired an additional 510 units (more than the 480 units acquired in all of 2010), bringing its portfolio to 6,929 units – an increase of 17% since September 30, 2009.

1. Market value held on September 30, 2010, was determined by independent qualified real estate appraisers. Direct capitalization method was used to convert an estimate of a single year's income expectancy into an indication of value in one direct step by dividing the income estimate by an appropriate capitalization rate that excludes the portfolio's condo conversion value and residual lands value. The actual selling value of these properties may be substantially different and depends on market conditions at the time of sale.

## CAPITAL IMPROVEMENT

Mainstreet's "Value Chain" business philosophy focuses on creating value in its capital assets by renovating newly acquired properties and enhancing operating efficiencies. Every new property and rental unit is upgraded to Mainstreet's standard, creating an attractive product, reducing operating costs and enhancing long-term asset value. Capital investment also includes expenses incurred on turnover units.

In fiscal year 2010, the Corporation spent \$9.4 million on property improvements – specifically for exterior upgrades such as new roofs, new siding and insulation and for interior upgrades such as new flooring and paint, new appliances and energy-efficiency measures. To address the balance of non-renovated units in the current portfolio (mainly for properties in British Columbia), Mainstreet plans to spend \$14 million in renovations for fiscal year 2011. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of these renovations within the next six to 24 months depending on the Tenancy Acts of the provinces in which renovations are occurring. In some provinces, no renovation work can be commenced and no rent increase can be introduced unless existing tenants move out. This will affect the progress of our renovations and stabilization. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at higher rental rates.

Uncertainties affecting future revenue and income include the rate of turnover of existing tenants, availability of renovation workers, and increases in labour and material costs, all of which will have material impacts on the timing and cost of completing renovations.

## FINANCING

Debt financing after stabilization and maturity of initial loans is a cornerstone of Mainstreet's business strategy. It unlocks the value added through stabilization and raises capital for future growth. It also mitigates the risk of anticipated interest rate hikes and minimizes the costs of borrowing. Mainstreet continually refinances as much floating and maturing debt as possible into long-term, primarily CMHC-insured mortgages at lower interest rates.

In fiscal year 2010, Mainstreet refinanced \$48.3 million of floating and matured debt for \$73.3 million into long-term (5- to 10-year) mortgages, most of them CMHC-insured. By reducing the average rate of interest on these debts from 5.43% to 4.39%, this refinancing delivers annualized savings of \$762,000 in interest. At the same time, this refinancing raised \$25 million for future growth.

Mainstreet has obtained approvals from CMHC to refinance an additional \$36 million of floating and matured debt and one clear title property, which will raise an additional \$28 million for growth. Of the \$36 million in approved loans, \$22 million has been financed at an interest rate of 3.85% for a 10-year term.

## VACANCY RATES

Vacancy rates improved throughout fiscal year 2010. Overall, the average vacancy rate decreased from 17.2% in fiscal year 2009 to 14.1% in 2010. The average vacancy rate for Q4 2010 was 11.3%, compared to 18.9% in Q1, 18.8% in Q2 and 15.0% in Q3 2010. The vacancy rate as of September 30, 2010, was 9.6%. This figure includes properties completely closed for renovation. **Excluding these properties, the vacancy rate at September 30, 2010, was 8.1%.**

## REVIEW OF FINANCIAL AND OPERATING RESULTS

### Summary of Financial Results

(000s of dollars except per share amounts)

	2010	2009	2008	% change from 2009	% change from 2008
Gross revenue	\$ 53,539	\$ 51,868	\$ 45,483	3%	18%
Net income (loss)					
– from continuing operations	\$ (3,863)	\$ (8,238)	\$ (5,319)	(53%)	(27%)
– from discontinued operations	\$ –	\$ 5,212	\$ 429	–	–
– from sale of properties held for resale	\$ –	\$ –	\$ 610	–	–
Total net loss	\$ (3,863)	\$ (3,026)	\$ (4,280)	28%	(10%)
Net loss from continuing operations before stock compensation expense	\$ (3,863)	\$ (4,868)	\$ (5,319)	(21%)	(27%)
Funds from operations <sup>1</sup>					
– from continuing operations	\$ 7,742	\$ 5,315	\$ 2,955	46%	162%
– from discontinued operations	\$ –	\$ 6,096	\$ 828	–	–
– from sale of properties held for resale	\$ –	\$ –	\$ 726	–	–
Total funds from operations	\$ 7,742	\$ 11,411	\$ 4,509	(32%)	72%
Net operating income from continuing operations <sup>2</sup>	\$ 33,189	\$ 31,315	\$ 25,315	6%	31%
Net operating margin from continuing operations (%)	62%	61%	57%	3%	10%
EBITDA before stock option expense from continuing operations <sup>3</sup>	\$ 27,378	\$ 25,801	\$ 18,102	6%	51%
Net loss per share					
– basic from continuing operations before stock compensation expenses	\$ (0.37)	\$ (0.42)	\$ (0.36)	(12%)	3%
– basic from discontinued operations	\$ –	\$ 0.45	\$ 0.03	–	–
– basic from sale of properties held for resale	\$ –	\$ –	\$ 0.04	–	–
– from stock compensation expense	\$ –	\$ (0.29)	\$ –	–	–
Net loss per share	\$ (0.37)	\$ (0.26)	\$ (0.29)	42%	28%
Funds from operations per share					
– basic from continuing operations	\$ 0.75	\$ 0.46	\$ 0.20	63%	275%
– basic from discontinued operations	\$ –	\$ 0.53	\$ 0.06	–	–
– basic from sale of properties held for resale	\$ –	\$ –	\$ 0.05	–	–
Funds from operations per share	\$ 0.75	\$ 0.99	\$ 0.31	(24%)	142%
Weighted average number of shares					
– basis and fully diluted	10,362,881	11,572,749	14,560,145	(10%)	(29%)
Total Assets	\$ 399,440	\$ 381,167	\$ 337,515	5%	18%
Total long-term liabilities	\$ 400,678	\$ 379,899	\$ 308,313	5%	30%

## Comparative Figures

Two properties classified as properties held for resale in fiscal year 2009 were reclassified as revenue-producing properties. As such, their operating results were included in the results from continuing operations for the fiscal year 2009 to conform with the current year's presentation.

1. Funds from operations ("FFO") are calculated as net earnings before depreciation of real estate properties, stock compensation expense and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance but is not a recognized measure under Canadian Generally Accepted Accounting Principles ("GAAP"). The GAAP measurement most directly comparable to FFO is net income (for which reconciliation is provided below). FFO should not be construed as an alternative to net income or cash flow from operating activities, determined in accordance with GAAP, as an indicator of Mainstreet's performance. Readers are cautioned that FFO may differ from similar calculations used by other comparable entities.
2. Net operating income is rental revenue minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses, or depreciation and amortization expenses. It is used by Mainstreet to measure its operational performance. Net operating income is not a recognized measure under GAAP. The GAAP measure most directly comparable to it is net income. Net operating income should not be construed as an alternative to net income determined in accordance with GAAP. Readers are cautioned that net operating income may differ from similar calculations used by other comparable entities.

(000s of dollars)

12 months ended September 30,	2010	2009	% change
Net loss and comprehensive loss from continuing operations	\$ (3,863)	\$ (8,238)	(53%)
Interest income	\$ (112)	\$ (207)	(46%)
Gain on settlement on debt	\$ (310)	\$ —	—
General and administrative expenses	\$ 6,233	\$ 5,721	9%
Mortgage interest	\$ 18,119	\$ 17,073	6%
Financing cost	\$ 1,530	\$ 3,334	(54%)
Depreciation	\$ 12,870	\$ 11,713	10%
Stock compensation expense	\$ —	\$ 3,370	—
Income taxes (recovery expense)			
— current	\$ (13)	\$ 79	(116%)
— future	\$ (1,265)	\$ (1,530)	(17%)
Net operating income from continuing operations	\$ 33,189	\$ 31,315	6%

3. EBITDA is earnings before interest, financing cost, stock compensation expense, 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 with GAAP. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities.

(000s of dollars)

12 months ended September 30,	2010	2009	% change
Net loss and comprehensive loss from continuing operations	\$ (3,863)	\$ (8,238)	(53%)
Mortgage interest	\$ 18,119	\$ 17,073	6%
Financing cost	\$ 1,530	\$ 3,334	(54%)
Depreciation	\$ 12,870	\$ 11,713	10%
Stock compensation expense	\$ —	\$ 3,370	—
Income taxes (recovery expense)			
— current	\$ (13)	\$ 79	(116%)
— future	\$ (1,265)	\$ (1,530)	(17%)
EBITDA from continuing operations	\$ 27,378	\$ 25,801	6%

As defined in the preceding footnote, FFO is a key measure of a real estate company's performance. Mainstreet generates FFO from three sources: rental revenue from revenue-producing properties, sale of properties acquired for resale purposes, and the periodic sale of revenue-producing properties. Mainstreet generally reinvests proceeds from the latter into properties with higher potential for long-term returns.

## FUNDS FROM OPERATIONS

(000s of dollars except per share amounts)

12 months ended September 30,	2010	2009	% change
Net loss from continuing operations	\$ (3,863)	\$ (8,238)	(53%)
Stock compensation expense	\$ —	\$ 3,370	—
Depreciation	\$ 12,870	\$ 11,713	10%
Future income tax on continuing operations	\$ (1,265)	\$ (1,530)	(17%)
Funds from operations from continuing operations	\$ 7,742	\$ 5,315	46%
Funds from operations from discontinued operations	\$ —	\$ 6,096	—
Total funds from operations	\$ 7,742	\$ 11,411	(32%)
Funds from operations per common share			
– basic	\$ 0.75	\$ 0.99	
– diluted	\$ 0.72	\$ 0.97	
Financing cost	\$ 1,530	\$ 3,334	(54%)
Funds from operations from continuing operations excluding financing cost	\$ 9,272	\$ 8,649	7%
Funds from operations from continuing operations excluding financing cost per common share			
– basic	\$ 0.89	\$ 0.75	
– diluted	\$ 0.86	\$ 0.74	
Funds from operations excluding financing cost	\$ 9,272	\$ 14,745	(37%)
Funds from operations excluding financing cost per common share			
– basic	\$ 0.89	\$ 1.27	
– diluted	\$ 0.86	\$ 1.26	
Weighted average number of shares			
– basic	10,362,881	11,572,749	
– fully diluted	10,771,496	11,737,324	

In 2010, Mainstreet's FFO from continuing operations increased to \$7.7 million – **up 46% from \$5.3 million – as a result of increased rental revenue, decreased vacancy rate and lower operating expenses.**

Mainstreet's total FFO decreased 32% from \$11.4 million in 2009 to \$7.7 million in 2010. This is because the 2009 FFO includes \$5.9 million generated from a gain on disposition of a property.

The Corporation's portfolio increased to 6,419 units as of September 30, 2010 – an 8% increase from 5,939 units a year previous.

The expected results of rapid growth and the costs associated with stabilizing properties continue to adversely affect Mainstreet's financial performance. Stabilization involves renovating and improving the operating efficiencies of acquired properties and repositioning them in the marketplace for higher rents and improved asset value. All properties Mainstreet acquires require substantial exterior and interior renovations; and as of September 30, 2010, 25% of Mainstreet's total portfolio remained non-stabilized.

During stabilization, the Corporation's financial performance is adversely affected by higher vacancy rates and lower rental revenue, as well as by higher operational costs such as bad debts and marketing expenses. The Corporation expects financial performance to improve when high operating expenses are offset by additional rental revenues as more units become stabilized.

Other factors that adversely affect Mainstreet's financial performance include:

- Higher interest rates on the short-term conventional financing required for properties undergoing stabilization. The longer it takes to stabilize a property, the longer Mainstreet pays higher interest rates for interim financing.
- Higher salary expenses due to our efforts to strengthen the Corporation's human resources, particular at the senior management level, to achieve greater operational efficiencies and equip Mainstreet for future growth.



- The costs of refinancing floating conventional debt to lower interest, long-term CMHC-insured mortgage loans. During the financial year ended September 30, 2010, the Corporation raised about \$25 million of additional funds by financing under CMHC-insured mortgage loans at an average interest rate of 4.39%. The total cost of financing was \$1.5 million. Although this had an adverse impact on income and funds from operations in 2010, its long-term benefits to the Corporation's future growth and profitability are expected to be significant.

Before a financing cost of \$1.5 million, Mainstreet's FFO from continuing operations increased 7% to \$9.3 million in 2010 from \$8.6 million in 2009.

Mainstreet reported a net loss of \$3.9 million (\$0.37 per basic share) from continuing operations in 2010, compared with a net loss of \$8.2 million (\$0.71 per share) in 2009. The losses in 2010 and 2009 included financing costs of \$1.5 million and \$3.3 million respectively. The loss in 2009 also included a stock compensation expense of \$3.4 million. Excluding these expense items, the 2010 loss was \$2.3 million (\$0.23 per share) compared to \$1.5 million (\$0.13 per share) in 2009.

## WEIGHTED AVERAGE NUMBER OF SHARES

The weighted average number of shares decreased by 10% from 11,572,749 to 10,362,881 due to purchase and cancellation of 4.1 million shares through substantial issuer and normal course issuer bids during 2009.

Due to reported losses, the calculation of diluted loss per share does not include the stock options of common shares. If included, these common shares would be anti-dilutive.

## TOTAL ASSETS

The Corporation's total assets increased to \$399 million as of September 30, 2010, from \$381 million as of September 30, 2009. This was mainly due to a continued growth of Mainstreet's portfolio, which increased to 6,419 units in 2010 from 5,939 units in 2009.

## TOTAL LONG-TERM LIABILITIES

Mainstreet's total long-term liabilities increased to \$401 million as of September 30, 2010, from \$380 million as of September 30, 2009 as a result of an increase in mortgage loans from refinancing matured and floating mortgages as well as from newly acquired real estate properties during the year.

## REVENUES

(000s of dollars)

	2010	2009	% change
Rental revenue	\$ 53,117	\$ 51,661	3%
Interest income	\$ 112	\$ 207	(46%)
Gain on settlement on debt	\$ 310	\$ —	—
Total revenues	\$ 53,539	\$ 51,868	3%

Rental revenue increased 3% to \$53.1 million in 2010 from \$51.7 million in 2009, primarily from growth in the Corporation's property portfolio and a decrease in vacancy rate.

## RENTAL OPERATIONS

(000s of dollars except per unit amounts)

	2010	2009	% change
Same assets rental revenues	\$ 47,855	\$ 50,150	(5%)
Acquisition rental revenues	\$ 5,262	\$ 1,511	248%
Total rental income	\$ 53,117	\$ 51,661	3%
Average vacancy rate	14.07%	17.18%	(18%)
Weighted average number of units	6,254	5,856	7%
Average rental rate per unit per month	\$ 708	\$ 735	(4%)



Rental revenues from “same assets” properties (properties owned for the fiscal years ended September 30, 2010 and 2009) decreased by 5% to \$47.9 million in 2010 from \$50.2 million in 2009 – a result of an increase in one-time rental incentives offered to tenants and the reclassification of certain tenant-related promotional expenses from general and administrative expenses to net off against the rental income.

In 2010, rental revenues from new property acquisitions were \$5.3 million – a substantial increase of 248% over 2009. This increase reflects Mainstreet’s acquisition of 893 units since the year ended September 30, 2008.

## OPERATING COSTS

(000s of dollars)

	2010	2009	% change
Same assets operating expenses	\$ 18,250	\$ 19,834	(8%)
Acquisition operating expenses	\$ 1,678	\$ 512	228%
Total operating costs	\$ 19,928	\$ 20,346	(2%)

Overall, operating costs (after utility rebate<sup>1</sup>) decreased 2% to \$19.9 million in 2010 compared to \$20.3 million in 2009 despite an increase in salary expenses from employing more staff to improve Mainstreet’s operational efficiencies and customer service, due mainly to the reduction of overall operating expenses (such as advertising, repair and maintenance) through management’s ongoing efforts to minimize operating costs.

### Operating costs for “same assets” properties decreased by 8% over the period.

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

## RENTAL OPERATIONS BY PROVINCE

Mainstreet manages and tracks the performance of rental properties in each of its geographic markets.

### British Columbia

Mainstreet continues to expand its British Columbia operations. The average number of rental units has grown 16% to 1,649 units in 2010 compared to 1,416 units in 2009. As a result, rental revenue increased by 13% to \$13.3 million in 2010 compared to \$11.8 million in 2009. Rental revenue per unit, however, decreased from \$694 per month in 2009 to \$672 per month in 2010, while the vacancy rate increased to 11% in 2010 compared to 10% for the same period in 2009. This increase is due primarily to the acquisition of more units and the stabilization of units acquired during the period.

The average monthly operating cost per unit decreased to \$243 per unit per month in 2010 – down 6% from \$258 in 2009. As a result, the operating margin increased to 64% in 2010 compared to 63% in 2009.

(000s of dollars except per unit amounts)

	2010	2009	% change
Rental revenue	\$ 13,290	\$ 11,793	13%
Operating expenses	\$ 4,805	\$ 4,387	10%
Net operating income	\$ 8,485	\$ 7,406	15%
Weighted average number of units	1,649	1,416	16%
Average rent per unit per month	\$ 672	\$ 694	(3%)
Operating cost per unit per month	\$ 243	\$ 258	(6%)
Average vacancy rate	10.77%	9.60%	12%
Operating margins	64%	63%	2%

### Alberta

Despite a decrease in the average vacancy rate from 22% in 2009 to 16% in 2010, the average rental revenue per unit per month decreased to \$710 in 2010 from \$780 in 2009. This was due mainly to a substantial amount of rental incentives offered to attract new tenants and retain existing tenants and the reclassification of certain tenant-related promotional expenses from general and administrative expenses to net off against the rental income. The average monthly operating cost per unit decreased to \$259 in 2010 – down 8% from \$282 in 2009. As a result, the operating margin remained at 64% in 2010.

(000s of dollars except per unit amounts)

	2010	2009	% change
Rental revenue	\$ 26,772	\$ 28,239	(5%)
Operating expenses	\$ 9,758	\$ 10,214	(4%)
Net operating income	\$ 17,014	\$ 18,025	(6%)
Weighted average number of units	3,144	3,018	4%
Average rent per unit per month	\$ 710	\$ 780	(9%)
Operating cost per unit per month	\$ 259	\$ 282	(8%)
Average vacancy rate	15.89%	22.12%	(28%)
Operating margins	64%	64%	—

### Saskatchewan

The Corporation's Saskatchewan portfolio continues to grow. From 2009 to 2010, the average number of units increased by 5% – from 758 to 797. As Mainstreet has renovated most of these properties, the operating results have improved significantly. Rental revenue increased 39% to \$6.6 million in 2010 from \$4.8 million in 2009. The vacancy rate dropped significantly from 18% in 2009 to 13% in 2010. The overall operating margin improved to 72% in 2010 compared to 59% in 2009.

(000s of dollars except per unit amounts)

	2010	2009	% change
Rental revenue	\$ 6,591	\$ 4,751	39%
Operating expenses	\$ 1,841	\$ 1,971	(7%)
Net operating income	\$ 4,750	\$ 2,780	71%
Weighted average number of units	797	758	5%
Average rent per unit per month	\$ 689	\$ 522	32%
Operating cost per unit per month	\$ 192	\$ 217	(11%)
Average vacancy rate	13.15%	17.88%	(26%)
Operating margins	72%	59%	22%

### Ontario

Mainstreet's Ontario operations were adversely affected by the ongoing economic recession in Ontario over the year. Rental revenue decreased 6% – primarily the result of a higher vacancy rate and bad debt expenses. However, the loss in revenue was offset to a large extent by a 7% decrease in operating expenses. As a net result, the operating margin remained at 45% in 2010.

(000s of dollars except per unit amounts)

	2010	2009	% change
Rental revenue	\$ 6,464	\$ 6,878	(6%)
Operating expenses	\$ 3,524	\$ 3,774	(7%)
Net operating income	\$ 2,940	\$ 3,104	(5%)
Weighted average number of units	664	664	—
Average rent per unit per month	\$ 811	\$ 863	(6%)
Operating cost per unit per month	\$ 442	\$ 474	(7%)
Average vacancy rate	14.61%	10.18%	43%
Operating margins	45%	45%	—

## GENERAL & ADMINISTRATIVE EXPENSES

(000s of dollars except per unit amounts)

	2010	2009	% change
Total	\$ 6,233	\$ 5,721	9%
Per unit per month	\$ 83	\$ 83	—

G&A expenses include corporate costs such as salaries and professional fees. The Corporation's G&A expenses increased by 9% to \$6.2 million in 2010 from \$5.7 million in 2009. On a per unit basis, the G&A cost remained at \$83 per unit in 2010 even after a substantial increase in salary expenses. The increase in salaries is a result of efforts to strengthen Mainstreet's human resources (especially at the senior management level) to improve operational efficiencies and prepare for further growth.

## MORTGAGE INTEREST

(000s of dollars)

	2010	2009	% change
Same assets mortgage interest	\$ 17,002	\$ 16,779	1%
Acquisition mortgage interest <sup>1</sup>	\$ 1,117	\$ 294	280%
Total interest expenses	\$ 18,119	\$ 17,073	6%

Same assets mortgage interest increased by 1%, primarily from an increase in mortgage loans after refinancing some existing stabilized properties and from conversion of short-term financing to long-term mortgage loans on stabilized properties.

1. Mortgage interest for properties acquired after the financial year ended September 30, 2008.

## FINANCING COSTS

(000s of dollars)

	2010	2009	% change
Financing costs	\$ 1,530	\$ 3,334	(54%)

Financing costs include Canada Mortgage and Housing Corporation ("CMHC") insurance premiums, legal fees and other expenses incurred in obtaining financing.

## SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sep.30, 2009	Jun. 30, 2009	Mar. 31, 2009	Dec. 31, 2008
Rental revenue	\$ 14,326	\$ 13,130	\$ 13,060	\$ 12,601	\$ 13,026	\$ 12,795	\$ 12,923	\$ 12,917
Interest income	\$ 2	\$ 15	\$ 69	\$ 26	\$ 16	\$ 19	\$ 67	\$ 105
Gain on settlement on debt	\$ 210	—	—	100	—	—	—	—
Total revenue from continuing operations	\$ 14,538	\$ 13,145	\$ 13,129	\$ 12,727	\$ 13,042	\$ 12,814	\$ 12,990	\$ 13,022
Net income (loss) from continuing operations	\$ 22	\$ (1,556)	\$ (1,294)	\$ (1,035)	\$ (1,690)	\$ (558)	\$ (3,492)	\$ (2,499)
Net income from discontinued operations	—	—	—	—	\$ 5,169	\$ 7	\$ 15	\$ 21
Net income (loss)	\$ 22	\$ (1,556)	\$ (1,294)	\$ (1,035)	\$ 3,479	\$ (550)	\$ (3,477)	\$ (2,478)
Per share results								
— basic and diluted	—	—	—	—	—	—	—	—
Earning per share for continuing operations	—	\$ (0.15)	\$ (0.12)	\$ (0.10)	\$ (0.14)	\$ (0.04)	\$ (0.31)	\$ (0.18)
Earning per share for discontinued operations	—	—	—	—	\$ 0.45	—	—	—
Net loss per share	—	\$ (0.15)	\$ (0.12)	\$ (0.10)	\$ 0.31	\$ (0.05)	\$ (0.31)	\$ (0.18)

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2010:

## QUARTERLY RESULTS COMPARISON

(000s of dollars)

Three months ended	September 30, 2010	June 30, 2010	September 30, 2009
Rental revenue	\$ 14,326	\$ 13,130	\$ 13,026
Property operating expenses (including utility rebate)	\$ 4,791	\$ 4,791	\$ 4,588
Mortgage and debenture interest	\$ 4,555	\$ 4,476	\$ 4,799
Financing cost	\$ 325	\$ 1,120	\$ 644
Vacancy rate	11.32%	15.01%	17.77%

- During Q4 2010, Mainstreet acquired two new buildings with 53 units at an average cost of \$100,000 per unit.
- In Q4 2010, rental income increased 9% to \$14.3 million from \$13.1 million in Q3 2010 and \$13.0 million in Q4 2009, due mainly to the acquisition of more rental units.
- In Q4 2010, Mainstreet made an early repayment of a vendor take-back mortgage and received a discount of \$210,000.
- In Q4 2010, our average vacancy rate decreased to 11.32% compared to 15.01% in Q3 2010 and 17.77% in Q4 2009.
- In Q4 2010, Mainstreet incurred mortgage interest of \$4.6 million, a 2% increase from \$4.5 million in Q3 2010. The increase can be attributed primarily to more mortgage liability incurred after the acquisition of new properties and the refinancing of existing properties.
- In Q4 2010, Mainstreet incurred financing costs of \$325,000 compared to \$1.1 million in Q3 2010 and \$0.6 million in Q4 2009.

## SAME ASSETS PROPERTIES

"Same assets" properties are defined as properties owned by the Corporation for the entire 12-month periods ended September 30, 2010 and 2009. As of September 30, 2010, 117 properties (5,526 units) out of 134 properties (6,419 units) constituted same assets properties.

(000s of dollars)

	2010	2009	% change
Same assets – rental revenues	\$ 47,855	\$ 50,150	(5%)
Same assets – operating costs	\$ 18,250	\$ 19,834	(8%)
Same assets – net operating income	\$ 29,605	\$ 30,316	(2%)
Operating margin	62%	60%	

Rental revenue from same assets properties decreased by 5% to \$47.9 million over the year – a result of rental incentives offered to tenants and the reclassification of certain tenant-related promotional expenses from general and administrative expenses to net off against the rental income.

Operating costs for same assets properties decreased by 8% over the period. As a net result, the operating margin increased to 62% in 2010 from 60% in 2009.

## STABILIZED PROPERTIES

Mainstreet defines a stabilized property as a building with 90% of its units renovated and repositioned in the market at current market rents. As of September 30, 2010, 105 properties (4,795 units) out of 134 properties (6,419 units) were stabilized. As previously noted, Mainstreet's performance during the stabilization process is adversely affected due to lower rental revenue, higher vacancy rates and higher operating expenses. Management believes that a more fair measure of performance for the Corporation is FFO of stabilized properties.

## FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2010, FFO of Mainstreet's stabilized portfolio before financing cost amounted to \$6.6 million (\$0.64 per basic share and \$0.62 per fully diluted share). FFO after financing cost was \$5.2 million (\$0.51 per basic share and \$0.49 per fully diluted share).

(000s of dollars except per share amounts)

	Three months ended September 30, 2010			12 months ended September 30, 2010		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental revenue	\$ 10,978	\$ 3,348	\$ 14,326	\$ 42,476	\$ 10,641	\$ 53,117
Property operating expenses	\$ 3,630	\$ 1,161	\$ 4,791	\$ 15,560	\$ 4,368	\$ 19,928
Net operating income	\$ 7,348	\$ 2,187	\$ 9,535	\$ 26,916	\$ 6,273	\$ 33,189
Operating margin	67%	65%	67%	63%	59%	62%
Interest income	\$ 1	\$ 1	\$ 2	\$ 83	\$ 29	\$ 112
Gain on settlement of debt	—	\$ 210	\$ 210	—	\$ 310	\$ 310
General & administrative expenses	\$ 1,342	\$ 495	\$ 1,837	\$ 4,531	\$ 1,702	\$ 6,233
Mortgage and debenture interest	\$ 4,027	\$ 528	\$ 4,555	\$ 15,839	\$ 2,280	\$ 18,119
Financing cost	\$ 266	\$ 59	\$ 325	\$ 1,393	\$ 137	\$ 1,530
Current income tax	\$ (18)	\$ (6)	\$ (24)	\$ (10)	\$ (3)	\$ (13)
Funds from operations from continuing operations	\$ 1,732	\$ 1,322	\$ 3,054	\$ 5,246	\$ 2,496	\$ 7,742
Funds from operations per common share						
— basic	\$ 0.17	\$ 0.12	\$ 0.29	\$ 0.51	\$ 0.24	\$ 0.75
— diluted	\$ 0.16	\$ 0.12	\$ 0.28	\$ 0.49	\$ 0.23	\$ 0.72
Funds from operation before financing cost	\$ 1,998	\$ 1,381	\$ 3,379	\$ 6,639	\$ 2,633	\$ 9,272
Funds from operations before financing cost per common share						
— basic	\$ 0.19	\$ 0.14	\$ 0.33	\$ 0.64	\$ 0.24	\$ 0.89
— diluted	\$ 0.18	\$ 0.13	\$ 0.31	\$ 0.62	\$ 0.24	\$ 0.86
Weighted average number of common shares						
— basic	10,378,989			10,362,881		
— fully diluted	10,827,707			10,771,496		

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital Requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In the 12-month period ended September 30, 2010, after payments of all required expenses, the Corporation generated funds from continuing operations of \$7.7 million. Mainstreet's cash balance as of September 30, 2010, was \$1.4 million. The Corporation expects that funds generated from operations combined with cash on hand will be sufficient to meet its working capital requirements in 2011.

### Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In addition to its cash balance of \$1.4 million as of September 30, 2010, Mainstreet expects to raise substantial funds by refinancing existing properties as the related debts mature. In addition, after newly acquired properties are stabilized, the Corporation expects to raise funds by refinancing these properties. As of September 30, 2010, the Corporation owned the following 17 clear title properties with appraised value of \$67 million:

Property	Number of units	Acquisition (000s)	Appraised Value
205 Heritage Drive SW, Calgary, AB	195	\$ 24,960	\$ 27,230
33136 George Ferguson Way, Abbotsford, BC	84	\$ 8,300	\$ 9,300
33405 Bourquin Place, Abbotsford, BC	60	\$ 5,400	\$ 6,775
205 Ross Avenue, Cochrane, AB	42	\$ 3,607	\$ 5,400
3701 – 8 Street E, Saskatoon, SK	24	\$ 1,824	\$ 2,400
10125 – 114 Street, Edmonton, AB	24	\$ 1,103	\$ 830
1622 – 22 Street, Saskatoon, SK	24	\$ 921	\$ 2,290
7108 – 79 Avenue, Edmonton, AB	21	\$ 1,911	\$ 2,380
202 Avenue N South, Saskatoon, SK	19	\$ 830	\$ 1,450
2014 – 20 Street West, Saskatoon, SK	18	\$ 494	\$ 1,510
355 Avenue T South, Saskatoon, SK	16	\$ 422	\$ 1,290
11717 – 48 Street, Edmonton, AB	15	\$ 645	\$ 1,520
403 Avenue P South, Saskatoon, SK	15	\$ 398	\$ 1,200
11920 – 82 Street, Edmonton, AB	13	\$ 800	\$ 1,275
128 Avenue O, Saskatoon, SK	11	\$ 455	\$ 850
336 – 18 Avenue SW, Calgary, AB	4	–	\$ 583
338 – 18 Avenue SW, Calgary, AB	3	–	\$ 437
Total	588	\$ 52,070	\$ 66,720

If required, Mainstreet can easily raise additional funds by financing these properties. Management believes these resources will be sufficient to meet other capital requirements.

## CONTRACTUAL OBLIGATIONS

As of September 30, 2010, the Corporation had the following contractual obligations, which will be met using existing cash balances, funds from operations, and proceeds from the renewal of mortgage loans on maturity.

## PAYMENTS DUE BY PERIOD

(000s of dollars)

Payments due by period	Total	2011	2012	2013	2014	2015	Subsequent
Mortgages payable	\$ 400,678	\$ 33,097	\$ 12,134	\$ 57,646	\$ 80,908	\$ 48,209	\$ 168,684

## LONG-TERM DEBT

(000s of dollars)

	Amount	Average interest rate (%)
Fixed-rate debt		
– CMHC-insured	\$ 321,878	4.64%
– non-CMHC-insured	\$ 73,625	5.06%
Total fixed-rate debt	\$ 395,503	4.72%
Floating-rate debt		
– non-CMHC-insured	\$ 5,175	5.5%
	\$ 400,678	4.73%

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

As of September 30, 2010, mortgages payable were \$401 million compared with \$380 million on September 30, 2009 – an increase of 6% due to mortgage loans raised for new acquisitions and additional mortgage loans of \$25 million being raised after the refinancing of \$48.3 million in short-term and matured mortgages on stabilized properties through 2010.

At September 30, 2010, the Corporation's financial position was stable, with overall mortgage levels reported at 104% of depreciated book value and 53% of estimated market value. About 80% of the Corporation's mortgage portfolio was CMHC-insured, providing Mainstreet with interest rates lower than those available through conventional financing.

To maintain cost-effectiveness and flexibility of capital, Mainstreet continually monitors short-term and long-term interest rates. When doing so is expected to provide a benefit, the Corporation will convert short-term floating rate debt to long-term, CMHC-insured fixed debt.

## MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the 12 month period ending September 30	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2011	\$ 25,369	6%	5.76%
2012	\$ 4,364	1%	4.62%
2013	\$ 52,215	13%	4.44%
2014	\$ 80,355	20%	4.00%
2015	\$ 46,928	12%	4.61%
Subsequent	\$ 191,447	48%	5.04%
	\$ 400,678	100%	4.73%

Approximately 6% of the Corporation's mortgage loans will mature within the next 12 months, due mainly to the acquisition of undervalued properties, all requiring renovation. Upon acquisition, these properties are financed through short-term, floating-rate loans. When the properties are stabilized, these short-term loans will be refinanced under long-term, CMHC-insured mortgages.

## INTERNAL CONTROL

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed an internal control framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework used to design the Corporation's Internal Control over Financial Reporting (ICFR) is Risk Management and Governance – Guidance on Control, published by the Canadian Institute of Chartered Accountants. The CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures were not effective as of September 30, 2010, due to the deficiency noted in the following paragraph.

The Corporation identified internal control deficiencies that are not atypical for a Corporation of its size including lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management believes that at this time, the potential benefits of adding employees to clearly segregate duties do not justify the costs associated with such increase. The risk of material misstatement is mitigated by direct involvement of senior management in the day-to-day operations of the Corporation and review of the financial statements and disclosures by senior management, the members of the Audit Committee, and the Board of Directors. These mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. There were no changes during the financial year ended September 30, 2010, to material weaknesses in Internal Control over Financial Reporting.

## FINANCIAL INSTRUMENTS AND THEIR RISK MANAGEMENT

Mainstreet's financial assets and liabilities comprise restricted cash, cash and cash equivalents, accounts receivable, other receivable and deposits, mortgages, accounts payable, and refundable security deposits. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented below.

The fair values of cash and cash equivalents, restricted cash, accounts receivable, other receivable and deposits, and accounts payable, and refundable security deposits approximate their carrying amount due to the short-term maturity of those instruments. In identifying the appropriate level of fair value, the Company performs a detailed analysis of the financial assets and liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in level 3 even though there may be other significant inputs that are readily observable.

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

(000s of dollars)

		September 30, 2010		September 30, 2009	
	Fair Value Hierarchy Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	level 1	\$ 1,608	\$ 1,608	\$ 1,464	\$ 1,464
Cash and cash equivalents	level 1	\$ 1,419	\$ 1,419	\$ 25,005	\$ 25,005
Accounts receivable	level 2	\$ 331	\$ 331	\$ 381	\$ 381
Other receivable and deposits	level 2	\$ 2,196	\$ 2,196	\$ 4,028	\$ 4,028
Financial liabilities:					
Mortgages	level 2	\$ 400,678	\$ 411,568	\$ 379,899	\$ 394,097
Accounts payable	level 2	\$ 5,022	\$ 5,022	\$ 4,386	\$ 4,386
Refundable security deposits	level 2	\$ 2,263	\$ 2,263	\$ 1,945	\$ 1,945

## RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk relating to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled “Risk Assessment and Management” on pages 24.

## SHARE CAPITAL

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

	2010		2009	
	Number of common shares	Amount (in 000s)	Number of common shares	Amount (in 000's)
Issued and outstanding, beginning of the period	10,355,827	\$ 25,422	14,487,876	\$ 36,928
Share purchase loan	–	\$ 406	–	\$ (974)
Exercise of stock option	50,000	\$ 275	–	\$ –
Purchase and cancellation of shares	(28,212)	\$ (71)	(4,132,049)	\$ (10,532)
Transfer from contributed surplus	–	\$ 182	–	\$ –
Issued and outstanding, end of period	10,377,615	\$ 26,214	10,355,827	\$ 25,422

The Corporation has obtained approval from the TSX to continue the repurchase of common shares under a Normal Course Issuer Bid commencing in October 2009. During the year ended September 30, 2010, a total of 28,212 common shares were repurchased at an average price of \$9.90 per common share.



## STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of September 30, 2010 and 2009, and changes during the years ended on those dates is presented below:

Stock option	2010		2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of year	<b>1,243,700</b>	<b>\$ 7.95</b>	318,700	\$ 15.02
Granted	—	—	925,000	\$ 5.51
Exercised	<b>50,000</b>	<b>\$ 5.51</b>	—	—
Outstanding and exercisable, end of year	<b>1,193,700</b>	<b>\$ 8.05</b>	1,243,700	\$ 7.95

During financial year 2009, the Corporation granted options to its directors and officers to purchase 925,000 common shares at the market price of \$5.51 per common share at the date of the grant. The stock options expire on March 10, 2019 and were fully vested at the time of issue. The fair value of the options was determined at the date of the grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included a risk-free interest rate of 2.29%; expected life of the stock options of 10 years; expected volatility rate of 51%; and expected dividend rate of 0%. The fair value amounting to \$3,369,388 is recognized as stock compensation expense in income with a corresponding increase to contributed surplus. As of September 30, 2010, 50,000 of the stock options were exercised.

## CRITICAL ACCOUNTING ESTIMATES

Significant areas requiring the use of management estimates relate to the determination of amortization periods for income properties, assessment of impairment on real estate properties, and allocation of purchase costs on the acquisition of real estate properties. Actual results may differ from those estimates.

## CHANGES IN ACCOUNTING POLICIES

On October 1, 2009, the Corporation adopted the June 2009 amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendment requires a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). The Corporation has included these additional disclosures in its annual financial statements for the year ending September 30, 2010.

On October 1, 2009, the Corporation adopted the August 2009 amendments to CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, relating to the impairment of financial assets. Amendments to this section have revised the guidance on the assessment of embedded derivatives on reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendment also requires the use of the credit loss model when assessing instruments held to maturity for impairment. The adoption of this amended section did not have a material impact on the Corporation's interim financial statements.

Effective October 1, 2009, the Corporation adopted the CICA Emerging Issues Committee (EIC) Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173). EIC 173 clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this new abstract did not have a material impact on the Corporation's interim financial statements.

## TRANSACTIONS WITH RELATED PARTIES

- a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to \$27,000 (2009 – \$188,000).
- b) The Corporation paid legal and professional fees and reimbursements amounting to \$196,000 (2009 – \$130,000) to a law firm of which a director and officer of the Corporation is a partner.
- c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$567,650 as at September 30, 2010 (September 30, 2009 – \$974,000) were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 192,200 (September 30, 2009 – 243,800) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2010 was \$11.40 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to 20 quarterly payments effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

## PROPOSED TRANSACTIONS

Subsequent to year-end, Mainstreet acquired an additional 510 units and one office building, bringing its portfolio to 6,929 units – a 17% increase since September 30, 2009.

## APPRAISAL REPORT

The market value of Mainstreet's properties held on September 30, 2010, was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
Vancouver/Lower Mainland (Abbotsford & Surrey)	James Glen	AACI	Colliers International
Calgary & Edmonton	Russell Dasko, James Forster, Vincent Lambert, Rayan Miller and Andrew Macleod	AACI	Colliers International
Saskatoon	Tom Hewitt	AACI	Colliers International
Greater Toronto Area	Carey Poon	AACI	Altus Group Ltd.

Mainstreet's total portfolio is valued at \$752 million. Following is the breakdown of market value by city:

	Number of units	Market value (\$ million)	Average value per unit (\$000)	Average value capitalization rate
Calgary, Alberta	1,414	231	163	5.28%
Edmonton, Alberta	1,855	204	110	6.25%
Saskatoon, Saskatchewan	807	69	85	7.85%
Greater Toronto Area, Ontario	664	57	85	6.40%
Vancouver/Lower Mainland (Abbotsford & Surrey), BC	1,657	188	114	6.00%
Property held for resale (Calgary, Alberta)	22	3	165	5.28%
Total	6,419	\$ 752	\$ 117	6.04%

## OFF BALANCE SHEET ARRANGEMENTS

No off balance sheet arrangements have been made by the Corporation for the financial years ended September 30, 2010 and 2009.

## RISK ASSESSMENT AND MANAGEMENT

Management defines risk as the evaluation of the probability that an event may happen in the future that could negatively affect the financial condition or results of the Corporation. The following section describes specific and general risks that could affect the Corporation. As it is difficult to predict whether any risk or its related consequences will occur, the actual effect of any risk on the business of the Corporation could be materially different than anticipated. The following discussion of risk does not include all possible risks as there may be other risks of which management is currently unaware.

## Vacancy Risk

The Corporation is subject to tenant vacancy risk when, in some markets and under certain economic conditions, housing/condominiums are affordable, financing is readily available and interest rates are low, making it easier for renters to become first-time homebuyers. This increases vacancy rates and decreases rental revenue cash flow.

Vacancy rates can also be affected negatively by increased supply of condominium units in major market areas.

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

## Financial Risk

The Corporation is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Mainstreet addresses this risk by acquiring financing to fund renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

## Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling \$25 million are subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages are insured by Canada Mortgage and Housing Corporation (CMHC) under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates and significantly reducing the potential for a lender to call a loan prematurely.

## Utilities Risk

Mainstreet's business is also exposed to fluctuating utility and energy costs such as electricity and natural gas (heating) prices. While utility and energy costs are currently fairly stable, management is monitoring the market very closely.

## Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. 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 in-depth credit assessments of all tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk.

In relation to cash, cash equivalents and restricted cash, the Corporation believes that its exposure to credit risk is low. The Corporation places its cash, cash equivalents and restricted cash only with reputable Canadian financial institutions. In addition, the Corporation further mitigates its credit risk by placing its cash, cash equivalents and restricted cash with several reputable Canadian financial institutions.

## Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management.

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

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 33,097	\$ 12,134	\$ 57,646	\$ 80,908	\$ 216,893	\$ 400,678
Accounts payable	\$ 5,022	\$ —	\$ —	\$ —	\$ —	\$ 5,022
Refundable security deposits	\$ 2,263	\$ —	\$ —	\$ —	\$ —	\$ 2,263

## **Financing Risk**

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

## **Reliance on Key Employees**

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

## **Income Tax Risk**

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

## **Economic Uncertainty**

The continuing worldwide economic slowdown, stock market uncertainty and international credit crisis could adversely impact the business and future profitability of the Corporation. During the current period of recession, tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected by the international credit crisis. The Corporation can predict neither the impact current economic conditions will have on future financial results nor when the general economy will show meaningful improvement.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises' interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also used Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations. The Corporation plans to adopt IFRS in the financial year ending September 30, 2012.

The Corporation has not completed its IFRS changeover plan. When finalized, it is anticipated that it will include project structure and governance, resourcing and training, an analysis of key GAAP differences, and a phased plan to assess accounting policies under IFRS as well as IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities such as financing and compensation arrangements, prior to the financial year ending September 30, 2011.

## CHALLENGES

To meet head-on the higher vacancy rates and softer rental markets typical of recessionary times, Mainstreet took a very aggressive position on concessions in 2010, resulting in \$3.7 million in costs and decreased revenue for the year. Mainstreet sees a potential for ongoing concessions in 2011 as the Corporation persists in its efforts to minimize the vacancy rate. Mainstreet also anticipates continued challenges with bad debts and higher than normal rates of tenant turnover in 2011, although the Corporation should see increases in its top-line revenue if the economy's gradual recovery continues.

Mainstreet's greatest challenge in 2011, however, will be the cycle time of stabilizing new acquisitions. The Corporation only buys properties that require extensive renovations to bring them into line with Mainstreet's branded standard; and during stabilization, vacancy rates are higher than usual. All 510 units Mainstreet acquired in Q1 2011 require significant renovation, and this will impact its overall vacancy rates and cash flow during the year.

Accretive growth also has a temporary negative impact on the Corporation's cash flow.

## OUTLOOK

To fulfill Mainstreet's strategic goals for 2011, capital is crucial. As of year-end, Mainstreet held clear titles on assets with a book value of \$52 million and an appraised value of \$67 million – assets Mainstreet can monetize for growth. The Corporation also has a \$22 million line of credit at its avail; and at year-end, we had \$1.4 million cash on our balance sheet (\$12 million as at November 30, 2010).

CMHC has tightened its restrictions around income property investments (typically by speculative condo investors), requiring down payments of at least 20% for CMHC-insured loans on rental properties. As a certain percentage of condo purchases typically migrate into the rental universe, these tighter restrictions are anticipated to have a positive impact on Mainstreet's vacancy rates because of their potential to reduce rental market infiltration by speculative condo purchases and, over the longer term, curtail demand for the construction of new multi-family condominiums.

New CMHC rules impacting first-time homebuyers (wherein borrowers must meet qualification standards for a five-year fixed-rate mortgage even if they choose a mortgage with a lower interest rate and shorter term) should also benefit our business by making it more difficult for our mid-market renters to transition into home ownership.

Moreover, continued improvement in the economic climate through 2011 should have positive impacts on both our vacancy rates and our rental rates.

With the vacancy rates down, cash flow up, renovations nearly complete on Mainstreet's existing properties, 99% of its debt locked into low-interest, long-term mortgages, and a talented senior management team in place, the management believes the Corporation is well positioned to do more of what it does best: acquire underperforming assets and create value for our shareholders.

## ADDITIONAL INFORMATION

Additional information about Mainstreet is available at [mainst.biz](http://mainst.biz) and [www.sedar.com](http://www.sedar.com). The annual information form of the Corporation for the year ended September 30, 2010, was filed on SEDAR on December 13, 2010.

## MANAGEMENT’S REPORT

To the Shareholders of Mainstreet Equity Corp.:

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

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

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

[Signed]

“Bob Dhillon”

Director

December 6, 2010

[Signed]

“Joe Amantea”

Director

## AUDITORS' REPORT

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of Mainstreet Equity Corp. (the "Corporation") as at September 30, 2010 and 2009 and the statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Signed]

"Deloitte & Touche LLP"  
Chartered Accountants

December 6, 2010  
Calgary, Alberta

## BALANCE SHEETS

(000s of dollars)

As at September 30, 2010 2009

### ASSETS

Real estate properties [Note 2]	\$ 384,342	\$ 342,001
Properties held for resale	2,109	2,090
Other assets [Note 3]	2,523	4,433
Future income tax recoverable [Note 6]	7,439	6,174
Restricted cash	1,608	1,464
Cash and cash equivalents	1,419	25,005
	<b>\$ 399,440</b>	<b>\$ 381,167</b>

### LIABILITIES

Mortgages payable [Note 5]	400,678	379,899
Accounts payable	5,022	4,386
Refundable security deposits	2,263	1,945
	<b>407,963</b>	<b>386,230</b>

### SHAREHOLDERS' EQUITY

Share capital [Note 7]	26,214	25,422
Contributed surplus	3,187	3,369
Deficit	(37,924)	(33,854)
	<b>(8,523)</b>	<b>(5,063)</b>
	<b>\$ 399,440</b>	<b>\$ 381,167</b>

Guarantees [Note 12]

See accompanying notes to the financial statements

[Signed]

“Bob Dhillon”  
Director

December 6, 2010

[Signed]

“Joe Amantea”  
Director



## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS AND DEFICIT

(000s of dollars, except per share amounts)

For the year ended September 30,	2010	2009
<b>Revenue</b>		
Rental revenue	\$ 53,117	\$ 51,661
Gain on settlement on debt	310	—
Interest income	112	207
	<b>53,539</b>	<b>51,868</b>
<b>Expenses</b>		
Property operating expenses	19,928	20,443
Utility rebate	—	(97)
General and administrative expenses	6,233	5,721
Mortgage interest	18,119	17,073
Financing costs	1,530	3,334
Depreciation	12,870	11,713
Stock compensation expense	—	3,370
	<b>58,680</b>	<b>61,557</b>
<b>Loss before income taxes</b>	<b>(5,141)</b>	<b>(9,689)</b>
<b>Income taxes (recovery) expense</b> [Note 6]		
– current	(13)	79
– future	(1,265)	(1,530)
	<b>(1,278)</b>	<b>(1,451)</b>
<b>Net loss and comprehensive loss from continuing operations</b>	<b>(3,863)</b>	<b>(8,238)</b>
<b>Net income from discontinued operations</b> [Note 10]	<b>—</b>	<b>5,212</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(3,863)</b>	<b>(3,026)</b>
<b>Deficit beginning of period</b>	<b>(33,854)</b>	<b>(15,439)</b>
<b>Excess over the average value of the shares purchased for cancellation</b>	<b>(207)</b>	<b>(15,389)</b>
<b>Deficit, end of period</b>	<b>\$ (37,924)</b>	<b>\$ (33,854)</b>
<b>Net loss per share from continuing operations – basic and diluted</b>	<b>\$ (0.37)</b>	<b>\$ (0.71)</b>
<b>Net income per share from discontinued operations – basic and diluted</b>	<b>—</b>	<b>\$ 0.45</b>
<b>Loss per share – Basic and diluted</b> [Note 9]	<b>\$ (0.37)</b>	<b>\$ (0.26)</b>

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

(000s of dollars)

For the year ended September 30,	2010	2009
<b>Cash obtained from (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (3,863)	\$ (3,026)
Items not affecting cash		
(Income) loss from discontinued operations, net of tax	—	(5,212)
Depreciation	12,870	11,713
Future income taxes	(1,265)	(1,530)
Stock compensation expense	—	3,370
Net gain on sale of properties held for resale	—	—
	\$ 7,742	\$ 5,315
Change in non-cash operating balances		
Other assets	1,910	280
Restricted cash	(144)	112
Accounts payable	636	(959)
Refundable security deposits	318	(121)
Cash from operating activities of continuing operations	10,462	4,627
Cash from discontinued operations	\$ —	\$ 212
<b>Financing activities</b>		
Financing of real estate properties	73,267	98,372
Repayment of secured debts on revenue producing properties, and other debts	(67,248)	(44,921)
Repayment of shares purchase loan	406	—
Shares purchased for cancellation	(279)	(26,224)
Exercise of stock options	275	—
	6,421	27,227
<b>Investing activities</b>		
Net proceeds on sale of real estate property	—	9,006
Purchase of and addition to real estate properties	(40,450)	(24,562)
Purchase of and addition to real estate held for resale	(19)	10
	(40,469)	(15,546)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(23,586)</b>	<b>16,520</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>25,005</b>	<b>8,485</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,419</b>	<b>\$ 25,005</b>
<b>Cash and cash equivalents are comprised:</b>		
Cash	\$ 1,380	\$ 3,825
Short-term deposits	\$ 38	\$ 21,180
	\$ 1,419	\$ 25,005
<b>Income taxes paid</b>	<b>—</b>	<b>—</b>
<b>Interest paid</b>	<b>\$ 18,377</b>	<b>\$ 17,503</b>

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

(000s of dollars, except per share amounts)

For the years ended September 30, 2010 and 2009

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### **General**

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

#### **Basis of presentation**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of amortization periods for income properties, determination of impairment on real estate properties, and the allocation of purchase costs on the acquisition of real estate properties. Actual results may differ from those estimates.

#### **Revenue recognition**

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

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

#### **Revenue producing real estate properties**

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

The net recoverable amount represents the undiscounted estimated future net cash flows that are directly associated with, and that are expected to arise as a direct result of the ongoing use of the property and its eventual disposition. The net recoverable amounts take into account the specific business plan for each property and management’s best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value.

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

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

### **Properties held for resale**

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

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

### **Cash and cash equivalents**

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

### **Amortization**

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

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

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

### **Comprehensive Income**

Comprehensive Income is comprised of net earnings and other comprehensive income “OCI”, which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale. For the financial years ended September 30, 2010 and 2009, there were no other comprehensive income items.

### **Financial instruments and hedges**

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

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

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

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

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

### **Stock option plan**

The Corporation has stock option plans, which is described in Note 8.

The fair value of the stock options is determined at the date of grant using an acceptable option pricing model. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration paid on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

## Fair value

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

## Earnings per share

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

## Income taxes

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

## Changes in accounting policies

On October 1, 2009, the Corporation adopted the June 2009 amendments to the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendment requires a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments were effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”). The Corporation has included these additional disclosures in its annual financial statements for the year ending September 30, 2010.

On October 1, 2009, the Corporation adopted the August 2009 amendments to CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, relating to the impairment of financial assets. Amendments to this section have revised the guidance on the assessment of embedded derivatives on reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendment also requires the use of the credit loss model when assessing instruments held to maturity for impairment. The adoption of this amended section did not have a material impact on the Corporation’s interim financial statements.

Effective October 1, 2009, the Corporation adopted the CICA Emerging Issues Committee (EIC) Abstract No.173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173). EIC 173 clarifies how an entity’s own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this new abstract did not have a material impact on the Corporation’s interim financial statements.

## 2. REAL ESTATE PROPERTIES

(000s of dollars)

	September 30, 2010			September 30, 2009		
	Cost	Accumulative Depreciation	Net Book Value	Cost	Accumulative Depreciation	Net Book Value
Land	\$ 130,816	–	\$ 130,816	\$ 112,878	–	\$ 112,878
Buildings	\$ 255,932	\$ 32,291	\$ 223,641	\$ 227,390	\$ 26,238	\$ 201,152
Building improvements	\$ 58,701	\$ 30,321	\$ 28,380	\$ 50,330	\$ 23,810	\$ 26,520
Furniture and fixtures	\$ 3,118	\$ 1,613	\$ 1,505	\$ 2,710	\$ 1,259	\$ 1,451
	\$ 448,567	\$ 64,225	\$ 384,342	\$ 393,308	\$ 51,307	\$ 342,001

## Acquisitions of apartment buildings

(000s of dollars)

	2010	2009
Mortgages arranged	7,299	9,037
Cash paid	30,656	11,860
Total purchase price	\$ 37,955	\$ 20,897
Allocation of the purchase price		
Land	\$ 17,938	\$ 12,185
Buildings	\$ 27,378	\$ 17,810
Furniture & fixtures	\$ 100	—
Debt assumed at fair value	(7,461)	(9,098)
	\$ 37,955	\$ 20,897
Units acquired	480	413

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 property. 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 not placed any value on the intangible assets acquired upon the acquisition.

## Disposition

(000s of dollars)

	2010	2009
Net cash received	—	\$ 5,853
Debt assumed at fair value	—	\$ 3,153
Net proceeds	—	\$ 9,006
Net book value	—	\$ 3,121
Gain on disposition	—	\$ 5,885
Units disposed	—	\$ 58

## 3. OTHER ASSETS

(000s of dollars)

	2010	2009
Accounts receivable	\$ 331	\$ 381
Other receivable	\$ 996	\$ 2,715
Deferred rent concession	\$ (4)	\$ 25
Deposits and prepayments	\$ 1,200	\$ 1,312
	\$ 2,523	\$ 4,433

## 4. RESTRICTED CASH

Restricted cash represents deposits from tenants for apartment security deposits.

## 5. MORTGAGES PAYABLE

Mortgages payable bearing interest at a weighted average rate of 4.73% (2009 – 4.93%) per annum, are payable in monthly principal and interest installments totaling \$2,232,000 (2009 – \$2,128,000), maturing from 2011 to 2020 and are secured by specific charges against specific properties, having a carrying value of \$386,451 (2009 – \$ 344,091) and several personal guarantees of a director to the extent of \$430,000 (September 30, 2009 – \$3,454,000).

(000s of dollars)

	2010	2009
	<b>\$ 400,678</b>	<b>\$ 379,899</b>

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

Year	Amount
2011	\$ 33,098
2012	\$ 12,134
2013	\$ 57,645
2014	\$ 80,908
2015	\$ 48,209
Subsequent	\$ 168,684
	<b>\$ 400,678</b>

## 6. INCOME TAXES

(000s of dollars)

	2010	2009
The income tax recovery		
Continuing operations	<b>\$ (1,278)</b>	<b>\$ (1,451)</b>
Discontinued operations	<b>–</b>	<b>\$ 780</b>
Total income tax recovery	<b>\$ (1,278)</b>	<b>\$ (671)</b>

The provision for income tax differs from the results that 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:

(000s of dollars)

	2010	2009
Statutory tax rate	<b>29.34%</b>	31.76%
Computed expected tax recovery	<b>\$ (1,509)</b>	<b>\$ (1,174)</b>
Non-taxable portion of taxable capital gain	<b>–</b>	<b>\$ (1,027)</b>
Stock compensation expense	<b>–</b>	<b>\$ 1,070</b>
Large corporation tax	<b>\$ 46</b>	<b>\$ 79</b>
Future tax rate	<b>\$ 105</b>	<b>\$ 94</b>
Other	<b>\$ 80</b>	<b>\$ 287</b>
Provision for income tax	<b>\$ (1,278)</b>	<b>\$ (671)</b>

The future income tax asset is calculated as follows:

(000s of dollars)

	Sept. 30, 2010	Sept. 30, 2009
Tax assets related to differences in tax and book basis	<b>\$ 7,439</b>	<b>\$ 6,174</b>

## 7. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

	2010		2009	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the year	<b>10,355,827</b>	<b>\$ 25,422</b>	14,487,876	\$ 36,928
Share purchase loan (note 14c)	–	<b>\$ 406</b>	–	\$ (974)
Exercise of stock option	50,000	\$ 275	–	–
Purchase and cancellation of shares	<b>(28,212)</b>	<b>\$ (71)</b>	(4,132,049)	\$ (10,532)
Transfer from contributed surplus	–	<b>\$ 182</b>	–	–
Issued and outstanding, end of year	<b>10,377,615</b>	<b>\$ 26,214</b>	10,355,827	\$ 25,422

The Corporation has obtained approval from the TSX to continue the repurchase under a Normal Course Issuer Bid commencing in October 2009. During the year ended September 30, 2010, a total of 28,212 common shares have been repurchased at an average price of \$9.90 per common share. The Normal Course Issuer Bid will be expired on October 15, 2010.

## 8. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of September 30, 2010 and 2009, and changes during the years ended on those dates is presented below:

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable, beginning of year	<b>1,243,700</b>	<b>\$ 7.95</b>	318,700	\$ 15.02
Granted	–	–	925,000	\$ 5.51
Exercised	<b>50,000</b>	<b>\$ 5.51</b>	–	–
Outstanding and exercisable, end of year	<b>1,193,700</b>	<b>\$ 8.05</b>	1,243,700	\$ 7.95

During financial year 2009, the Corporation granted options to its directors and officers to purchase 925,000 common shares at the market price of \$5.51 per common share at the date of the grant. The stock options expire on March 10, 2019 and are fully vested at the time of issue. The fair value of the options was determined at the date of the grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included risk free interest rate of 2.29%; expected life of the stock options of 10 years; expected volatility rate of 51% and expected dividend rate of 0%. The fair value amounting to \$3,369,388 is recognized as stock compensation expense in income with a corresponding increase to contributed surplus. As of September 30, 2010, 50,000 of the stock options were exercised.



## 9. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the periods.

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

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

(000s of dollars, except share and per share amounts)

	2010	2009
<b>Numerator</b>		
Net loss	\$ (3,863)	\$ (3,026)
<b>Denominator</b>		
For basic loss per share		
Weighted average shares	10,362,881	11,572,749
Dilutive effect	—	—
For diluted loss per share	10,362,881	11,572,749
Basic and diluted loss per share	\$ (0.37)	\$ (0.26)

Due to reported losses, the dilution calculation does not include the stock options of common shares. If included, these common shares would be anti-dilutive and therefore they are not included in the computation of diluted loss per share.

## 10. DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

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

(000s of dollars)

	2010	2009
Rental Income	—	\$ 631
Property operating expenses	\$ —	\$ 200
Utility rebate	\$ —	\$ (3)
General and administrative expenses	\$ —	\$ 62
Mortgage and debenture interest	\$ —	\$ 161
Depreciation	\$ —	\$ 104
	\$ —	\$ 524
Income from discontinued operations before income taxes	\$ —	\$ 107
Future income tax	\$ —	\$ 30
Income from discontinued operations	\$ —	\$ 77
Gain on disposition	\$ —	\$ 5,885
Future income tax	\$ —	\$ 750
Gain on disposition after income taxes	\$ —	\$ 5,135
Income from discontinued operations	\$ —	\$ 5,212

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair value of financial assets and liabilities

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

The fair values of cash and cash equivalents, restricted cash, accounts receivable, other receivable and deposits, and accounts payable, and refundable security deposits approximate their carrying amount due to the short-term maturity of those instruments. In identifying the appropriate level of fair value, the Company performs a detailed analysis of the financial assets and liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in level 3 even though there may be other significant inputs that are readily observable.

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

		September 30, 2010		September 30, 2009	
	Fair Value Hierarchy Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	level 1	\$ 1,608	\$ 1,608	\$ 1,464	\$ 1,464
Cash and cash equivalents	level 1	\$ 1,419	\$ 1,419	\$ 25,005	\$ 25,005
Accounts receivable	level 2	\$ 331	\$ 331	\$ 381	\$ 381
Other receivable and deposits	level 2	\$ 2,196	\$ 2,196	\$ 4,028	\$ 4,028
Financial liabilities:					
Mortgages	level 2	\$ 400,678	\$ 411,568	\$ 379,899	\$ 394,097
Accounts payable	level 2	\$ 5,022	\$ 5,022	\$ 4,386	\$ 4,386
Refundable security deposits	level 2	\$ 2,263	\$ 2,263	\$ 1,945	\$ 1,945

### Risk associated with financial assets and liabilities

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

#### Market Risk

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

##### Interest Risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling \$25 million are subject to renewal in the next 12- month period. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by CMHC under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and it significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$52,000 in floating rate mortgage interest expense for the year ended September 30, 2010.

##### Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. 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 in-depth credit assessments of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of September 30, 2010, the net rent due from the current tenants amounted to \$35,000 which represented the maximum exposure to credit risk of default in payment of rent.

### *Liquidity Risk*

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk through cash and debt management.

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

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 33,097	\$ 12,134	\$ 57,646	\$ 80,908	\$ 216,893	\$ 400,678
Accounts payable	\$ 5,022	—	—	—	—	\$ 5,022
Refundable security deposits	\$ 2,263	—	—	—	—	\$ 2,263

## 12. GUARANTEES

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

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

## 13. COMMITMENTS AND CONTINGENCIES

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

## 14. RELATED PARTY TRANSACTIONS

- The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to \$27,000 (2009 – \$188,000).
- The Corporation paid legal and professional fees and reimbursements amounting to \$196,000 (2009 – \$130,000) to a law firm of which a director and officer of the Corporation is a partner.
- The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$567,650 as at September 30, 2010 (September 30, 2009 – \$974,000) were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 192,200 (September 30, 2009 – 243,800) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2010 was \$11.40 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to 20 quarterly payments effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

## 15. SEGMENTED INFORMATION

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

### Rental Operations

(000s of dollars)

	2010	2009
<b>BRITISH COLUMBIA</b>		
Rental revenue	\$ 13,290	\$ 11,793
Operating expenses	4,805	4,387
<b>ALBERTA</b>		
Rental revenue	26,772	28,239
Operating expenses	9,758	10,214
<b>SASKATCHEWAN</b>		
Rental revenue	6,591	4,751
Operating expenses	1,841	1,971
<b>ONTARIO</b>		
Rental revenue	6,464	6,878
Operating expenses	3,524	3,774
<b>Total</b>		
Rental revenue	53,117	51,661
Operating expenses	19,928	20,346
Unallocated revenue*	422	207
Unallocated expenses**	37,474	39,760
Net loss from continuing operations for the year	(3,863)	(8,238)
Net income from discontinued operations – Alberta	–	5,212
Net loss for the year	\$ (3,863)	\$ (3,026)

\* Unallocated revenue includes interest income, and gain on settlement of debt.

\*\* Unallocated expenses include general and administrative expenses, mortgage and financing cost, depreciation, stock compensation expenses and income taxes.

## IDENTIFIABLE ASSETS AND LIABILITIES

(000s of dollars)

	Sep. 30, 2010	Sep. 30, 2009
<b>BRITISH COLUMBIA</b>		
Real estate properties	\$ 120,895	\$ 107,845
Mortgages payable	98,227	83,756
Security deposit	655	533
<b>ALBERTA</b>		
Real estate properties	176,713	147,644
Mortgages payable	238,450	226,511
Security deposit	1,279	1,079
<b>SASKATCHEWAN</b>		
Real estate properties	40,369	39,206
Mortgages payable	28,625	30,543
Security deposit	329	333
<b>ONTARIO</b>		
Real estate properties	46,365	47,306
Mortgages payable	35,376	39,089
Security deposit	\$ —	\$ —
<b>TOTAL</b>		
Real estate properties	\$ 384,342	\$ 342,001
Mortgages payable	\$ 400,678	\$ 379,899
Security deposit	\$ 2,263	\$ 1,945
Properties held for sale—Alberta	\$ 2,109	\$ 2,090

## IDENTIFIABLE CAPITAL EXPENDITURES

(000s of dollars)

Year ended September 30,	2010	2009
<b>ALBERTA</b>		
Capital expenditures	\$ 35,527	\$ 7,931
<b>BRITISH COLUMBIA</b>		
Capital expenditures	16,272	18,483
<b>ONTARIO</b>		
Capital expenditures	679	864
<b>SASKATCHEWAN</b>		
Capital expenditures	2,776	15,432
<b>TOTAL</b>		
Identifiable capital expenditures	\$ 55,254	\$ 42,710

## 16. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity and mortgages payable and on occasion, bank loan or lines of credit when drawn on. The Corporation's total capital resources amounted to \$392 million (\$375 million – 2009) as at September 30, 2010.

The Corporation aims to manage its capital resources to maintain financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity, senior debt and bank loans or line of credit.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the Corporation as at September 30, 2010, and September 30, 2009, is summarized below:

(000s of dollars)

September 30,	2010	2009
Mortgage Payable	\$ 400,678	\$ 379,899
Shareholders' equity	\$ (8,447)	\$ (5,063)
Total capital	\$ 392,231	\$ 374,836

The Corporation's policy for capital risk management is to maintain a debt to market value ratio of no greater than 70%.

The ratios at September 30, 2010 and 2009, were as follows:

(000s of dollars)

September 30,	2010	2009
Debt	\$ 400,678	\$ 379,899
Market value	\$ 752,000	\$ 679,000
Debt to market value ratio	53%	56%

In managing the capital requirement, the management makes assessment on the capital and liquid resources required to ensuring the going concern of the Corporation's operations. As of September 30, 2010, the Corporation has cash balances of \$1.4 million and a line of credit with a financial institution amounted to \$22 million. The management believes that the existing liquid resources and funds to be raised through the refinancing are sufficient to support the Corporation's operation on the going concern basis.

## 17. COMPARATIVE FIGURES

Two properties classified as properties held for resale in FY 2009 were re-classified as revenue producing properties. As such, their operating results were included in the results from continuing operations for the FY 2009 to conform with the current year's presentation.

## 18. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2010, the Corporation acquired four properties and one office building, consisting of 510 units of residential apartments in Edmonton, Alberta and Surrey, British Columbia for consideration of \$47 million.

Subsequent to the year ended September 30, 2010, Mainstreet has obtained approvals from CMHC to refinance an additional \$8.4 million of floating and matured debt and one clear title property for \$36.3 million, which will raise an additional \$27.9 million. The average interest rate of these floating and matured debt is estimated to decrease from 7.76% to 3.85%.

## OFFICERS

### *President & CEO*

Bob Dhillon  
Calgary, AB

### *Chief Financial Officer & Chief Operating Officer*

Johnny Lam  
Calgary, AB

### *Secretary*

Joe Amantea  
Calgary, AB

## BOARD OF DIRECTORS

### *Chair*

Lawrence Tapp  
Langley, BC

Joe Amantea  
Calgary, AB

Bob Dhillon  
Calgary, AB

Karanveer Dhillon  
San Francisco, CA

Rich Grimaldi  
Westport, CT

John Irwin  
London, ON

## DIRECTORS' COMMITTEES

### **Executive Committee**

Bob Dhillon  
Calgary, AB

Joe Amantea  
Calgary, AB

### **Audit Committee**

#### *Chair*

John Irwin  
London, ON

Lawrence Tapp  
Langley, BC

Rich Grimaldi  
Westport, CT

### **Human Resource Committee**

#### *Chair*

Joe Amantea  
Calgary, AB

Rich Grimaldi  
Westport, CT

Lawrence Tapp  
Langley, BC

## REGISTRAR & TRANSFER AGENT

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

## AUDITORS

Deloitte & Touche LLP  
3000 Scotia Centre  
700 – 2 St SW  
Calgary, AB

## SOLICITORS

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

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

## BANKER

TD Canada Trust  
335 – 4 Ave SW  
Calgary, AB

## INVESTOR RELATIONS

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Fax: 403 264-8870  
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### **Financial Inquiries**

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## HEAD OFFICE

Mainstreet Equity Corp.

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Fax: 403 266-8867

E-mail: [mainstreet@mainst.biz](mailto:mainstreet@mainst.biz)  
Web site: [www.mainst.biz](http://www.mainst.biz)

## STOCK EXCHANGE

Toronto Stock Exchange  
(trading symbol: MEQ)

## WHY APARTMENTS?

### BELOW REPLACEMENT COST

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

### NEED

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

### LOW INTEREST RATES

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

### POSITIVE DEMOGRAPHICS

People who prefer rental housing – including singles, the 50–65 age group and the 20–29 year old “echo boomers” – are increasing in numbers. The number of echo boomers alone is projected to rise by about 200,000 (Stats Canada). As well, strong rental demand across Canada’s metropolitan centres is expected to continue in 2011, due to high immigration into Canada, especially Ontario and B.C., and inter-provincial migration into Alberta and B.C. (CMHC).

### CLASSIFIED AS A “SAFE ASSET”

In 2010 Moody’s Investors Service ranked the multi-family rental market at 99 points out of 100. The score is the strongest amongst all property types measured by Moody’s.

## WHY MAINSTREET?

### TRACK RECORD OF GROWTH

Since 1998, Mainstreet has achieved a 37% average compound annual growth rate in the value of its portfolio.

### SHARES TRADING BELOW NAV

Mainstreet shares currently trade below its estimated net asset value.

### NON-DILUTIVE GROWTH

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

### STRONG MANAGEMENT ALIGNMENT

The CEO is highly vested in the success of the company.

### COMPETITIVE ADVANTAGE

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