

MAINSTREET
EQUITY CORP.

8th

consecutive quarter
of double-digit
year-over-year
growth in
FFO & NOI

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.

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

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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, dispositions and capital expenditures, reduction of vacancy rate, increase of rental rates, future profitability, timing of refinancing of debt and completion of renovations, increased cash flow, the Corporation's liquidity and financial capacity, the Corporation's anticipated funding sources to meet various operating and capital obligations, expansion into the United States, 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.

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

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.

5 YEAR TRENDS

(\$ millions except number of units, percentages and shares)

	% change 2011 vs. 2012	2012	2011	2010	2009	2008
Total number of units (8,440 YTD)	11 %	8,180	7,362	6,419	5,939	5,584
Market value of the portfolio	16 %	\$ 1,051	\$ 908	\$ 752	\$ 679	\$ 625
Rental revenue	17 %	\$ 66.8	\$ 56.9	\$ 53.1	\$ 50.8	\$ 46.3
Same assets rental revenue	4 %	\$ 54.8	\$ 52.7	\$ 47.9	\$ 50.2	\$ 39.9
Net operating income						
– from continuing operations	20 %	\$ 44.9	\$ 37.3	\$ 33.2	\$ 31.3	\$ 26.6
Same assets net operating income	8 %	\$ 37.3	\$ 34.7	\$ 29.6	\$ 30.3	\$ 23.9
Funds from continuing operations	35 %	\$ 15.1	\$ 11.2	\$ 7.7	\$ 11.4	\$ 4.5
(Before US investment fund expenses and stock option cash settlement expense)						
Operating margins	2 %	67 %	66 %	63 %	62 %	57 %
Share price (\$ per share as at September 30)	83 %	\$ 31.46	\$ 17.15	\$ 11.40	\$ 7.90	\$ 12.05

MESSAGE FROM THE PRESIDENT & CEO

Fiscal Year Ended September 30, 2012

Mainstreet Equity Corp's fiscal year 2012 saw the Company build to its eighth consecutive reporting period with double-digit year-over-year growth in net operating income ("NOI") and funds from operations ("FFO"), a clear demonstration of the recurring revenue model the Corporation has achieved in the midst of sustained growth. Management believes that Mainstreet has become a stable cash-flow machine. It has consistently delivered results and created shareholder value.

RESULTS FROM CONTINUING OPERATIONS

In 2012, gross revenue increased 17% to \$66.8 million, from \$56.9 million in 2011. Net operating income climbed to \$44.9 million, a 20% increase from \$37.3 million in 2011. The overall operating margin increased to 67% as compared to 66% in 2011. Funds from operations, before US investment fund expenses, loss on disposal and stock option cash settlement expense, hit \$15.1 million, 35% better than \$11.2 million in 2011, driven by lower vacancies, decreasing rental incentives and higher rental rates. Same asset revenues rose 4% to \$54.8 million, up from \$52.7 million. Same asset operating income increased by 8% to \$37.3 million as compared to \$34.7 million in 2011. Same asset operating margin saw a 2% gain to 68%. Mainstreet achieved these results along with the acquisition of 833 unstabilized units in 2012. These newly acquired units typically have a negative impact on Mainstreet's operating results due to high vacancy, bad debts and low rental rate during the stabilization process.

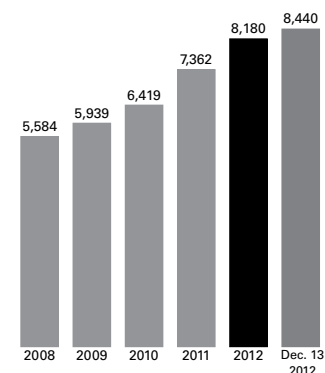
GROWTH

The market value of Mainstreet properties passed the \$1 billion mark, ending the fiscal year at \$1.051 billion (including \$68 million assets held for sale), up from \$908 million at the end of fiscal year 2011. Mainstreet added 833 apartment units to its portfolio in Surrey, Calgary, Edmonton and Saskatoon in 2012. The acquisitions totaled \$79.8 million, at an average cost of \$96,000 per unit. Mainstreet's portfolio grew by 11% to 8,180 units as compared to 7,362 units as of September 30, 2011.

The portfolio continues to expand. Subsequent to the fiscal year end, Mainstreet acquired an additional 260 units in Edmonton and Saskatoon. As of today, Mainstreet has 8,440 units with a market value of approximately \$1.08 billion.

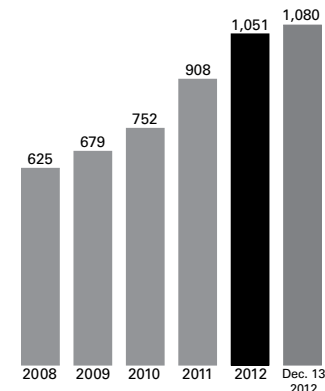
Mainstreet achieved its growth in 2012 through internally generated cash flow and value creation without any equity dilution, save stock options exercised during the year.

TOTAL NUMBER OF UNITS



MARKET VALUE OF PORTFOLIO

(\$ millions)



FINANCING

Low interest rates continue to present significant value, and Mainstreet has moved quickly to mitigate risk and enhance its financial standing by taking advantage of current rates. In 2012, Mainstreet refinanced \$26.1 million of mature debt into long-term 10-year CMHC-insured mortgages at an average interest rate of 3.14%. Additional funds of \$16 million were raised and Mainstreet realized savings in annualized interest expense of \$388,000. Mainstreet also raised \$17 million through financing certain clear title properties after stabilization.

In fiscal years 2013 and 2014, Mainstreet has approximately \$173 million in mortgage loans maturing. But Mainstreet has already secured approval from lenders and the CMHC to refinance approximately \$43 million (66%) in mortgage loans due in 2013 at favourable terms. This will bring approximately \$8 million in additional funds. Based on the current interest rate of approximately 3%, the refinancing will result in estimated savings in annualized interest expenses and overall principal and interest payments of \$550,000 and \$432,000, respectively. Mainstreet has begun a similar effort for debt due in 2014. These moves reduce financial risk, lock in lower interest rates, free cash for reinvestment and lower debt servicing costs – **a four-way win for Mainstreet.**

UPDATE OF MAINSTREET'S INITIATIVES

Mainstreet has made substantial headway in efforts to take advantage of lower-cost overseas services, supplies and talent. Approximately 50% of Mainstreet renovation materials are now sourced direct from manufacturers in China, who are supplying Mainstreet with laminate, tiles, cabinets and now windows and digital security cameras.

Temporary foreign workers now account for 5% of the Mainstreet labour force in Canada. Employing international workers has shielded Mainstreet from some of the burdens of a tight labour market, while at the same time boosting productivity and efficiency. For similar reasons, Mainstreet has turned to India to re-develop its online presence. Phase one of the project is expected to be completed in mid-2013.

MAINSTREET BUSINESS MODEL CREATES CHALLENGES

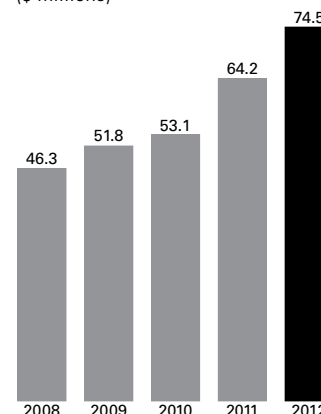
There are always challenges that affect Mainstreet's financial results: we continue to face above-market vacancy rates, below-market rental rates, substantial churn and bad renter debt, particularly during the stabilization process on newly acquired unstabilized properties. These factors have long accompanied Mainstreet's unique "Add Value Business Model." At the same time, Mainstreet faces rising property taxes and energy costs across its portfolio, as expected Q1 2013 electricity and natural gas prices are substantially higher than prices in the beginning of 2012.

OUTLOOK

The past two years have been good for Mainstreet and its investors. But in many ways, the real story starts now, on three fronts: growth, NOI and the cost of financing. On growth, we have liquidity in place to add roughly 2,000 more units – an expansion of 25% over today, without diluting shareholder equity. On NOI, we have three important levers to pull in the year ahead. We exited 2012 with an annualized NOI from the continuing operations of \$44.9-million. We expect that NOI can be further improved through a continued decrease in vacancy rates, reductions in rental incentives, increases in rental rates after stabilization and changes in rental market conditions. Management believes that with continued efforts to maximize returns and favourable market conditions, we can achieve an optimum NOI for our existing portfolio in 2013. Finally, on the cost of financing, we have \$173-million in debt due in 2013 and 2014. By refinancing this at mortgage rates near 60-year lows, we can substantially lower our debt servicing payments and raise additional liquidity.

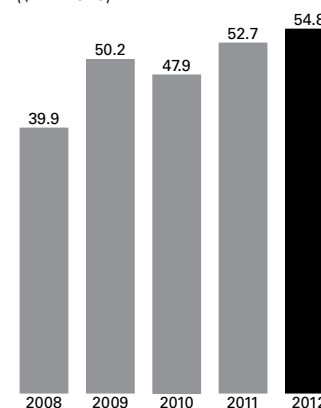
RENTAL REVENUE

(\$ millions)



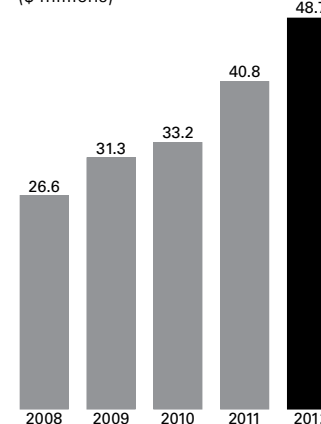
RENTAL REVENUE – SAME ASSETS

(\$ millions)



NET OPERATING INCOME (NOI)

(\$ millions)



Mainstreet has already demonstrated major progress against each of those challenges, with 2012 overall vacancy rates (including all newly acquired unstabilized properties in the year) in particular falling from 11.3% to 8.3%. We expect more improvements in 2013, with CMHC forecasting significant improvement in western Canada, our primary market. That stands to boost many of Mainstreet's operating and financial measures. The CMHC expects Calgary rates, for example, to fall from nearly 2% in 2011 to 1.5% in 2013.

That is good news in several ways. Lower vacancy rates decrease churn – as renters find fewer alternative options – while also improving rental rates. The CMHC expects average two-bedroom rent in Calgary to rise by 10.7% between 2011 and 2013. Lower vacancy rates also decrease concessions that come from rental rate discounting to attract renters in a tough market. In 2012, those concessions were worth \$6.2 million. With the tough market vanishing, concessions are expected to be gradually eliminated.

In addition, Mainstreet continues to make progress on its stabilization process. As more and more newly-acquired apartment units are renovated to the Mainstreet specification and re-introduced into the market at full market rents, Mainstreet financial results will be further improved.

Mainstreet believes that western Canada will continue to lead the country in economic growth, a likelihood that offers tremendous growth potential and the added benefits of more favourable market conditions and tenancy acts. Management believes it is prudent to keep dollars west, which is why Mainstreet has disposed 404 apartment units in its Ontario portfolio, at a sale price of \$47 million, subsequent to fiscal year end. Mainstreet is in negotiation of disposing the remaining 260 apartment units. Management intends to re-allocate the net proceeds of the disposition for further expansion to cities in western Canada, where the market conditions remain particularly strong. The closing date of the disposition is on January 23, 2013. Macro factors also continue to favour the Mainstreet model. Immigration levels in parts of the west continue at 20-year highs, with CMHC now predicting a slight increase in net Canada-wide in-migration to 0.8% for 2013.

The U.S. is another area of growing interest for Mainstreet. Signs of returning economic strength have not yet been accompanied by a dramatic reversal in property prices. At the same time, a modest 4.4% increase in the Case-Shiller U.S. Home Price Index in the past year makes clear that the U.S. has moved past its bottom. This is a market on the brink of recovery, and there are still deals to be had.

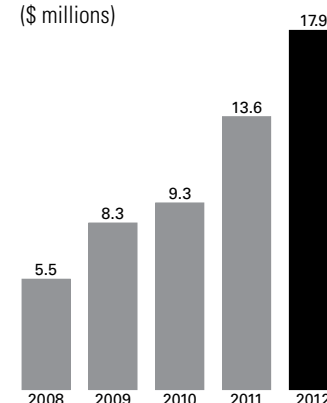
[Signed]

"Bob Dhillon"
President & CEO
December 14, 2012
Calgary, Alberta

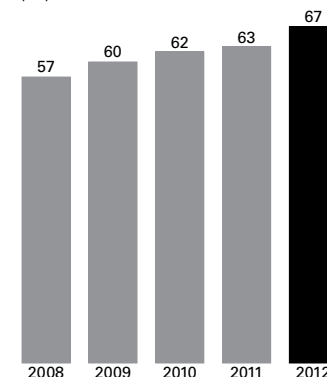
NET OPERATING INCOME (NOI) – SAME ASSETS (\$ millions)



FUNDS FROM OPERATIONS BEFORE FINANCING COST, US INVESTMENT FUND EXPENSES, GAIN (LOSS) ON DISPOSITION and STOCK OPTION EXPENSES (\$ millions)



OPERATING MARGINS (%)



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") as at and for the years ended September 30, 2012 and 2011. The results from the fiscal year 2012 are directly comparable with those from the fiscal year 2011. 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 consolidated financial statements and accompanying notes for the years ended September 30, 2012 and 2011. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 6, 2012. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation including the Corporation's annual information form is available under the Corporation's profile at SEDAR (www.sedar.com).

Unless indicate otherwise, reference herein to 2012 and 2011 refers to the fiscal years ended September 30, 2012 and September 30, 2011, respectively.

BUSINESS OVERVIEW

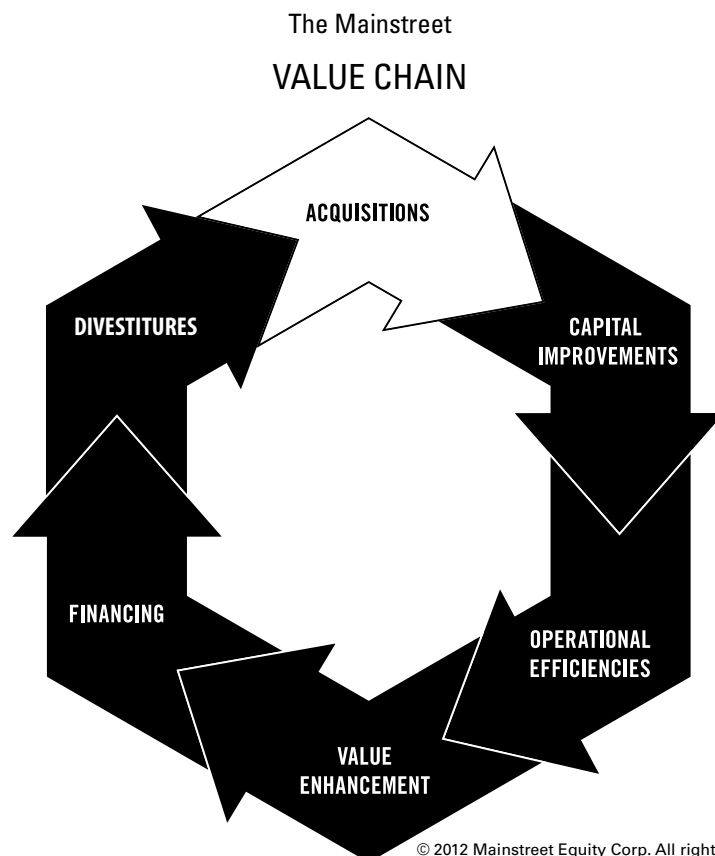
Based in Calgary, Alberta, Mainstreet is a Canadian real estate corporation focused on the acquisition, redevelopment, repositioning and management of mid-market rental apartment buildings in five major Canadian markets: Vancouver/Lower Mainland, Calgary, Edmonton, Saskatoon and the Greater Toronto Area.

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

BUSINESS STRATEGY

Mainstreet's goal is to become 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.
- **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.



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INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements of the Corporation prepared in conjunction with this MD&A have been prepared in accordance with the IFRS. This is the Corporation's first annual report to adopt the IFRS.

The impacts of the adoption of IFRS for the Corporation's financial reporting, as compared to the Canadian General Acceptable Accounting Principles (Canadian "GAAP"), are summarized as follows:

a) Impact of IFRS on the Consolidated Statement of Financial Position

The table below summarizes the impact of significant differences between Canadian GAAP and IFRS on the Corporation's consolidated statement of financial position. All other financial assets and liabilities not specifically addressed are consistent with the Canadian GAAP and are not significantly impacted by the Corporation's adoption of IFRS.

Consolidated Statement of Financial Position Items	Applicable IFRS Standards	Impact
Presentation of Consolidated Statement of Financial Position	IAS 1	The Corporation now presents current and non-current assets and liabilities as separate classifications in its consolidated statement of financial position. These were previously presented using reverse liquidity under Canadian GAAP.
Investment Properties	IAS 40	Measured initially at cost and then using fair value model. Gains or losses arising from changes in fair value of investment properties are recognized in profit or loss. Previously used cost model, cost is depreciated over the useful life of the investment properties. (Canadian GAAP). Certain assets previously classified as Revenue Producing Property under Canadian GAAP are re-classified under Property, Plant and Equipment under IFRS.
Property, Plant and Equipment (PP&E)	IAS 16	Similar to Canadian GAAP
Business Combinations	IFRS 3	The acquisition of an asset or group of assets is recorded as a business combination if the assets acquired constitute a business. A business combination must be accounted for by applying the acquisition method. The Corporation has applied the business combination exemption in IFRS1 which allows the Corporation not to apply IFRS 3 retrospectively to any business combination prior to October 1, 2010.
Deferred tax	IAS 12	As a result of using the fair value model to value investment properties under IAS 40, deferred tax liabilities balance has increased.
Mortgages payable	IAS 39	With adoption of IFRS, transaction costs incurred are included and form part of the fair value of mortgage payables in their initial recognition and subsequent measurement of carrying value at amortized cost using effective interest rate method.

b) Impact of IFRS on the Consolidated Statement of Net Profit and Comprehensive Income

The table below summarizes the impact of significant differences between Canadian GAAP and IFRSs on the Corporation's Consolidated Statement of Net Profit and Comprehensive Income. All other income statement items not specifically addressed are consistent with Canadian GAAP and or not significantly impacted by the Corporation's adoption of IFRS:

Consolidated Statement of Net Profit and Comprehensive income items	Applicable IFRS Standards	Impact
Rental income	IAS 1	No significant changes in recognized and recorded rental income. Certain income not directly related to leasing of rental apartments (laundry machines, income from telephone and cable providers and other miscellaneous income) was reported as ancillary rental income.
Mortgage interest	IAS 23	Write back of borrowing costs that were directly attributed to the acquisition, construction or production of "non-qualifying" assets.
Financing cost	IAS 39	The Corporation had elected to account for all transaction costs incurred in mortgages in net income as financing costs under Canadian GAAP. With adoption of IFRS, all transaction costs form part of the fair value of mortgage payables in their initial recognition and subsequent measurement of carrying value at amortized cost using effective interest rate method.
Depreciation	IAS 16, IAS 40	The Corporation adopted the fair value model to account for its investment properties under which depreciation is not recorded. There is no difference between Canadian GAAP and IFRS in the depreciation of the assets classified as Property, Plant and Equipment.
Deferred tax	IAS 12	As a result of using the fair value model to value investment properties under IAS 40, deferred tax expense has increased. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Corporation's expectation that the method of realization will be through the sale of its properties rather than through owning and operating the properties.
Analysis of expenses	IAS 1	An analysis of expenses is required either by nature or by function on the face of the consolidated statement of comprehensive income. There is no requirement under Canadian GAAP for expenses to be classified according to their nature or function. The Corporation currently classifies its major expenses under "Property Operating Expenses" and "General and Administrative Expenses". The Corporation considers that the current expenses classification can provide more useful information to the users of its consolidated financial statements in the real estate.

c) Impact of IFRS on the Consolidated Statement of Cash Flow

There are no material adjustments to the consolidated statement of cash flow as a result of the conversion to IFRS except that fair value gain and deferred tax were included as items not affecting cash in the cash flow statement.

Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's equity as of October 1, 2010 and September 30, 2011:

		Share capital	Retained earnings	Contributed surplus	Total shareholders equity (deficit)
Balance as reported under Canadian GAAP, Oct. 1, 2010	\$	26,214	\$ (37,924)	\$ 3,187	\$ (8,523)
Fair value adjustments represent the cumulative unrealized gain in respect of the fair value of investment properties			\$ 357,005		\$ 357,005
Adjustments on financing cost as a result of incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement			\$ 6,113		\$ 6,113
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP			\$ (61,208)		\$ (61,208)
Balance as reported under IFRS, Oct. 1, 2010	\$	26,214	\$ 263,986	\$ 3,187	\$ 293,387
		Share capital	Retained earnings	Contributed surplus	Total shareholders equity
Balance as reported under Canadian GAAP September 30, 2011	\$	26,762	\$ (40,984)	\$ 3,096	\$ (11,126)
Fair value adjustments represent the cumulative unrealized gain in respect of the fair value of investment properties			\$ 448,318		\$ 448,318
Adjustments on financing cost as a result incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement			\$ 7,216		\$ 7,216
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP			\$ (68,465)		\$ (68,465)
Balance as reported under IFRS, Sept. 30, 2011	\$	26,762	\$ 346,085	\$ 3,096	\$ 375,943

Reconciliation of consolidated profit and comprehensive income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's consolidated profit and comprehensive income for the year ended September 30, 2011.

	Year ended Sept. 30, 2011
Net loss and comprehensive loss under Canadian GAAP	\$ (3,048)
Depreciation expense reversed as a result of applying the fair value model for investment properties	\$ 14,328
Interest expense adjustments on capitalized borrowing cost for investment properties	\$ (221)
Fair value adjustments on investment properties for the period, representing gains from differences between the current period fair value and the sum of previously measured fair value and capitalized costs	\$ 77,206
Adjustments on financing cost as a result of incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement	\$ 1,103
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP	\$ (7,257)
Net profit and total comprehensive income under IFRS	\$ 82,111

Investment properties

Investment properties are properties held to earn rental income and are initially measured at costs. Costs include price and any direct attributable expenditure related to the acquisition and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as an additional cost of investment properties.

After initial recognition, the Corporation adopts the fair value model to account for the carrying value of investment properties in accordance with IAS 40.

Method used in determining the Fair Value of investment properties

Except for the three properties included in non-current assets classified as held for sale, the fair value of investment properties are determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada. They have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations or based on the purchase cost which, Management believes is a close estimate of the fair value of an investment property at the time of acquisition.

The Fair value of investment properties is re-assessed annually by independent third-party qualified appraisers for the Corporation's annual financial reporting. In addition, the Corporation has established an internal valuation model. It is based on the estimated changes in market conditions of the underlying assumptions used since the last annual appraisal to determine the fair value of investment properties for its interim reporting. Estimated changes in market conditions of the underlying assumptions for interim periods are assessed by the independent third party qualified appraisers who performed the annual fair value assessments.

The fair value of Mainstreet's investment properties as of September 30, 2012, was determined by the following qualified appraisers:

Location	Appraiser Name	Qualification	Firm
Vancouver/Lower Mainland (Abbotsford & Surrey)	James Glen	AACI, P.App.	Colliers International
Calgary & Edmonton	Calgary – Tom Hewitt Edmonton – Ryan Miller, Andrew MacLeod	AACI, P.App.	Colliers International
Saskatoon	Tom Hewitt	AACI, P. App.	Colliers International
Greater Toronto Area	Demetri Andros	AACI, P. App.	Colliers International

The fair values of the three properties included in non-current assets classified as held for sale were determined by the selling prices offered by the potential buyer.

The 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.

The fair values are most sensitive in net operating income and capitalization rates. The average capitalization rates used in determining the fair value of investment properties are set out below:

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Surrey, BC	5.65%	5.81%	5.80%
Abbotsford, BC	5.64%	5.63%	5.73%
Calgary, Alberta	5.06%	5.43%	5.42%
Edmonton, Alberta	5.92%	6.15%	6.21%
Saskatoon, Saskatchewan	7.50%	7.51%	7.96%
Greater Toronto Area, Ontario	5.48%	6.00%	6.51%
Overall	5.72%	5.93%	6.04%

Mainstreet's total portfolio is valued at \$1,051 million. The following is the breakdown of market value by city:

	Number of units	Market value (\$ million)	Average value per unit (\$000s)
Vancouver/Lower Mainland (Abbotsford & Surrey), B.C.	2,175	\$ 255	\$ 117
Calgary, Alberta	1,609	\$ 307	\$ 191
Edmonton, Alberta	2,865	\$ 334	\$ 117
Saskatoon, Saskatchewan	867	\$ 87	\$ 100
Total continued operation	7,516	\$ 983	\$ 131
Assets classified as held for sale – Greater Toronto Area, Ontario	664	\$ 68	\$ 102
Total	8,180	\$ 1,051	\$ 128

Acquisitions & Growth

(000s of dollars)

	2012	2011
	Calgary, Edmonton, Surrey & Saskatoon	Abbotsford, Calgary, Edmonton, Saskatoon & Surrey
Number of rental units	833	911
Total costs	\$ 79,818	\$ 73,142
Average price per unit	\$ 96	\$ 80
Office building – Calgary		\$ 3,800

Employing a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In 2012, Mainstreet purchased 833 apartment units in Surrey, Calgary, Edmonton and Saskatoon for \$79.8 million – an average purchase price of \$96,000 per unit. Since Mainstreet's previous financial year-end (September 30, 2011), the Corporation has grown its portfolio of properties by 11%. Mainstreet's portfolio now includes 7,516 residential units (excluded 664 units of properties classified as held for sale with fair value of \$72 million), which include townhouses, garden-style apartments and concrete mid-rise and high-rise apartments.

As of September 30, 2012, 92% of these residential units were rented, while 6% were being renovated and the remainder left vacant because of current market conditions.

Since 1997, the Corporation's portfolio has increased from 10 to 182 buildings (including one office building) and assets held for sale, while the fair value of the properties within this portfolio has grown from approximately \$17 million to \$1,051 million as of September 30, 2012.

The following table sets forth the growth of the Corporation by region since the end of the previous financial year ended September 30, 2011.

	Number of units as of Oct. 1, 2011	Acquisition 2012	Disposition 2012	Number of units as of Sept. 30, 2012	% Growth
Surrey, British Columbia	1,360	84	–	1,444	6%
Abbotsford, British Columbia	731	–	–	731	0%
Calgary, Alberta	1,468	141	–	1,609	10%
Edmonton, Alberta	2,314	566	15	2,865	24%
Saskatoon, Saskatchewan	825	42	–	867	5%
Subtotal	6,698	833	15	7,516	12%
Properties classified as held for sale					
Mississauga and Toronto, Ontario	664	–	–	664	–
Total units	7,362	833	15	8,180	11%

Subsequent to the year end dated September 30, 2012, the Corporation acquired additional 260 units of residential apartments in Edmonton, Alberta. The total units of the Corporation's portfolio is 8,440 as of the date of this report.

As of September 30, 2012, Mainstreet owned and managed a total of 8,180 residential units. Details of Mainstreet's properties are set forth in the tables below.

Surrey, BC	Address	# of Units	Apartment Type
1 Pacific Park Apartments	9450 – 128 Street	288	Garden style apartment
2 Cedartree Village	7155/7185 Hall Road & 13485 – 71 Ave.	228	Garden style apartment
3 Imperial Park Apartment	9555 – 126 Street	204	Garden style apartment
4 Greenwood Apartments	14831/14881 – 104 Ave & 14840 – 105 Ave.	183	Garden style apartment
5 Ashley Court	14921 – 104 Street	150	Garden style apartment
6 Gateway Apartments	11022 – 136 Street	133	Garden style apartment
7 Regent Place Apartments	14918 – 108 Street	102	Garden style apartment
8 Cameron	1210/1211 Cameron Street	84	Garden style apartment
9 Hillside Apartments	10320/66 – 127A Street	72	Garden style apartment
Surrey, BC – Total		1,444	

Abbotsford, BC	Address	# of Units	Apartment Type
10 Chelsea	33710 Marshall Road	114	Garden style apartment
11 Hill-Tout	2485 Hill-Tout Street	92	Garden style apartment
12 Pinetree	2525/2585 Hill-Tout Street	89	Condo complex
13 Mount View	33136 George Ferguson Way	84	Garden style apartment
14 Sunshine	33184 George Ferguson Way	69	Condo complex
15 Dahlstrom	32030 George Ferguson Way	60	Garden style apartment
16 Bridgeport	33405 Bourquin Place	60	Garden style apartment
17 Villa Vista	33292 Robertson Ave.	48	Garden style apartment
18 Villa Monaco	33263 Bourquin Crescent East	44	Garden style apartment
19 Hillside	2814 Pratt Crescent	37	Garden style apartment
20 Royal	33298 Robertson Road	34	Garden style apartment
Abbotsford, BC – Total		731	

Calgary, AB		Address	# of Units	Apartment Type
21	Trevella Park	1300 – 42 Street SE	218	Townhouse complex
22	Bonaventure	205 Heritage Dr. SE	195	Garden style apartment
23	Falconcrest Village	360 Falshire Drive NE	176	Garden style apartment
24	Doverglen Estates	216 Doverglen Cres. SE	98	Garden style apartment
25	Avenue Towers	333 – 17 Avenue SW	89	Concrete hi-rise apartment
26	Windsor Green Apartments	4610 Hubalta Rd. SE	88	Garden style apartment
27	Haddon	50 Haddon Road SW	69	Concrete mid-rise
28	Huntsville	412 Huntsville NW	52	Garden style apartment
29	Glenbow Manor	4646 – 73 Street NW	50	Garden style apartment
30	Mainstreet Place	1122 – 8 Avenue SW	50	Concrete hi-rise apartment
31	Delburn House	1419 – 17 Avenue NW	47	Garden style apartment
32	Cochrane House	205 Ross Avenue, Cochrane	42	Garden style apartment
33	White Plains	2620 – 16 Street SW	34	Concrete mid-rise
34	Vintage	528 & 530 – 15th Ave SW, Calgary	32	Concrete mid-rise
35	The Westwinds	211 – 14 Avenue SW	31	Concrete mid-rise
36	Anna Court	4508 – 8 Avenue SE	30	Garden style apartment
37	The Willmax	1212 – 13 Avenue SW	30	Concrete hi-rise apartment
38	Maggie Manor	1439 – 37 Street SW	27	Garden style apartment
39	1612	1612 – 24 Avenue SW	24	Concrete hi-rise apartment
40	Bankview Place	1715 – 24 Avenue SW	24	Garden style apartment
41	Chinook Winds Apartments	707 – 57 Avenue SW	24	Garden style apartment
42	Westview Terrace	1611 – 23 Avenue SW	24	Concrete hi-rise apartment
43	Lincoln	2107/2111 – 54 Avenue SW	23	Garden style apartment
44	North Hill Manor	305 – 13 Avenue NE	23	Concrete mid-rise
45	Floyd	1607 – 4 Street NW	22	Garden style apartment
46	Spring Garden Terrace	1723 – 26 Avenue SW	21	Garden style apartment
47	Astoria	1735 – 26 Avenue SW	20	Garden style apartment
48	Grace Apartments	1639 – 26 Avenue SW	18	Garden style apartment
49	Westbrook Manor	937 – 37 Street SW	18	Concrete mid-rise
50	2501	2501 – 15 Street SW	10	Garden style apartment
Calgary, AB – Total			1,609	

Edmonton, AB	Address	# of Units	Apartment Type	
51	Hampton Court	16404/16424 – 105 St NW	150	Garden style apartment
52	Wedgewood Homes	12269 – 131 Street	132	Townhouse complex
53	Etain	3147 – 151 Avenue	99	Garden style apartment
54	Clareview Court	3830 – 134 Avenue	86	Townhouse complex
55	Oakmount	10710/10720/10730 – 110 Street NW	72	Garden style apartment
56	Hartford	11819 – 106 Street	71	Garden style apartment
57	Riverside Estates	9209/9315 Jasper Avenue	66	Garden style apartment
58	McCam 2	10325 – 123 Street	66	Garden style apartment
59	Bannerman	2604 to 2608 – 139 Avenue	64	Townhouse complex
60	Trinity A & B	10720/30 – 104 Street	62	Garden style apartment
61	Cornerstone	10040 – 152 Street	48	Concrete mid-rise
62	Ross	103220 – 113 A ST	48	Garden style apartment

Edmonton, AB (continued)	Address	# of Units	Apartment Type
63 Granville	10605 – 112 Street	43	Garden style apartment
64 Lauderdale Manor	10504 Lauder Avenue	39	Townhouse complex
65 Second Street Manor	10620 – 102 Street	38	Garden style apartment
66 Seventh Street Manor	10716 – 107 Street	38	Garden style apartment
67 Whitehouse	10136 – 153 Street	36	Garden style apartment
68 Gilford	10638 – 106 Street	35	Garden style apartment
69 Majestic	11416 – 124 Street	33	Garden style apartment
70 Wellington	10730 – 111 Street	33	Garden style apartment
71 McCam 1	10330 – 123 Street	33	Garden style apartment
72 McCam 4	10235 – 123 Street	33	Garden style apartment
73 Hilton Manor	10633 – 111 ST NW	33	Garden style apartment
74 Hudson	10625 – 117 ST	33	Garden style apartment
75 Waselenak	10720 – 108 Street	33	Garden style apartment
76 Nova Manor	15628 – 100 Ave	32	Garden style apartment
77 Marco	8215 – 144 Avenue	31	Garden style apartment
78 Oliver 3 Apartments	10330 – 115 St NW	31	Garden style apartment
79 Eileen	10735 – 104 Street	30	Garden style apartment
80 Virginian	10615 – 107 Street	29	Garden style apartment
81 Deluca	10128 – 161 Street	27	Garden style apartment
82 McQueen Place	14224 McQueen Road	27	Garden style apartment
83 Queen Mary	10835 – 115 Street	26	Garden style apartment
84 Elizabeth Manor	11334 – 124 Street	25	Concrete mid-rise
85 Twilight	10723 – 102 Street	24	Garden style apartment
86 Tiffany	10721 – 117 Street	24	Garden style apartment
87 Argyll A	7109 – 79 Street	24	Garden style apartment
88 Argyll B	7108 – 78 Avenue	24	Garden style apartment
89 Priya	10711 – 103 Street	24	Garden style apartment
90 Leamington	10125 – 114 Street	24	Garden style apartment
91 Washington	10715 – 104th Street	24	Garden style apartment
92 Oasis	10155 – 153 Street	24	Garden style apartment
93 Malibu	10717 – 107 Street	24	Garden style apartment
94 Vista Green	10610 – 115 Street	23	Garden style apartment
95 Karen Hall	9451 – 94 Avenue, Ft. Sask	23	Garden style apartment
96 Oliver 1 Apartments	10320 – 115 St NW	23	Garden style apartment
97 Oliver 4 Apartments	10315 – 116 St NW	23	Garden style apartment
98 Byron	10650 – 103 Street	23	Garden style apartment
99 Rosa	10630 – 105 Street	23	Garden style apartment
100 Cypress	10745 – 110 Street	22	Garden style apartment
101 Lorraine	10727 – 110 Street	22	Garden style apartment
102 Villa	11217 – 124 Street	22	Garden style apartment
103 Amera Manor	11615 – 124 Street	22	Garden style apartment
104 Somerset	10710 – 111 Street	22	Garden style apartment
105 McLaren	10720 – 111 Street	22	Garden style apartment
106 Dickens	10325 – 117 Street	22	Garden style apartment
107 Kane	10316 – 119 Street	22	Garden style apartment

Edmonton, AB (continued)	Address	# of Units	Apartment Type
108 Carina Court	10610 – 106 Street	22	Garden style apartment
109 McCam 3	10320 – 123 Street	22	Garden style apartment
110 Oliver 2 Apartments	10325 – 115 St NW	22	Garden style apartment
111 Norland	10630 – 115 Street	22	Garden style apartment
112 Hansen	10630 – 112 Street	22	Garden style apartment
113 Murray	11906 – 104 Street	21	Garden style apartment
114 Taurus	11937 – 105 Street	21	Garden style apartment
115 Grand	11919 – 105 Street	21	Garden style apartment
116 King Edward	7108 – 79 Ave	21	Garden style apartment
117 Prairie	11820 – 101 Street	21	Garden style apartment
118 Palmont	10823 – 115 Street	21	Garden style apartment
119 Chelsey	10730 – 109 Street	20	Garden style apartment
120 Dorset	11708 – 124 Street	20	Garden style apartment
121 Rockhill	11930 – 104 Street	18	Garden style apartment
122 Alexandra	12220 – 82 Street	18	Garden style apartment
123 Confederation	15216 – 100 Avenue	18	Garden style apartment
124 Pine	10741 – 112 Street	18	Garden style apartment
125 Erin Place	11828 – 105 Street	17	Garden style apartment
126 Ariel	10729 – 104 Street	17	Garden style apartment
127 Grace Manor	10634 – 113 Street	17	Garden style apartment
128 Pride	13608 – 109A Avenue	17	Garden style apartment
129 Plaza	11841 – 105 Street	17	Garden style apartment
130 Shardan	10224 – 122 Street	17	Garden style apartment
131 Westmore	10820 – 114 Street	15	Garden style apartment
132 Serenity	10416 – 119 Street	15	Garden style apartment
133 Berkley Manor	10810 – 114 Street	15	Garden style apartment
134 Willow	10303 – 120 Avenue	15	Garden style apartment
135 Capital	10125 – 152 Street	15	Garden style apartment
136 Salem	10819 – 115 Street	15	Garden style apartment
137 Aspen	12207 – 82 Street	15	Garden style apartment
138 Cedarwood Arms	10614 – 122 Street	14	Garden style apartment
139 Madison	11807 – 102 Street	14	Garden style apartment
140 Eastwood	11920 – 82 Street	13	Garden style apartment
141 Aurora	10041 – 152 Street	12	Garden style apartment
142 Prince	11225 – 117 Street	12	Garden style apartment
143 Beauview	10443 – 156 Street	12	Garden style apartment
144 Jasmine Court	10016 – 152 Street	12	Garden style apartment
145 Charles	9804 – 102 Street, Ft. Sask	9	Garden style apartment
Edmonton, AB – Total		2,865	

Saskatoon, SK	Address	# of Units	Apartment Type
146 Fairhaven	365 Pendygrasse Road	165	Garden style apartment
147 Meadow Green	517/521 Avenue X	72	Garden style apartment
148 Coronation	444 – 5 Avenue North	35	Garden style apartment
149 Kewanee	502 – 5 Avenue N	35	Garden style apartment
150 Belmae	445 – 3 Avenue N	33	Garden style apartment
151 Park Manor	102 Avenue O. S.	31	Garden style apartment
152 Camino	115 Avenue O. S.	31	Garden style apartment
153 Montrose	305 – 26 Street E	30	Garden style apartment
154 Parkview	445 – 5 Avenue N	26	Garden style apartment
155 Booth	106 – 111 Street	24	Garden style apartment
156 Diane	541 Avenue W	24	Garden style apartment
157 Key West	135 Avenue W South	24	Garden style apartment
158 Peat	3701 – 8 Street E	24	Garden style apartment
159 Pisces	1622 – 22 Street	24	Garden style apartment
160 Scorpio 2	111 Avenue T South	24	Garden style apartment
161 Libra	202 Avenue N South	19	Garden style apartment
162 Diane 2	2310 – 17 Street	18	Garden style apartment
163 Preston	909 Preston Avenue	18	Garden style apartment
164 Linde	1101 Avenue W North	18	Garden style apartment
165 Aquarius Place	2014 – 20 Street West	18	Garden style apartment
166 Scorpio	114 Avenue T South	18	Garden style apartment
167 Preston 2	905 Preston Ave	18	Garden style apartment
168 Laurentian	2513 – 7 Street	17	Garden style apartment
169 St. Paul	1701 – 20 Street West	17	Garden style apartment
170 Leo Manor	355 Avenue T S	16	Garden style apartment
171 Victoria park	612 Spadina Cres. W	15	Garden style apartment
172 Gemini Court	403 Avenue P South	15	Garden style apartment
173 Duchess	901 – 5 Avenue	12	Garden style apartment
174 Raydel	339 Avenue Q south	12	Garden style apartment
175 Kerpel	131 Avenue P south	12	Garden style apartment
176 Pleasant	1628 – 22 Street West	11	Garden style apartment
177 Capricorn	128 Avenue O S	11	Garden style apartment

Saskatoon, SK – Total	867
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Toronto, ON ¹	Address	# of Units	Apartment Type
178 Woolner Apartments	220/230 Woolner Avenue	260	Concrete hi-rise apartment
179 Caravelle Apartments	5 Dufresne Court	218	Concrete hi-rise apartment
180 Westdale Apartments	1175 West Dundas	104	Concrete hi-rise apartment
181 North Service	275 North Service Road	82	Concrete hi-rise apartment

Greater Toronto, ON – Total	664
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182 Head Office	305 – 10 Ave. SE, Calgary, AB	–
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Multi-family developing lot	33283 Bourquin Cr. E, Abbotsford, BC	–
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Total Mainstreet Portfolio	8,180
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1. All properties in Ontario were classified as assets held for sale as of September 30, 2012.

CAPITAL IMPROVEMENTS

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

In fiscal 2012, the Corporation spent \$9.2 million (2011 \$11.4 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 upgrades. To address the balance of non-renovated units in the current portfolio, Mainstreet plans to spend an estimated \$12.0 million on renovations for 2013, of which approximately \$8.0 million is budgeted for stabilization of unstabilized properties. These improvements are expected to be financed through existing cash balances, funds from operations and on-going refinancing of existing properties. Mainstreet expects to complete most of these renovations of existing properties within the next 6 to 24 months. 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 a material impact on the timing and cost of completing these renovations.

Financing

Debt financing after property stabilization and maturity of initial loans is a cornerstone of Mainstreet's business strategy. Management believes this unlocks the value added through stabilization and liberates 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 2012, Mainstreet refinanced \$26.1 million of mature debt into \$42 million CMHC mortgages that have 10-year terms and an average interest rate of 3.12% and obtained new financing of \$17 million after stabilization of certain properties. These financing raised an additional \$32.4 million in funds.

Vacancy Rates

Mainstreet reduced its overall average vacancy rate to 8.3% in 2012 from 11.3% in 2011. As of December 1, 2012, the average vacancy rate dropped to 6.4% excluding 230 un-rentable units currently undergoing complete re-development.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of Financial Results

(000s of dollars except per share amounts)

	2012	2011	% change from 2011
Gross revenue	\$ 66,825	\$ 56,908	17%
Profit from continuing operations before other items and income tax expense	\$ 14,703	\$ 11,001	34%
Profit			
– from continuing operations	\$ 49,980	\$ 79,757	(37%)
– from discontinued operations	\$ 6,071	\$ 2,354	158%
Funds from operations before US investment fund expenses, loss on disposal and stock option cash settlement expense			
– from continuing operations	\$ 15,141	\$ 11,185	35%
– from discontinued operations	\$ 865	\$ 615	41%
Funds from operations ¹			
– from continuing operations	\$ 12,153	\$ 11,185	9%
– from discontinued operations	\$ 865	\$ 615	41%
Net operating income from continuing operations ²	\$ 44,905	\$ 37,343	20%
Operating margin from continuing operations	67%	66%	2%
EBITDA before fair value adjustment and loss on disposal and stock option cash settlement expenses from continuing operations ³	\$ 38,213	\$ 31,930	20%
Fair value adjustment	\$ 46,909	\$ 74,614	(37%)
Profit per share from continuing operations before other items and income tax expense			
– Basic	\$ 1.41	\$ 1.06	32%
– Fully diluted	\$ 1.32	\$ 1.00	31%
Profit per share			
– Basic – continuing operations	\$ 4.79	\$ 7.68	(37%)
– Basic – discontinued operations	\$ 0.58	\$ 0.23	117%
– Fully diluted – continuing operations	\$ 4.50	\$ 7.27	(38%)
– Fully diluted – discontinued operations	\$ 0.55	\$ 0.21	124%
Funds from operations per share before loss on disposal and stock option cash settlement expense			
– Basic – continuing operations	\$ 1.45	\$ 1.08	35%
– Basic – discontinued operations	\$ 0.08	\$ 0.06	40%
– Fully diluted – continuing operations	\$ 1.36	\$ 1.02	34%
– Fully diluted – discontinued operations	\$ 0.08	\$ 0.06	39%
Funds from operations per share			
– Basic – continuing operations	\$ 1.16	\$ 1.08	10%
– Basic – discontinued operations	\$ 0.08	\$ 0.06	40%
– Fully diluted – continuing operations	\$ 1.10	\$ 1.02	9%
– Fully diluted – discontinued operations	\$ 0.08	\$ 0.06	39%
Weighted average number of shares			
– Basic	10,441,762	10,391,024	0%
– Fully diluted	11,097,400	10,973,833	1%
Total Assets	\$ 1,063,231	\$ 919,160	16%
Total Long term liabilities	\$ 465,246	\$ 492,093	(3%)

1. Funds from operations ("FFO") are calculated as profit before fair value gain (loss), depreciation of property, plant and equipment and deferred income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance but is not a recognized measure under IFRS. The IFRS measurement most directly comparable to FFO is profit (for which reconciliation is provided below). FFO should not be construed as an alternative to profit or cash flow from operating activities, determined in accordance with IFRS, 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 ("NOI") is rental revenue minus property operating expenses. While Mainstreet uses NOI to measure its operational performance, it is not a recognized measure under IFRS. The IFRS measure most directly comparable to NOI is profit. NOI should not be construed as an alternative to profit determined in accordance with GAAP. Readers are cautioned that NOI may differ from similar calculations used by other comparable entities. A reconciliation of profit to net operating income from continuing operations for the period is as follows:

(000s of dollars)

	2012	2011	% change
Profit and comprehensive income	\$ 56,051	\$ 82,111	(32%)
Profit from discontinued operations	\$ (6,071)	\$ (2,354)	158%
Profit from continuing operations	\$ 49,980	\$ 79,757	(37%)
Interest income	\$ (25)	\$ (55)	(55%)
Gain on settlement on debt	\$ –	\$ (40)	(100%)
Gain on insurance	\$ –	\$ (57)	(100%)
Loss on disposal of investment properties	\$ 766	\$ –	100%
Stock option cash settlement expenses	\$ 2,017	\$ –	100%
Fair value gain	\$ (46,909)	\$ (74,614)	(37%)
General and administrative expenses	\$ 6,717	\$ 5,565	21%
Mortgage interest	\$ 21,531	\$ 19,386	11%
Financing cost	\$ 1,746	\$ 1,359	28%
Depreciation	\$ 233	\$ 184	27%
Deferred tax	\$ 8,849	\$ 5,858	51%
Net operating income from continuing operations	\$ 44,905	\$ 37,343	20%

3. EBITDA is earnings before fair value gain (loss), interest, financing cost, taxes, depreciation and amortization and is used by Mainstreet to measure financial performance. EBITDA is not, however, a recognized measure under IFRS. Management believes EBITDA is a useful supplemental measure to profit, providing investors with an indicator of cash available for distribution, future growth and capital expenditure. The IFRS measure most directly comparable to EBITDA is profit. EBITDA should not be construed as an alternative to profit determined in accordance with IFRS. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities. A reconciliation of profit to EBITDA from continuing operations for the period is as follows:

(000s of dollars)

	2012	2011	% change
Profit and comprehensive income	\$ 56,051	\$ 82,111	(32%)
Profit from discontinued operations	\$ (6,071)	\$ (2,354)	158%
Profit from continuing operations	\$ 49,980	\$ 79,757	(37%)
Loss on disposal of investment properties	\$ 766	\$ –	–
Stock option cash settlement expense	\$ 2,017	\$ –	–
Mortgage interest	\$ 21,531	\$ 19,386	11%
Financing cost	\$ 1,746	\$ 1,359	28%
Fair value gain	\$ (46,909)	\$ (74,614)	(37%)
Depreciation	\$ 233	\$ 184	27%
Income taxes	\$ 8,849	\$ 5,858	51%
EBITDA from continuing operations	\$ 38,213	\$ 31,930	20%

FUNDS FROM OPERATIONS

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

(000s of dollars)

	2012	2011	% change
Profit and comprehensive income	\$ 56,051	\$ 82,111	(32%)
Fair value gain	\$ (46,909)	\$ (74,614)	(37%)
Depreciation	\$ 233	\$ 184	27%
Deferred income tax	\$ 8,849	\$ 5,858	51%
Profit from discontinued operation	\$ (6,071)	\$ (2,354)	158%
Funds from continuing operations	\$ 12,153	\$ 11,185	10%
US investment fund expenses	\$ 205	\$ –	100%
Stock option cash settlement expenses	\$ 2,017	\$ –	–
Loss on disposal of investment properties	\$ 766	\$ –	–
Funds from continuing operation before loss on disposal and stock option cash settlement expenses	\$ 15,141	\$ 11,185	35%
Funds from discontinued operation	\$ 865	\$ 615	41%
Funds from operations before loss on disposal and stock option cancellation expenses	\$ 16,006	\$ 11,800	36%
Funds from operations	\$ 13,018	\$ 11,800	10%
Funds from operations before loss on disposal and stock option cancellation expenses per share			
– Basic – continuing operations	\$ 1.45	\$ 1.10	34%
– Basic – discontinued operations	\$ 0.08	\$ 0.06	39%
– Fully diluted – continuing operations	\$ 1.36	\$ 1.04	33%
– Fully diluted – discontinued operations	\$ 0.08	\$ 0.06	38%
Funds from operations per common share			
– Basic – continuing operations	\$ 1.16	\$ 1.08	8%
– Basic – discontinued operations	\$ 0.08	\$ 0.06	40%
– Fully diluted – continuing operations	\$ 1.10	\$ 1.02	7%
– Fully diluted – discontinued operations	\$ 0.08	\$ 0.06	39%

In 2012, Mainstreet's FFO from continuing operations before loss on disposal and stock option cash settlement expenses increased to \$15.1 million – up 35% from \$11.2 million in 2011. FFO before loss on disposal and stock option cash settlement expense increased to \$16.1 million – up 36% from \$12.0 million in 2011 – as a result of increased rental revenues, decrease in rental incentives and the average vacancy rate.

Profit from continuing operations

In 2012, Mainstreet reported a profit from continuing operations of \$50.0 million (\$4.79 per basic share) as compared to \$79.8 million (\$7.68 per basic share) in 2011. A decrease of 37%.

The decrease was mainly due to a substantial decrease in fair value gain to \$47 million in 2012 as compared to \$74 million in 2011. The fiscal year 2011 was the first year that the Corporation adopted the fair value model to account for the carrying value of the investment property in accordance with IAS 40. The fair value gain in 2011 was therefore substantial as it represented the difference between the fair value and historical cost.

In addition, there were one time, non recurring expenses, namely US investment fund expenses of \$0.2 million, loss on disposition of an investment property of \$0.8 million and stock option cash settlement expense of \$2 million.

Excluding the fair value gains, loss on disposal of an investment property and stock option cash settlement expense, In 2012, Mainstreet reported an increase in the profit from continuing operations of 36% to \$14.7 million (\$1.41 per basic share) as compared to \$11.0 million (\$1.06 per basic share) in 2011,

In 2012, the Corporation disposed a property below its fair value in Edmonton, Alberta and incurred a loss of \$766,000. Prior to the disposition, all tenants of the property were evicted due to the roof leakage and mould issues. The property was sold to an organization which required a completely vacant property and converted it into a low income housing property.

The loss on disposal was calculated as follows:

(000s of dollars except per unit data)

Net sale proceeds	\$	934
Adjusted cost based	\$	853
Gain on disposition before fair value adjustment	\$	81
Fair value adjustment	\$	(847)
Loss on disposition		(766)

REVENUES

(000s of dollars)

	2012	2011	% change
Rental revenue	\$ 65,881	\$ 55,942	18%
Ancillary rental income	\$ 944	\$ 966	(2%)
Gain on settlement on debt	\$ –	\$ 40	–
Net gain on insurance	\$ –	\$ 57	(100%)
Interest income	\$ 25	\$ 55	(55%)
Gross revenues	\$ 66,850	\$ 57,060	17%

Rental revenue increased by 18% to \$65.9 million in 2012 from \$55.9 million in 2011, due mainly to growth in the Corporation's portfolio, increase in rental rates and decrease rental incentives and vacancy rate.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	2012	2011	% change
Same assets rental revenue and ancillary rental income	\$ 54,848	\$ 52,686	4%
Acquisition rental revenue and ancillary rental income	\$ 11,033	\$ 3,256	239%
Total rental revenue and ancillary rental income	\$ 65,881	\$ 55,942	18%
Average vacancy rate	8.3%	11.3%	(26%)
Weighted average number of units	7,238	6,419	13%
Average rental revenue per unit per month	\$ 759	\$ 726	4%

Rental revenues and ancillary rental income from "same assets" properties (properties owned during the entire fiscal years ended September 30, 2012 and 2011) increased by 4% to \$54.8 million from \$52.7 million, mainly due to increase in rental rate, decrease in rental incentives and vacancy rate.

In 2012, rental revenues from newly acquired properties were \$11.0 million – a substantial increase of 239% over 2011. This increase is a result of Mainstreet's acquisition of 1,774 units since October 1, 2010.

RENTAL RATES INFORMATION

The following table sets forth a comparison of current Mainstreet portfolio rental rates compared with market rental rates, as of September 30, 2012.

Per unit per month	Average 2012 Current Rent				Overall Avg. 2012
City	Market Rent Rate	Current Rent Rate	Stabilized	Unstabilized	Net Rent Rate
British Columbia	\$ 838	\$ 805	\$ 815	\$ 768	\$ 710
Alberta	\$ 990	\$ 965	\$ 993	\$ 862	\$ 788
Saskatchewan	\$ 895	\$ 860	\$ 858	\$ 765	\$ 872
Ontario	\$ 1,031	\$ 1,003	\$ 998	N/A	\$ 923
Overall	\$ 945	\$ 915	\$ 933	\$ 824	\$ 771

OPERATING COSTS

(000s of dollars)

	2012	2011	% change
Same assets operating expenses	\$ 17,516	\$ 17,991	(3%)
Acquisition operating expenses	\$ 4,404	\$ 1,574	180%
Total operating costs	\$ 21,920	\$ 19,565	12%
Operating cost per unit	\$ 252	\$ 253	–

Overall, operating costs increased 12% to \$21.9 million in 2012 compared to \$19.6 million in 2011, due mainly to growth in the Corporation's portfolio of properties. Operating costs for "same assets" decreased by 3% in 2012 as compared with 2011 mainly due to decreased utility and repairs and maintenance expenses.

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 8% to 2,112 units in 2012 compared to 1,952 units in 2011. As a result, rental revenue increased by 10% to \$18.3 million in 2012 compared to \$16.6 million in 2011. The vacancy rate decreased to 6.8% in 2012 from 9.6% in 2011. Rental revenue per unit increased by 2% to \$722 per month in 2012 from \$708 per month in 2011.

The operating cost per unit increased slightly by 3% from \$250 in 2011 to \$258 in 2012. As a net result, the operating margin in 2012 dropped marginally to 64% from 65% in 2011.

(000s of dollars except per unit data)

	2012	2011	% change
Rental revenue and ancillary rental income	\$ 18,299	\$ 16,595	10%
Operating expenses	\$ 6,539	\$ 5,857	12%
Net operating income	\$ 11,760	\$ 10,738	10%
Weighted average number of units	2,112	1,952	8%
Average rent per unit per month	\$ 722	\$ 708	2%
Operating cost per unit per month	\$ 258	\$ 250	3%
Average vacancy rate	6.8%	9.6%	
Operating margin	64%	65%	

Alberta

Rental revenue increased by 24% to \$41.0 million in 2012 from \$33.2 million in 2011, due mainly to a substantial increase in the size of the Corporation's Alberta portfolio to an average of 4,256 units in 2012 from 3,647 units in 2011. Furthermore, the vacancy rate dropped to 8.9% in 2012 from 12.5% in 2011. Rental revenue per unit increased to \$803 per month in 2012 from \$759 per month in 2011 mainly due to a decrease in vacancy rate and rental incentives. Operating costs per unit per month decreased by 3% to \$258 in 2012 from \$265 in 2011. As a net result, the operating margin in 2012 increased to 68% from 65% in 2011.

(000s of dollars except per unit data)

	2012	2011	% change
Rental revenue and ancillary rental income	\$ 41,036	\$ 33,198	24%
Operating expenses	\$ 13,156	\$ 11,602	13%
Net operating income	\$ 27,880	\$ 21,596	29%
Weighted average number of units	4,256	3,647	17%
Average rent per unit per month	\$ 803	\$ 759	6%
Operating cost per unit per month	\$ 258	\$ 265	(3%)
Average vacancy rate	8.9%	12.5%	
Operating margin	68%	65%	

Saskatchewan

The Corporation's Saskatchewan portfolio grew slightly in 2012. The average number of units in 2012 was 850 – a 4% increase over 821 units in 2011. Rental revenue increased 5% due to a decrease in vacancy rates to 12.4% in 2012 from 14.7% in 2011 and a decrease in rental incentives. Operating expenses per unit increased slightly by 2% to \$218 in 2012 from \$214 in 2011. As a result, the overall operating margin remained constant at 70% as compared to 2011.

(000s of dollars except per unit data)

	2012	2011	% change
Rental revenue and ancillary rental income	\$ 7,490	\$ 7,115	5%
Operating expenses	\$ 2,225	\$ 2,106	6%
Net operating income	\$ 5,265	\$ 5,009	5%
Weighted average number of units	850	821	4%
Average rent per unit per month	\$ 734	\$ 722	2%
Operating cost per unit per month	\$ 218	\$ 214	2%
Average vacancy rate	12.4%	14.7%	
Operating margin	70%	70%	

RESULTS OF DISCONTINUED OPERATIONS

The results of the Corporation's Ontario segment were presented as discontinued operations following the management's decision to dispose this entire segment and focus its business in Western Canada.

The management believes Western Canada is the region with greater business opportunities, growth potential and business environment which match with the Corporation's value added business model. Which is why Mainstreet has disposed of three of its four properties in Ontario subsequent to the year end date and intends to re-allocate approximately \$20 million net cash from the disposal for further expansion in cities in western Canada.

	2012	2011
Rental revenue	\$ 7,364	\$ 7,108
Ancillary rental income	268	216
	7,632	7,324
Property operating expenses	3,882	3,880
Net operating income	3,750	3,444
Mortgage interest	1,803	1,816
Amortization of financing cost	154	242
General and administrative expenses	928	771
Depreciation	3	4
	2,888	2,833
Profit from discontinued operations before other items and income tax expense	862	611
Fair value gains	7,112	2,592
Profit before income tax expense	7,974	3,203
Income tax expense	1,903	849
Profit from discontinued operation (net of tax)	\$ 6,071	\$ 2,354
Basic earnings per share	\$ 0.58	\$ 0.23
Diluted earnings per share	\$ 0.55	\$ 0.21

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

(000s of dollars except per unit data)

	2012	2011	% change
G&A expenses	\$ 6,512	\$ 5,565	17%
US investment fund expenses	\$ 205	\$ —	—
Total G&A expenses	\$ 6,717	\$ 5,565	21%
Per unit per month	\$ 78	\$ 72	8%

G&A expenses include corporate costs such as salaries and professional fees. In 2012, the increase in G&A expenses was mainly attributable to an increase in salaries and bonus of management staff as a result of building up a stronger management team for the anticipated future expansion of the operation in both Canada and the United States, as well as additional professional fees incurred for the IFRS conversion. The average G&A expense per unit per month increased 8% to \$78 in 2012 from \$72 in 2011.

US investment fund expenses represent legal and professional fees incurred for setting up an investment fund for acquiring real estate properties in the United States. The fund is still in a preliminary planning stage.

FINANCING COSTS

(000s of dollars)

	2012	2011	% change
Same assets mortgage interest	\$ 17,800	\$ 16,919	5%
Acquisition mortgage interest (Note 1)	\$ 3,731	\$ 2,467	51%
Total mortgage interest	\$ 21,531	\$ 19,386	11%
Amortization of financing cost	\$ 1,746	\$ 1,359	28%

1. Mortgage interest for properties acquired after the financial year ended October 1, 2010

Mainstreet's "same assets" mortgage interest increased by 5% to \$17.8 million in 2012 as compared to \$17.0 million in 2011, mainly as a result of refinancing matured debts and floating debts following the stabilization of properties.

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010
Reporting under :								
Rental revenue	\$ 17,594	\$ 16,829	\$ 16,162	\$ 15,294	\$ 14,735	\$ 14,355	\$ 13,548	\$ 13,306
Interest income	8	7	6	4	11	5	25	14
Gain on insurance	—	—	—	—	—	35	22	—
Ancillary rental income	244	331	202	169	255	193	242	275
Gain on settlement on debt	—	—	—	—	—	—	—	40
Total revenue from continuing operations	\$ 17,846	\$ 17,167	\$ 16,370	\$ 15,467	\$ 15,001	\$ 14,588	\$ 13,837	\$ 13,635
Fair value gains (losses)	\$ (3,064)	\$ 30,255	\$ 16,205	\$ 3,513	\$ 15,387	\$ 24,124	\$ 13,881	\$ 21,222
Loss on disposal of an investment properties	\$ (85)	\$ —	\$ (681)	\$ —	\$ —	\$ —	\$ —	\$ —
Stock option cancellation expense	\$ —	\$ —	\$ (2,017)	\$ —	\$ —	\$ —	\$ —	\$ —
Profit from continuing operations	\$ 7,391	\$ 25,460	\$ 12,109	\$ 5,020	\$ 31,066	\$ 19,708	\$ 11,459	\$ 17,525
Profit (loss) from discontinued operations	\$ 2,084	\$ 2,379	\$ 1,856	\$ (248)	\$ 1,735	\$ 1,003	\$ (129)	\$ (256)
Profit for the period	\$ 9,475	\$ 27,839	\$ 13,965	\$ 4,772	\$ 23,850	\$ 20,712	\$ 11,330	\$ 17,269
Per share results								
Basic – continuing operations	\$ 0.71	\$ 2.43	\$ 1.16	\$ 0.48	\$ 2.99	\$ 1.89	\$ 1.10	\$ 1.69
Basic – discontinued operations	\$ 0.20	\$ 0.23	\$ 0.18	\$ (0.02)	\$ 0.17	\$ 0.10	\$ (0.01)	\$ (0.02)
Diluted – continuing operations	\$ 0.66	\$ 2.29	\$ 1.09	\$ 0.45	\$ 2.81	\$ 1.78	\$ 1.04	\$ 1.61
Diluted – discontinued operations	\$ 0.19	\$ 0.21	\$ 0.17	\$ (0.02)	\$ 0.16	\$ 0.09	\$ (0.01)	\$ (0.02)

QUARTERLY RESULTS COMPARISON

(000s of dollars)

Three months ended	Sep. 30, 2012	Jun. 30, 2012	Sep. 30, 2011
Rental revenue	\$ 17,594	\$ 16,829	\$ 14,735
Property operating expenses (including utility rebate)	\$ 5,613	\$ 5,144	\$ 4,975
Mortgage interest	\$ 5,657	\$ 5,306	\$ 5,037
General and administrative (G&A) expenses	\$ 2,174	\$ 1,550	\$ 1,458
Loss on disposal of investment properties	\$ (85)	—	—
Fair value adjustment	\$ (3,064)	\$ 30,255	\$ 15,387
Vacancy rate	8.70%	7.80%	10.70%

- During Q4 2012, Mainstreet acquired one new residential apartment building (84 units) at an average cost of \$90,000 per unit.
- In Q4 2012, rental income increased to \$17.6 million from \$16.8 million in Q3 2012 due mainly to the acquisition of more rental units.
- In Q4 2012, the average vacancy rate for the quarter was 8.7% compared to 7.8% in Q3 2012.
- Property operating expenses increased to \$5.6 million in Q4 2012 as compared to \$5.1 million in Q3 2012 mainly due to increase in repair and maintenance and water expenses. In addition, Mainstreet recruited 16 foreign workers from Mexico. Recruitment expense of approximately \$100,000 was incurred in Q4 2012.
- Mortgage interest increased by \$350,000 compared to Q3 2012 due to financing of newly acquired properties through the line of credit at an interest rate of 5.5%.
- G&A expenses increased by \$625,000 compared to Q3 2012 due to additional provision for performance bonus for 2012 and one time US investment fund expenses.
- There was no material change in fair value of the Corporation's investment properties during the period from Q3 2012 to Q4 2012.

SAME ASSETS PROPERTIES

"Same assets" properties are properties owned by the Corporation for the entire fiscal years ended September 30, 2012 and 2011. As of September 30, 2012, 134 properties (6,419 units) out of Mainstreet's 178 properties (7,516 units) constituted same assets properties.

(000s of dollars)

	2012	2011	% change
Same assets – rental and ancillary rental income	\$ 54,848	\$ 52,686	4%
Same assets – operating costs	\$ 17,516	\$ 17,991	(3%)
Same assets – net operating income	\$ 37,332	\$ 34,695	8%
Operating margin	68%	66%	
Average vacancy rate	7.10%	9.70%	

Rental revenues from "same assets" properties (properties owned during the entire fiscal year ended September 30, 2012 and 2011) increased by 4% to \$54.8 million in 2012 from \$52.7 million in 2011. The average vacancy rate has reduced substantially to 7.1% in 2012 from 9.7% in 2011.

Operating costs for same assets properties decreased by 3% mainly due to decreased in utility and repair and maintenance expenses. As a net result, the operating margin in 2012 increased to 68% from 66% in 2011.

STABILIZED PROPERTIES

Properties acquired over three years ago in British Columbia and over two years ago in Alberta and Saskatchewan are classified as stabilized properties, except for those properties acquired for resale and complete redevelopment purposes. As of September 30, 2012, 127 properties (5,526 units) out of 178 properties (7,516 units) were stabilized.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2012, FFO from continued operations before loss on disposal and stock option cash settlement expenses of Mainstreet's stabilized property portfolio amounted to \$12.6 million (\$1.21 per basic share and \$1.13 per fully diluted share).

(000s of dollars except per share amounts)

	2012		
	Stabilized properties	Non-stabilized properties	Total
Rental and ancillary rental income	\$ 52,918	\$ 13,907	\$ 66,825
Property operating expenses	\$ 16,817	\$ 5,103	\$ 21,920
Net operating income	\$ 36,101	\$ 8,804	\$ 44,905
Operating margin	68%	63%	67%
Vacancy rate	6.9%	13.7%	8.3%
Interest income	\$ 20	\$ 5	\$ 25
General & administrative expenses	\$ 5,135	\$ 1,582	\$ 6,717
Mortgage interest	\$ 17,116	\$ 4,415	\$ 21,531
Financing cost	\$ 1,286	\$ 460	\$ 1,746
Funds from continuing operations before loss on disposal and stock option cash settlement expense	\$ 12,584	\$ 2,353	\$ 14,436
Loss on disposal	\$ (766)	\$ –	\$ (766)
Stock option cash settlement expense	\$ –	\$ (2,017)	\$ (2,017)
Funds from continuing operations	\$ 11,818	\$ 540	\$ 12,153
Funds from continuing operations per share before loss on disposal and stock option cash settlement expense			
– basic	\$ 1.21	\$ 0.22	\$ 1.43
– diluted	\$ 1.13	\$ 0.22	\$ 1.35
Funds from continuing operations per share			
– basic	\$ 1.13	\$ 0.03	\$ 1.16
– diluted	\$ 1.06	\$ 0.04	\$ 1.10

Comparing to 2011, FFO of the stabilized property portfolio before loss on disposal and stock option cash settlement expense increased by 24% to \$12.6 million, while the number of stabilized units increased by 10% to 5,517 units as of September 30, 2012 compared to 5,036 units as of September 30, 2011.

(000s of dollars)

	2012	2011	% change
Stabilized FFO before loss on disposal and stock option cancellation expense	\$ 12,584	\$ 10,170	24%
Number of stabilized units	5,517	5,036	10%

LIQUIDITY & 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 fiscal year 2012, after payments of all required expenses, the Corporation generated funds from operations of \$13 million. The Corporation has an operating line of credit of \$20 million of which \$10.9 million has been drawn as of September 30, 2012.

Management expects that funds generated from operations will continue to grow when more units are renovated and re-introduced to the market at higher rental rates and that these funds should be sufficient to meet the Corporation's working capital requirements on a year-to-year basis going forward.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. As of September 30, 2012, the Corporation had an acquisition line of credit in an amount of \$35 million, of which \$26.9 million has been drawn, leaving approximately \$8.1 million still available on this acquisition line of credit. The Corporation's policy for capital risk management is to maintain a debt-to-fair value of investment properties ratio of 70%. The current ratio is approximately 52%, which Management believes will leave considerable room for raising additional funds from refinancing if the need arises.

As of September 30, 2012, the Corporation owned the following 21 clear title properties with fair value of approximately \$95 million:

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition	Fair Value
Multi-family developing lot, 33283 Bourquin Cr. E, Abbotsford, BC	–	\$ 306	\$ 450
33710 Marshall Road, Abbotsford, BC	114	\$ 7,580	\$ 13,350
3147 – 151 Avenue, Edmonton, AB	99	\$ 10,000	\$ 12,400
33136 George Ferguson Way, Abbotsford, BC	84	\$ 8,300	\$ 10,100
33405 Bourquin Place, Abbotsford, BC	60	\$ 5,400	\$ 7,500
412 Huntsville Cres. NW, Calgary, AB	52	\$ 5,500	\$ 9,450
13220 – 113 A St., Edmonton, AB	48	\$ 4,207	\$ 5,750
33292 Robertson Avenue, Abbotsford, BC	48	\$ 3,436	\$ 5,500
33263 Bourquin Cr. East, Abbotsford, BC	44	\$ 3,178	\$ 4,600
528 & 530 – 15 Ave. SW, Calgary, AB	32	\$ 3,600	\$ 5,650
111 Avenue T South, Saskatoon, SK	24	\$ 1,800	\$ 2,350
10125 – 114 St., Edmonton, AB	24	\$ 1,103	\$ 910
10630 – 105 Street NW, Edmonton, AB	23	\$ 1,900	\$ 2,200
1735 – 26 Avenue SW, Calgary, AB	20	\$ 2,100	\$ 3,900
2014 – 20 Street West, Saskatoon, SK	18	\$ 494	\$ 1,650
114 Avenue T South, Saskatoon, SK	18	\$ 342	\$ 1,725
905 Preston Avenue East, Saskatoon, SK	18	\$ 1,530	\$ 1,850
15216 – 100 Avenue, Edmonton, AB	18	\$ 1,505	\$ 1,710
355 Avenue T South, Saskatoon, SK	16	\$ 422	\$ 1,600
10443 – 156 Street, Edmonton, AB	12	\$ 1,092	\$ 1,250
10016 – 152 Street, Edmonton, AB	12	\$ 1,062	\$ 1,180
Total as of September 30, 2012	784	64,857	95,075

If required, Mainstreet believes it could raise additional capital funds through mortgage financing at competitive rates under which these clear title properties would be pledged as collateral. Management believes these resources will be sufficient to meet other on-going capital requirements in the near and medium terms.

CONTRACTUAL OBLIGATIONS

As of September 30, 2012, the Corporation had the following contractual obligations, which are anticipated to be met using the existing line of credit, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

Estimated principal payments required to retire the mortgage obligations as of September 30, 2012 are as follows:

Year	Amount
2013	\$ 74,450
2014	\$ 84,064
2015	\$ 54,342
2016	\$ 52,736
2017	\$ 30,019
Subsequent	\$ 184,572
	\$ 480,183
Deferred financing cost	\$ (6,953)
	\$ 473,230

MORTGAGE PAYABLE

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	\$ 417,356	87%	4.32%
– non-CMHC-insured	\$ 56,768	12%	4.48%
Total fixed rate debt	\$ 474,124	99%	4.35%
Floating rate debt	\$ 6,059	1%	4.25%
– non-CMHC-insured			
	\$ 480,183	100%	4.35%
Deferred financing cost	\$ (6,953)		
	\$ 473,230		

Mainstreet's long-term debt consists primarily of low-rate, fixed-term mortgage financing. All individual mortgages are secured with their respective real estate assets. Based largely on the fair 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, 2012, total mortgages payable were \$473 million compared to \$470 million on September 30, 2011 – an increase of 1% due to refinancing during the fiscal year ended September 30, 2012.

At September 30, 2012, Management believes the Corporation's financial position to be stable, with overall mortgage levels reported at 52% of fair value of investment properties. About 87% 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 intends to convert short-term floating-rate debt to long-term, CMHC-insured fixed-rate debt.

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the following financial year end	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2013	\$ 65,493	14%	4.42%
2014	\$ 78,352	16%	3.91%
2015	\$ 50,238	10%	4.54%
2016	\$ 52,664	11%	4.68%
2017	\$ 29,830	7%	4.92%
Subsequent	\$ 203,606	42%	4.28%
	\$ 480,183	100%	4.35%

Approval has been obtained from CMHC to refinancing approximately \$43 million (66%) of the mortgage loan maturing in 2013 to long term (10 years) 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 IFRS. 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, 2012 due to the deficiencies noted in the following paragraph.

The Corporation identified internal control deficiencies that are not atypical for a Corporation of this 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 an increase. The risk of material misstatement is mitigated by the 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 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 material changes in internal controls over financial reporting during the fiscal year 2012.

FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Fair Value of Financial Assets & Liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, mortgages payable, trade and other payables, 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 restricted cash, cash and cash equivalents, accounts receivable, other receivables and prepaid assets, accounts payable, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

The fair values of mortgages are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages. In identifying the appropriate level of fair value, the Corporation 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 categorized as follow:

- **Level 1:** Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- **Level 2:** Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- **Level 3:** Values based on valuation techniques for which any significant input is not based on observable market data.

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

(000s of dollars)

	September 30, 2012		September 30, 2011		October 1, 2010	
Carrying amount	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Restricted cash	\$ 2,232	\$ 2,232	\$ 1,818	\$ 1,818	\$ 1,608	\$ 1,608
Cash and cash equivalents	\$ 2,205	\$ 2,205	\$ 1,166	\$ 1,166	\$ 1,419	\$ 1,419
Trade and other receivables	\$ 1,115	\$ 1,115	\$ 2,655	\$ 2,655	\$ 1,323	\$ 1,323
Financial liabilities:						
Bank indebtedness	\$ 37,762	\$ 37,762	\$ 5,177	\$ 5,177	–	–
Mortgages payable	\$ 473,230	\$ 550,593	\$ 470,314	\$ 489,005	\$ 394,565	\$ 411,568
Trade and other payables	\$ 4,207	\$ 4,207	\$ 4,646	\$ 4,646	\$ 5,022	\$ 5,022
Refundable security deposits	\$ 2,903	\$ 2,903	\$ 2,604	\$ 2,604	\$ 2,263	\$ 2,263

Risk Associated with Financial Assets & Liabilities

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled “Risk Assessment and Management” on page 31.

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the year	10,401,281	\$ 26,762	10,377,615	\$ 26,214	10,355,827	\$ 25,422
Shares purchase loan reduction	–	\$ 46	–	\$ 322	–	\$ 406
Purchase and cancellation of shares	–	–	(1,334)	\$ (3)	(28,212)	\$ (71)
Exercise of stock options	64,000	\$ 935	25,000	\$ 138	50,000	\$ 275
Transfer from contributed surplus	–	\$ 660	–	\$ 91	–	\$ 182
Issued and outstanding, end of the year	10,465,281	\$ 28,403	10,401,281	\$ 26,762	10,377,615	\$ 26,214

STOCK OPTION

A summary of the Corporation's stock option plan as of September 30, 2012, September 30, 2011 and October 1, 2010 and changes during the years ended on those dates are presented below:

	September 30, 2012		September 30, 2011		October 1, 2010	
	Number of shares	Weighted Avg. exercise price	Number of shares	Weighted Avg. exercise price	Number of shares	Weighted Avg. Exercise price
Outstanding and exercisable, beginning of the year	1,168,700	\$ 8.11	1,193,700	\$ 8.05	1,243,700	\$ 7.95
Exercised	64,000	\$ 14.61	25,000	\$ 5.51	50,000	\$ 5.51
Cancelled	267,700	\$ 14.70	—	—	—	—
Outstanding and exercisable, end of the year	837,000	\$ 5.51	1,168,700	\$ 8.11	1,193,700	\$ 8.05
Weighted average contractual life-year	6.44		5.53		6.57	
The range of exercise prices	\$ 5.51		\$5.51 to \$15.06		\$5.51 to \$15.06	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market-trading price of the Corporation's common share on the date of grant. The stock options are fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate of and expected dividend rate. 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 received by the Corporation 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.

The weighted average share price at the dates of 64,000 share options exercised in 2012 was \$17.29 per share.

During the fiscal year ended September 30, 2012, two officers and directors of the Corporation exercised options to purchase 267,700 common shares on a cash settlement alternative basis whereby the Corporation paid to these officers and directors an amount of \$2.0 million representing the in-the-money-value of the options on the dates of exercise (being the difference between the weighted average closing price of the common shares of the Corporation on the dates of exercise and the exercise prices of the options multiplied by the number of common shares exercised on such basis) and cancelled the stock option. The amounts paid to the officers and directors were recognized as a stock option cash settlement expense in the income statement.

Key accounting estimates and assumptions

The following are the key accounting estimate and assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that has significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year;

- Significant estimates used in determining the fair value of investment properties include capitalization rates and net operating income. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 6 for sensitivity analysis;
- Allocation of purchase cost in the acquisition of property, plant and equipment into difference components, estimation of their useful life and impairment on property, plant and equipment; and
- The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax basis values and the future tax rate at which the differences will be realized.

Actual results could differ from estimates.

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 in its normal course of business. Commissions are determined on an exchange value basis. 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 fiscal year ended September 30, 2012 amounted to \$505,000 (2011 – \$346,000).
- b) The Corporation paid legal and professional fees and reimbursements for the fiscal year ended September 30, 2012 amounting to \$186,000 (2011– \$307,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As of September 30, 2012 the amounts payable to the law firm were \$Nil (September 30, 2011 – \$5,000).
- c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$200,000 as at September 30, 2012 (September 30, 2011 – \$245,632) – were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 100,000 (September 30, 2011 – 100,000) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2012 was \$27.38 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.

Subsequent events

Subsequent to September 30, 2012, the Corporation acquired 12 properties consisting of 260 units of residential apartments in Edmonton, AB for total consideration of \$23.7 million.

The Corporation disposed of three residential properties in Ontario for the consideration of \$46.9 million. The disposal is expected to close on January 23, 2013.

Off Balance Sheet Arrangements

No off balance sheet arrangement was made by the Corporation for the year ended September 30, 2012.

Risk Assessment & Management

Management defines risk as the evaluation of the probability that an event that could negatively affect the financial condition or result of the Corporation may happen in the future. The following section describes specific and general risks that could affect the Corporation. As it is difficult to predict whether any risk will occur or what its related consequences might be, 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 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 advertising and offering competitive market pricing to attract new tenants.

Financial Risk

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

Interest Risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately \$64 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 of its mortgages. The majority of Mainstreet's mortgages is 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, significantly reducing the possibility of a lender calling 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. Currently, utility and energy costs are fairly stable and 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. 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, 2012, the possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$2.9 million and provisions for bad debts of \$100,000.

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.

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 are outlined in the table below:

(000s of dollars)	1 year	2 years	3 years	4 years	4 years	Beyond Total
Mortgages payable	\$ 74,450	\$ 84,065	\$ 54,342	\$ 52,736	\$ 214,590	\$ 480,183
Bank indebtedness	\$ 37,762	–	–	–	–	\$ 37,762
Trade and other payables	\$ 4,207	–	–	–	–	\$ 4,207
Refundable security deposits	\$ 2,903	–	–	–	–	\$ 2,903

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, the result of its operations or its overall 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 the future profitability of the Corporation. During the current period of economic uncertainty 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.

Risks of Real Property Ownership

Real estate investments and projects are, generally, subject to numerous risks depending on the nature and location of the property that can affect attractiveness and sale ability of real estate assets to potential purchasers or other investors, or the owner's use of such real estate assets, all of which are beyond the control of the Corporation. Such risks include:

- the highly competitive nature of the real estate industry;
- changes in general economic conditions (such as the availability and cost to the Property LPs or widespread fluctuations in adjacent property values);
- changes in general or local conditions (such as the supply of competing real estate assets or the possibility of competitive overbuilding or the inability to obtain full occupancy or other usage of any real estate assets);
- governmental regulation, rules or policies (such as increased taxation on the sale of or profits from real property, environmental legislation or municipal approvals for usage, development or subdivision); and
- changes in costs or operating expenses anticipated for real estate assets.

Each segment in the real estate industry is capital intensive and is typically sensitive to interest rates. Any proceeds generated by the sale of real estate assets depend upon general economic conditions and, accordingly, the ability to repay its financing may be affected by changes in those conditions. The Corporation will be required to make certain significant expenditures in respect of their business including, but not limited to, the payment of property taxes, mortgage payments, property management costs, insurance costs and related charges which must be made regardless of whether or not real estate assets are producing sufficient income to service such expenses. If the Corporation is unable or unwilling to meet the payment obligations on such loans, losses could be sustained as a result of the exercise by the lenders of their rights of foreclosure or sale. As a result, the Corporation's ability to make interest payments or distributions of cash to Mainstreet could be adversely affected.

Market Risks

The economic performance and value of the Corporation's investments in real estate assets will be subject to all of the risks associated with investing in real estate, including, but not limited to:

- changes in the national, regional, state and local economic climates;
- local conditions, including an oversupply of properties or a reduction in demand for properties;
- the attractiveness of all or parts of real estate assets to renters or purchasers;
- competition from other available real estate assets; and
- changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

The Corporation's performance will be affected by the supply and demand for property in its geographic area(s) of ownership. Key drivers of demand include employment levels, population growth, demographic rents and consumer confidence. The potential for reduced sales revenue exists in the event that demand diminishes or supply becomes overabundant thereby driving down prices for real estate assets.

Financial Crisis

Global financial and real estate markets experienced dramatic change during 2007-2009, which is often referred to as the global credit crisis or “subprime mortgage crisis.” The changes to the financial and real estate markets were dramatic and significant in the short term and resulted in tighter credit conditions, slower growth and a downturn in the North American economy. Real estate markets may experience further dramatic changes, which may occur abruptly and unexpectedly. Continued concerns about the systemic impact of inflation, the availability and cost of credit, the real estate market, energy costs and geopolitical issues have contributed to increased market volatility and diminished expectations for the global economy. These conditions, combined with declining business activity levels and consumer confidence, increase unemployment and volatile oil prices, have contributed to unprecedented levels of volatility in the capital markets. If the global market and economic crisis intensifies or continues for a long period, disruptions in the capital and credit markets may adversely affect our business, financial condition and results of operations. In addition, economic circumstances in real estate markets may cause the Corporation to hold real estate assets for a longer than anticipated period of time in order to realize profits from the sale thereof. There can be no guarantee that any Property LP will realize a profit from real estate assets and there is no guarantee that the Corporation will attain its intended results.

Acquisitions

Mainstreet’s growth depends in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. It is not possible to manage all risks associated with such acquisitions in the terms and conditions contained in commercial agreements pertaining to such acquisitions. The real estate assets may be subject to unknown, unexpected or undisclosed liabilities that may materially and adversely affect the Corporation’s operations and financial condition and results. The representations and warranties, if any, given by arm’s length third parties to the Corporation may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, real estate assets acquired by the Corporation may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

Environmental Matters

Under various environmental laws, ordinances and regulations, the current or previous owner or operator of properties acquired or refinanced by the Corporation, may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such properties. These costs could be substantial. Such laws could impose liability whether or not the Corporation knew of, or was responsible for, the presence of such hazardous or toxic substances.

The presence of hazardous or toxic substances, or the failure to remove or remediate such substances, if any, or restrictions imposed by environmental laws on the manner in which such properties may be operated or developed could adversely affect the Corporation’s ability to sell such properties and pay cash distributions and could potentially also result in claims against the Corporation.

Environmental laws provide for sanctions for non compliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property or of paying personal injury claims could be substantial and reduce cash distributions to the Corporation.

The Corporation may be subject to liability for undetected pollution or other environmental hazards against which they cannot insure, or against which they may elect not to insure where premium costs are disproportionate to the Corporation’s perception of relative risk. Such factors may impact the Corporation’s ability to pay cash distributions, which in turn will have an adverse impact on the Corporation.

Renovation Risks

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. Certain significant expenditures, including property taxes, maintenance costs, interest payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing revenue. Delays in the renovation of a building or individual apartment units would delay the renting of such building

or units resulting in an increased period of time where the building is not producing revenue or produces less revenue than a fully tenanted building. As the Corporation intends to source renovation supplies directly from manufacturers in China and elsewhere, the Corporation will be subject to shipping risks, which may result in unexpected costs or delays. the Corporation intends to address these risks by acquiring financing to fund renovations, staggering renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

Uninsured Losses

The Corporation intends to carry comprehensive general liability, fire, flood, earthquake, tornado, natural disaster, extended coverage, rental loss and vacancy insurance with policy specifications, limits and deductibles customarily carried for similar properties. However, there are certain types of risks, generally of a catastrophic nature, such as wars, terrorist attacks or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, the Corporation could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

From time to time the Corporation may be subject to lawsuits as a result of the nature of its business. The Corporation intends to maintain business and property insurance policies in amounts and with such coverage and deductibles as are deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. However, there can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the Corporation that is not covered by, or in excess of, the Corporation's insurance could materially affect such entity's operating results and financial condition, which would have an adverse effect on Corporation. Claims against the Corporation, regardless of their merit or eventual outcome, will require the Corporation's management to devote time to matters unrelated to the operation of the business. To the extent possible the Corporation intends to minimize these risks by creating and operating separate the Corporation for each separate property to be acquired.

Substitutions for Residential Rental Units

Demand for the residential rental properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. With the recent global economic crisis and its impact on the United States and other credit markets, interest rates offered by financial institutions for financing home ownership have been at historically low levels. If the interest rates offered by financial institutions for home ownership financing remain low, demand for rental properties may be adversely affected. Additionally, the south-eastern and south-western United States continues to experience historically high levels of foreclosures on single family homes, which has increased the supply of single family homes available for purchase, and may adversely affect demand for rental properties. A reduction in the demand for rental properties may have a material adverse effect on the Corporation's ability to lease suites in their properties and on the rents charged. This, in turn, may have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations and ability to make dividends to shareholders.

Litigation Risks

In the normal course of the Corporation's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Corporation and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceeding, the proceedings could be costly and time consuming and may divert the attention of management and key personnel from the Corporation's business operations, which could have a material adverse effect on the Corporation's business, cash flows, financial condition and results of operations and ability to make dividends to shareholders.

Rent Control

The Corporation may be subject to legislation that exists or is enacted in certain jurisdictions, which restricts the right of landlords to increase rents charged to tenants. As a result, the inability to adjust rents to address higher operating costs or to improve margins on certain properties may have an adverse effect on the returns available from such properties.

Challenges

There are always challenges that affect Mainstreet's financial results: Mainstreet continues to face above-market vacancy rates, below-market rental rates, substantial churn and bad renter debt, particularly during the stabilization process. These factors have long accompanied Mainstreet's unique "Add Value Business Model." At the same time, Mainstreet faces rising property taxes and energy costs across its portfolio, as expected Q1 2013 electricity and natural gas prices are substantially higher than prices in the beginning of 2012.

Outlook

The past two years have been good for Mainstreet and its investors. But in many ways, the real story starts now, on three fronts: growth, NOI and the cost of financing. On growth, the Corporation has liquidity in place to add roughly 2,000 more units – an expansion of 25% over today, without diluting shareholder equity. On NOI, Mainstreet has three important levers to pull in the year ahead. Mainstreet exited 2012 with NOI from the continuing operations of \$44.9-million. Management expects that NOI can be further improved through a continued decrease in vacancy rates, reductions in rental incentives, increases in rental rates after stabilization and changes in rental market conditions. Management believes that with continued efforts to maximize returns and favourable market conditions, Mainstreet can achieve an optimum NOI for its existing portfolio in 2013. Finally, on the cost of financing, Mainstreet has \$173-million in debt due in 2013 and 2014. By refinancing this at mortgage rates near 60-year lows, Mainstreet can substantially lower its debt servicing payments and raise additional liquidity.

Mainstreet has already demonstrated major progress against each of those challenges, with 2012 overall vacancy rates (including all newly acquired unstabilized properties in the year) in particular falling from 11.3% to 8.3%. The management expects more improvements in 2013, with CMHC forecasting significant improvement in western Canada, its primary market. That stands to boost many of Mainstreet's operating and financial measures. The CMHC expects Calgary rates, for example, to fall from nearly 2% in 2011 to 1.5% in 2013.

That is good news in several ways. Lower vacancy rates decrease churn – as renters find fewer alternative options – while also improving rental rates. The CMHC expects average two-bedroom rent in Calgary to rise by 10.7% between 2011 and 2013. Lower vacancy rates also decrease concessions that come from rental rate discounting to attract renters in a tough market. In 2012, those concessions were worth \$6.2 million. With the tough market vanishing, concessions are expected to be gradually eliminated.

In addition, Mainstreet continues to make progress on its stabilization process. As more and more newly-acquired apartment units are renovated to the Mainstreet specification and re-introduced into the market at full market rents, Mainstreet financial results will be further improved.

Mainstreet believes that western Canada will continue to lead the country in economic growth, a likelihood that offers tremendous growth potential and the added benefits of more favourable market conditions and tenancy acts. Management believes it is prudent to keep dollars west, which is why Mainstreet has disposed 404 apartment units in its Ontario portfolio, at a sale price of \$47 million, subsequent to fiscal year end. Mainstreet is in negotiation of disposing the remaining 260 apartment units. Management intends to re-allocate the net proceeds of the disposition for further expansion to cities in western Canada, where the prospect remain particularly strong. The closing date of the disposition is on January 23, 2013. Macro factors also continue to favour the Mainstreet model. Immigration levels in parts of the west continue at 20-year highs, with CMHC now predicting a slight increase in net Canada-wide in-migration to 0.8% for 2013.

The U.S. is another area of growing interest for Mainstreet. Signs of returning economic strength have not yet been accompanied by a dramatic reversal in property prices. At the same time, a modest 4.4% increase in the Case-Shiller U.S. Home Price Index in the past year makes clear that the U.S. has moved past its bottom. This is a market on the brink of recovery, and there are still deals to be had.

ADDITIONAL INFORMATION

Additional information about Mainstreet is available at www.mainst.biz and www.sedar.com. The annual information form of the Corporation for the year ended September 30, 2012, was filed on SEDAR.

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 International Financial Reporting Standards.

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 14, 2012

[Signed]

"Joe Amantea"
Director

AUDITORS' REPORT

To the Shareholders of Mainstreet Equity Corp.

We have audited the accompanying consolidated financial statements of Mainstreet Equity Corp., which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the consolidated statements of net profit and total comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended September 30, 2012 and September 30, 2011, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cashflows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

[Signed]

"Deloitte & Touche LLP"
Chartered Accountants

December 14, 2012
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s of Canadian dollars)

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
		[Note 3]	[Note 3]
Assets			
Non-current assets			
Investment properties [Note 6]	\$ 982,565	\$ 907,835	\$ 743,255
Property, plant and equipment [Note 7]	\$ 4,508	4,335	201
	987,073	912,170	743,456
Current assets			
Prepaid assets [Note 8]	\$ 1,099	1,351	1,200
Trade and other receivables [Note 9]	\$ 1,115	2,655	1,323
Restricted cash	\$ 2,232	1,818	1,608
Inventory [Note 10]	\$ 157	–	–
Cash and cash equivalents	\$ 2,205	1,166	1,419
Assets classified as held for sale [Note 5]	\$ 69,350	–	–
	76,158	6,990	5,550
Total Assets	1,063,231	919,160	749,006
Liabilities			
Non-current liabilities			
Mortgage payables [Note 11]	\$ 398,780	431,617	362,628
Deferred tax liabilities [Note 12]	\$ 66,466	60,476	53,769
	465,246	492,093	416,397
Current liabilities			
Mortgage payable [Note 11]	\$ 74,450	38,697	31,937
Trade and other payables [Note 13]	\$ 4,207	4,646	5,022
Refundable security deposits [Note 14]	\$ 2,903	2,604	2,263
Bank indebtedness [Note 15]	\$ 37,762	5,177	–
Liabilities classified as held for sale [Note 5]	\$ 45,688	–	–
	165,010	51,124	39,222
Total Liabilities	630,256	543,217	455,619
Equity			
Share capital [Note 16]	\$ 28,403	26,762	26,214
Contributed surplus	\$ 2,436	3,096	3,187
Retained earnings	\$ 402,136	346,085	263,986
Total Equity	432,975	375,943	293,387
Total Liabilities and Equity	\$ 1,063,231	\$ 919,160	\$ 749,006

See accompanying notes to these consolidated financial statements.

[Signed]

“Bob Dhillon”
Director

December 14, 2012

[Signed]

“Joe Amantea”
Director

CONSOLIDATED STATEMENTS OF NET PROFIT AND TOTAL COMPREHENSIVE INCOME

(\$000s of Canadian dollars)

	Year ended Sept. 30, 2012	Year ended Sept. 30, 2011
		[Note 3]
Rental revenue	\$ 65,881	\$ 55,942
Ancillary rental income	944	966
	66,825	56,908
Property operating expenses	21,920	19,565
Net operating income	44,905	37,343
Gain on settlement of debt	–	40
Net gain on insurance	–	57
Interest income	25	55
	44,930	37,495
Mortgage interest	21,531	19,386
Amortization of financing cost	1,746	1,359
General and administrative expenses	6,717	5,565
Depreciation	233	184
	30,227	26,494
Profit from continuing operations before other items and income tax expense	14,703	11,001
Fair value gains	46,909	74,614
Loss on disposal of investment properties	(766)	–
Stock option cash settlement expenses [Note 18]	(2,017)	–
Profit before income tax expense	58,829	85,615
Income tax expense [Note 12]	8,849	5,858
Profit from continuing operations	49,980	79,757
Profit from discontinued operations (net of income tax of \$1,903, 2011 – \$849) [Note 5]	6,071	2,354
Net profit and total comprehensive income	\$ 56,051	\$ 82,111
Net profit per share [Note 17]		
– basic from continuing operations	\$ 4.79	\$ 7.68
– basic from discontinued operations	\$ 0.58	\$ 0.23
– diluted from continuing operations	\$ 4.50	\$ 7.27
– diluted from discontinued operations	\$ 0.55	\$ 0.21

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s of Canadian dollars)

	Share Capital	Retained Earnings	Contributed Surplus	Total Equity
Balance, October 1, 2010	\$ 26,214	\$ 263,986	\$ 3,187	\$ 293,387
Share purchase loan	460	—	—	460
Share purchased and cancelled	(3)	—	—	(3)
Excess over the average value of the share	—	(12)	—	(12)
Exercise of Stock option	91	—	(91)	—
Net profit for the year	—	82,111	—	82,111
Balance, September 30, 2011	26,762	346,085	3,096	375,943
Balance, October 1, 2011	26,762	346,085	3,096	375,943
Share purchase loan	46	—	—	46
Transfer from contributed surplus	660	—	(660)	—
Exercise of Stock option	935	—	—	935
Net profit for the year	—	56,051	—	55,436
Balance, September 30, 2012	\$ 28,403	\$ 402,136	\$ 2,436	\$ 432,975

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000s of Canadian dollars)

	Year ended Sept. 30, 2012	Year ended Sept. 30, 2011
Cash obtained from (used in) operating activities		
Net profit	\$ 56,051	\$ 82,111
Items not affecting cash		
Loss on disposal of investment properties	766	56
Amortization of financing cost	1,900	1,601
Depreciation	236	188
Fair value gains	(54,021)	(76,985)
Deferred tax	10,752	6,707
	15,684	13,678
Change in working capital		
Prepaid assets	–	(151)
Trade and other receivables	1,434	(1,332)
Inventory	(157)	–
Restricted cash	(414)	(210)
Trade and other payables	516	(376)
Refundable security deposits	299	341
Cash from operating activities	17,362	11,950
Financing activities		
Bank indebtedness	32,585	5,177
Financing of investment properties	64,581	128,448
Repayment of mortgage payables	(38,033)	(59,543)
Repayment of shares purchase loan	47	322
Exercise of stock option	935	137
Shares purchased for cancellation	–	(15)
Cash from financing activities	60,115	74,526
Investing activities		
Purchase of and additions to investment properties [Note 6]	(76,956)	(82,407)
Purchase of and additions to property, plant and equipment [Note 7]	(416)	(4,322)
Proceeds on disposal of investment properties	934	–
Cash used in investing activities	(76,438)	(86,729)
Decrease in cashflow from continuing operations	(3,314)	(16)
Increase (decrease) in cash flow from discontinued operations [Note 5]	4,353	(237)
Net increase (decrease) in cash and cash equivalents	1,039	(253)
Cash and cash equivalents, beginning of year	1,166	1,419
Cash and cash equivalents, end of year	2,205	1,166
Cash and cash equivalents are comprised:		
Cash	1,668	1,134
Short-term deposits	537	32
	\$ 2,205	\$ 1,166
Income taxes paid	–	–
Interest paid	\$ 23,150	\$ 21,119

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Canadian dollars, except share and per share amounts and amounts within narrative.)

For the years ended September 30, 2012 and 2011

1. GENERAL

Mainstreet Equity Corp. (the "Corporation") is a Canadian real estate corporation focused on acquiring and managing mid-market residential rental apartment buildings in major markets across Canada. The registered office and head office of the Corporation are located at 1413 – 2nd Street SW, Calgary, Alberta T2R 0W7 and 305 – 10th Avenue SE Calgary, Alberta T2G 0W2, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). The Corporation adopted IFRS in accordance with IFRS 1 – First time Adoption of International Financial Reporting Standards (IFRS "1") as disclosed in Note 3.

b) Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair value. The consolidated financial statements are prepared on a going concern basis and have been prepared in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 4.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Mainstreet Equity USA Corp., which the Corporation has control. All inter-company transactions, balances, revenue and expenses have been eliminated on consolidation.

d) Revenue recognition

Rental revenue from an investment property is recognized when a tenant begins occupancy of a rental unit and rent is due. Any rental incentive offered is amortized over term of the tenancy lease. All residential leases are for one-year terms or less and the Corporation retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases.

Gain or loss from the sale of investment properties is recognized when the title passes to the purchaser and all or substantially of sale proceeds are receivable.

Ancillary rental income comprises revenue from laundry machines, income from telephone and cable providers and other miscellaneous income and is recognized as earned.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at effective interest rate applicable.

e) Investment properties

Investment properties include multi-family residential properties held to earn rental income and are initially measured at cost. Cost includes purchase price, any direct attributable expenditure related to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading the quality and extending the economic life of the investment properties are capitalized as additional cost of investment properties.

Subsequent to initial recognition, investment properties are recorded at fair value, determined based on valuations performed by independent third party qualified appraisers or available market evidence, in accordance with International Accounting Standards ("IAS") 40 – Investment Property ("IAS 40"). Fair value is determined based on a combination of internal and external processes. Gains and losses arising from differences between current period fair value and the sum of previous measured fair value and capitalized costs as described above are recorded in profit and loss in the period in which they arise.

The fair values of investment properties are re-assessed annually by independent third party qualified appraisers for the Corporation's annual financial reporting. In addition, the Corporation has established an internal valuation model, which is based on the estimated changes in market conditions of the underlying assumptions used since the last annual appraisal to determine the fair value of investment properties for its interim reporting periods. Estimated changes in market conditions of the underlying assumptions for interim periods are assessed by the independent third party qualified appraisers who performed the annual fair value assessments.

Investment properties are reclassified to 'Non-Current Assets held for sale' when the criteria set out in IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations ("IFRS5") are met.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value is adjusted to reflect the fair value as outlined in the purchase and sale agreement. This adjustment shall be recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Excess land

Excess land represents land owned by the Corporation located contiguous to land included as investment property. The Corporation has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, therefore treated as Investment Property and recorded in accordance with IAS 40 as outline above.

f) Business combination

In accordance with IFRS 3 – Business Combinations ("IFRS 3"), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefit. Building and other asset acquisitions, which meet the above definition, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions, which do not meet the above definition, are recorded as an asset addition based on the purchase price.

The acquisition method requires that an acquirer be identified a specific acquisition date be determined, all identifiable assets and liabilities assumed, as well as any non-controlling interest in the acquiree, be recognized and measured, and any goodwill or gains from a bargain purchase price are recognized and measured at fair value. All acquisition costs associated with a transaction, identified as a business combination, are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amount of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interests in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain price gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in other IFRS.

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred on a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurements period adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date and is shortened than one year if all information is received) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liabilities is remeasured at subsequent reporting dates in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, or IAS 37 – Provision, Contingent Liabilities and Contingent Assets ("IAS37"), as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Corporation 's previously held equity interest is the equity interest in the acquiree remeasured to fair value at the acquisition date (i.e. the date when the Corporation obtained control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized on other comprehensive income are reclassified to profit and loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provision amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new

information obtained about facts and circumstances that existed at the acquisition date that, if known would have affected the amounts recognized at that date.

The policy described above is applied to all business combinations that take place on or after October 1, 2010.

g) Non-current assets held for sale

Non-current assets held for sale include assets or groups of assets and liabilities ("disposal groups") that are available for sale in their present condition and the sale is highly probable and expected to be completed within one year from the date of classification. The Corporation also purchases properties with the intention of selling the property within a pre-determined period of time. The property is classified as an asset held for sale if the disposal is expected to take place within one year of the acquisition. The gains or losses arising on a sale of assets or group of assets that does not meet the definition of discontinued operations will be recognized as part of continuing operations.

h) Discontinued operations

The operating results of an asset or group of assets will be classified as a discontinued operation when it is a component of an entity that has either been disposed of or it is classified as non-current assets held for sale and represents a separate major line of business. It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Profit and gains or losses related to the disposal of discontinued operations are measured based on fair value less cost to sell or on the disposal of the asset (or disposal groups) and are presented in the financial statements on an after tax basis in accordance with IFRS 5. In addition, retrospective application is required; therefore comparative figures will be changed to reflect discontinued operations. As an individual building does not constitute a major line of business, individual building sales are not treated as discontinued operations.

i) Property, plant and equipment

Tangible assets that are held for use in the production or supply of goods and services, for rent to others, or for administrative purposes and are expected to be used during more than one period, except when other accounting standards requires or permits a different accounting treatment, these are recorded using the cost model in accordance with IAS 16 – Property, Plant and Equipment ("IAS16") which requires, after initial recognition that the tangible assets be carried at their costs less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the assets are expected to be realized and consumed by the Corporation. IAS 16 also requires that the cost and useful economic life of each significant component of a depreciable real estate property be determined based on the circumstances of each property.

Property, plant and equipment are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Admin. building	over the estimated useful lives, not exceeding 40 years – straight line
Building improvements	20%-40% – declining balance
Equipment	4% to 30% – declining balance
Furniture	20% – declining balance
Vehicle	40% – declining balance
Computer	30% – declining balance

The method of depreciation and estimated useful lives of property, plant and equipment are periodically evaluated by management and any changes are accounted for as a change in accounting estimates in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS8").

j) Impairment of assets

All assets, except for those identified as not within the scope of IAS 36 – Impairment of Assets ("IAS36") are assessed for indications of impairment at the end of each financial reporting period. Should an indication of impairment exist, the recoverable amount of the asset is estimated. The recoverable amount is defined in IAS 36 as the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted. Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the statement of comprehensive income and the remaining useful life of the assets will be re-assessed. Should this impairment loss be determined to have reversed in a future period, a reversal of the impairment loss is recorded in profit or loss. However, in accordance with IAS 36, the reversal of an impairment loss will not increase the carrying value of the assets to a value greater than its original carrying value (net of amortization).

k) Income taxes

Income taxes include current and deferred income taxes.

Current tax is the expected tax payable or receivable in the taxable profit or loss for the current reporting period and any adjustment in respect of previous periods. Taxable profit differs from profit as reported in the statement of net profit and total comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The tax rates used in calculating current income tax have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized for all taxable temporary differences between the carrying amounts of assets and liabilities and the amounts used for income tax purposes, carry forward unused tax credits and unused tax losses to the extent that it is probable that deduction, tax credits and tax losses can be utilized and at the tax rates that are estimated to be applied to temporary differences when they reverse. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

l) Provision

Provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using a current and relevant discount rate. The increase in the provision due to the passage of time is recognized as a financing cost.

m) Financial instruments

Financial instruments are initially recognized at fair values. Transactions costs that directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss, which are recognized immediately in profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories, which are defined and measured as follows:

Classification	Definition	Measurement
Financial assets at fair value through profit or loss ("FVTPL")	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> - Classified as held for trading if it has been acquired principally for the purpose of selling it in the near future term, or on initial recognition it is part of portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. - Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives. 	<p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p>
Held-to-maturity	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest rate method less impairment (see footnote 1 and 2).
Available for sale	Non-derivative financial assets that are either designated as available-fo-sale or are not classified as (a) loans and receivable, (b) held-to-maturity investments or (c) financial assets at FVTPL.	Measures at fair value through profit and loss.
Loans and receivable	Non-derivative financial assets with fixed determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest rate method less any impairment. (See footnote 1 and 2).

- (1) The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.
- (2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

The Corporation's financial assets are as follows:

Financial assets	Classification	Measurement
Trade and other receivables	Loans and receivable	Amortized cost
Restricted cash	Loans and receivable	Amortized cost
Cash and cash equivalents	Loans and receivable	Amortized cost

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the assets to another entity or when the carrying value is reduced by impairment loss.

Financial liabilities

Financial liabilities are classified into the following specified categories which are defined and measured as follows:

FVTPL	<p>Either held for trading or designated as at FVTPL as discussed below:</p> <ul style="list-style-type: none"> - Classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near future term, or on initial recognition, it is part of portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. - Classified as FVTPL upon initial recognition if : such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liabilities form part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives. 	<p>Fair value</p> <p>Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.</p> <p>Stated at fair value, with gains or losses arising in measurement recognized in profit or loss.</p>
Other financial liabilities	All other liabilities	Measured at amortized cost using the effective interest rate method-(see foot note 1).

- (1) The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimates future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Corporation's financial liabilities are as follows:

Financial liabilities	Classification	Measurement
Mortgage payables	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Refundable security deposits	Other financial liabilities	Amortized cost

The Corporation derecognizes a financial liability when the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and short-term interest bearing deposits with an original maturity date of 90 days or less.

o) Stock option plan

The Corporation has a stock option plan, which is described in Note 18.

The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate and expected dividend rate. 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 received by the Corporation 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.

p) Earnings per share

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

q) Critical judgment in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see Note 2(r) below) that has been made in applying the Corporation's accounting policies that have the most significant effect on the reported amounts in the financial statements:

- i) Determining the extent and frequency of engaging independent, third party appraisals and establishing an internal valuation model to measure fair value of investment properties;
- ii) Determining a classification between investment properties and property, plant and equipment for the administrative building; and
- iii) Determining the tax rate applicable to the Corporation's current and deferred income taxes and identifying the temporary differences in respect of which deferred income taxes are recognized.

r) Key accounting estimates and assumptions

The following are the key accounting estimate and assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that has significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- i) Significant estimates used in determining the fair value of investment properties include capitalization rates and net operating income. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to Note 6 for sensitivity analysis;
- ii) Allocation of purchase cost in the acquisition of property, plant and equipment into difference components, estimation of their useful life and impairment on property, plant and equipment; and
- iii) The amount of temporary differences between the book carrying value of the assets and liabilities versus the tax bases values and the future income tax rate at which these differences will be realized.

Actual results could differ from estimates.

3. TRANSITION TO IFRS

The Corporation has adopted IFRS, effective October 1, 2011 with comparative figures for the prior year commencing October 1, 2010 restated to comply to IFRS and has prepared IFRS balance sheets as of October 1, 2010 and September 30, 2011 for comparison purpose.

Prior to the adoption of IFRS, the Corporation prepared its statements in accordance with pre-IFRS Canadian generally accepted principles ("Canadian GAAP").

a) Elected exemptions from full retrospective application

In preparing these financial statements in accordance with IFRS1, the Corporation applied the following optional exemptions from full retrospective application of IFRS.

- i) The Corporation applied the business combination exemption in IFRS 1 which allows the Corporation not to apply IFRS 3 retrospectively to any past business combination prior to October 1, 2010.

b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Corporation has applied the following mandatory exception from full retrospective application of IFRS:

- i) Estimates – Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with the application under IFRS.

- ii) Derecognition of financial assets and liabilities

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the assets to other entity, or when the carrying value is reduced by impairment loss.

The Corporation derecognizes a financial liability when the Corporation's obligations are discharged, cancelled or they expire.

The difference between the carrying amount of the financial asset or liability derecognized and the consideration received and receivable or paid and payable is recognized in profit and loss at the time of derecognition.

c) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's equity as of October 1, 2010 and September 30, 2011:

	Share capital	Retained earnings	Contributed surplus	Total shareholders equity (deficit)
Balance as reported under Canadian GAAP, Oct. 1, 2010	\$ 26,214	\$ (37,924)	\$ 3,187	\$ (8,523)
Fair value adjustments represent the cumulative unrealized gain in respect of the fair value of investment properties	–	\$ 357,005	–	\$ 357,005
Adjustments on financing cost as a result of incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement	–	\$ 6,113	–	\$ 6,113
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP	–	\$ (61,208)	–	\$ (61,208)
Balance as reported under IFRS, Oct. 1, 2010	\$ 26,214	\$ 263,986	\$ 3,187	\$ 293,387

	Share capital	Retained earnings	Contributed surplus	Total shareholders equity
Balance as reported under Canadian GAAP September 30, 2011	\$ 26,762	\$ (40,984)	\$ 3,096	\$ (11,126)
Fair value adjustments represent the cumulative unrealized gain in respect of the fair value of investment properties	–	\$ 448,318	–	\$ 448,318
Adjustments on financing cost as a result incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement	–	\$ 7,216	–	\$ 7,216
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP	–	\$ (68,465)	–	\$ (68,465)
Balance as reported under IFRS, Sept. 30, 2011	\$ 26,762	\$ 346,085	\$ 3,096	\$ 375,943

d) Reconciliation of net profit and total comprehensive income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Corporation's net profit and total comprehensive income for the year ended September 30, 2011.

	Year ended Sept. 30, 2011
Net loss and comprehensive loss under Canadian GAAP	\$ (3,048)
Depreciation expense reversed as a result of applying the fair value model for investment properties	\$ 14,328
Interest expense adjustments on capitalized borrowing cost for investment properties	\$ (221)
Fair value adjustments on investment properties for the period, representing gains from differences between the current period fair value and the sum of previously measured fair value and capitalized costs	\$ 77,206
Adjustments on financing cost as a result of incorporating transaction cost to mortgage loan in its initial recognition and using amortized cost as subsequent measurement	\$ 1,103
Adjustments to taxes reflecting the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP	\$ (7,257)
Net profit and total comprehensive income under IFRS	\$ 82,111

e) Impact of IFRS on the Consolidated Statement of Financial Position

The table below summarized the impact of significant differences between Canadian GAAP and IFRS on the Corporation's Statement of Financial Position. All other financial assets and liabilities not specifically addressed were consistent with the Canadian GAAP and are not significantly impacted by the Corporation's adoption of IFRS.

Consolidated Statement of Financial Position Items	Applicable IFRS Standards	Impact
Presentation of Consolidated Statement of Financial Position	IAS 1	The Corporation now presents current and non-current assets and liabilities as separate classifications in its consolidated statement of financial position. These were previously presented using reverse liquidity under Canadian GAAP.
Investment Properties	IAS 40	Measured initially at cost and then using fair value model. Gains or losses arising from changes in fair value of investment properties are recognized in profit or loss. Previously used cost model, cost is depreciated over the useful life of the investment properties. (Canadian GAAP). Certain assets previously classified as Revenue Producing Property under Canadian GAAP are re-classified under Property, Plant and Equipment under IFRS.
Property, Plant and Equipment (PP&E)	IAS 16	Similar to Canadian GAAP
Business Combinations	IFRS 3	The acquisition of an asset or group of assets is recorded as a business combination if the assets acquired constitute a business. A business combination must be accounted for by applying the acquisition method. The Corporation has applied the business combination exemption in IFRS1 which allows the Corporation not to apply IFRS 3 retrospectively to any business combination prior to October 1, 2010.
Deferred tax	IAS 12	As a result of using the fair value model to value investment properties under IAS 40, deferred tax liabilities balance has increased. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Corporations expectation that the method of realization will be through the sale of it properties rather than through owning and operating the properties.
Mortgage payables	IAS 39	With adoption of IFRS, transaction costs incurred are included and form part of the fair value of mortgage payables in their initial recognition and subsequent measurement of carrying value at amortized cost using effective interest rate method.

f) Impact of IFRS on the Consolidated Statement of Net Profit and Total Comprehensive Income

The table below summarized the impact of significant differences between Canadian GAAP and IFRS on the Corporation's Statement of Net Profit and Total Comprehensive Income. All other income statement items not specifically addressed was consistent and or not significantly impacted by the Corporation's adoption of IFRS:

Consolidated Statement of Net Profit and Comprehensive income items	Applicable IFRS Standards	Impact
Rental income	IAS 1	No significant changes in recognized and recorded rental income. Certain income not directly related to leasing of rental apartments (laundry machines, income from telephone and cable providers and other miscellaneous income) was reported as ancillary rental income.
Mortgage interest	IAS 23	Write back of borrowing costs that were directly attributable to the acquisition, construction or production of "non-qualifying" assets.
Financing cost	IAS 39	The Corporation had elected to account for all transaction costs incurred in mortgages in net income as financing costs under Canadian GAAP. With adoption of IFRS, all transaction costs form part of the fair value of mortgage payables in their initial recognition and subsequent measurement of carrying value at amortized cost using effective interest rate method.
Depreciation	IAS 16, IAS 40	The Corporation adopted the fair value model to account for its investment properties under which depreciation is not recorded. There is no difference between Canadian GAAP and IFRS in the depreciation of the assets classified as Property, Plant and Equipment.
Deferred tax	IAS 12	As a result of using the fair value model to value investment properties under IAS 40, deferred tax expense has increased. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Corporation's expectation that the method of realization will be through the sale of its properties rather than through owning and operating the properties.
Analysis of expenses	IAS 1	An analysis of expenses is required either by nature or by function on the face of the consolidated statement of comprehensive income. There is no requirement under Canadian GAAP for expenses to be classified according to their nature or function. The Corporation currently classifies its major expenses under "Property Operating Expenses" and "General and Administrative Expenses". The Corporation considers that the current expenses classification can provide more useful information to the users of its consolidated financial statements in the real estate.

g) Impact of IFRS on the Consolidated Statement of Cash Flow

There were no material adjustments to the Consolidated Statement of Cash Flow as a result of the conversion to IFRS except that fair value gain and deferred tax were included as items not affecting cash in the statement of cash flow.

4. FUTURE ACCOUNTING POLICIES

The following IFRSs which are related to the Corporation's financial reporting have been issued and revised, however are not yet effective and as such have not been applied to these consolidated financial statements:

IAS 1 – Presentation of Other Comprehensive Income – effective July 1, 2012

The amendments require items of other comprehensive income to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. The amendments are required to be applied on a full retrospective basis. The Corporation does not expect the amendments to have a significant impact on its financial statements.

IFRS 9 – Financial Instruments – effective January 1, 2015

The amendments require all recognized financial assets that are currently in the scope of IAS 39 will be measured at either amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Corporation is currently evaluating the impact of the amendments on its financial statements.

IFRS 10 – Consolidated Financial Statements – effective January 1, 2013

The amendments eliminate the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The standard provides guidance on how to apply the control principles in a number of situations, including agency relationships and holding or potential voting rights. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 10 on its financial statements.

IAS 27 was revised in May 2011 and was revised to eliminate the principles of consolidation from IAS 27 (as they are now included in IFRS 10) and focus on requirements related to disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Corporation does not expect these amendments to have a significant impact on its financial statements.

IFRS 11 – Joint Arrangements – effective January 1, 2013

The amendments redefine joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation does not expect this standard to have a significant impact on its financial statements.

Investments in Associates and Joint Ventures ("IAS 28") was revised in May 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation does not expect these amendments to have a significant impact on its financial statements.

IFRS 12 – Disclosure of Interests in Other Entities – effective January 1, 2013

The amendments require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation does not expect these amendments to have a significant impact on its financial statements.

IFRS 13 – Fair Value Measurement – effective 1 January 2013

The amendments provide a single framework for measuring fair value and are applicable for both financial and non-financial items and also require enhanced disclosure on fair value measurements. The standard requires retrospective application from the beginning of the annual period in which it is adopted. The Corporation is currently evaluating the impact of the amendments on its financial statements.

IAS 19 – Employee Benefits – effective 1 January 2013

The amendments require the changes in defined benefit obligations are recognized as they occur, eliminating the corridor approach and accelerating the recognition of past service costs. The changes in defined benefit obligation and plan assets are to be disaggregated into three components; service costs, net interest on the net defined benefit liabilities (assets) and re-measurement of the net defined benefit liabilities (assets). The Corporation does not expect these amendments to have a significant impact on its financial statements.

5. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In September 2012, all four properties in the Ontario segment are presented as a disposal group held for sale following management's decision to dispose the entire segment and focus its business in Western Canada. At September 30, 2012, the disposal group comprised assets of \$68.5 million and liabilities of \$45.7 million. Subsequent to the year end date, three out of the four properties in Ontario have been disposed for the consideration of \$46.9 million.

Assets classified as held for sale

September 30, 2012

Investment properties	\$	68,985
Property, plant and equipment	\$	7
Prepaid assets	\$	252
Trade and other receivables	\$	106
Balance, end of year	\$	69,350

Liabilities classified as held for sale

September 30, 2012

Non-current mortgage payable	\$	36,690
Deferred tax liabilities	\$	4,762
Current mortgage payable	\$	3,281
Trade and other payables	\$	955
Balance, end of year	\$	45,688

The Ontario segment was not a discontinued operation or classified as held for sale as at September 30, 2011. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

Results of discontinued operations

Year ended September 30,	2012	2011
Rental revenue	\$ 7,364	\$ 7,108
Ancillary rental income	268	216
	7,632	7,324
Property operating expenses	3,882	3,880
Net operating income	3,750	3,444
Mortgage interest	1,803	1,816
Amortization of financing cost	154	242
General and administrative expenses	928	771
Depreciation	3	4
Profit from discontinued operations before other items and income tax expense	862	611
Fair value gains	7,112	2,592
Profit before income tax expense	7,974	3,203
Income tax expense	1,903	849
Profit from discontinued operation (net of tax)	\$ 6,071	\$ 2,354
Basic earnings per share	\$ 0.58	\$ 0.23
Diluted earnings per share	\$ 0.55	\$ 0.21

Cash flows from (used in) discontinued operations

	2012	2011
Net cash from operating activities	\$ 942	\$ 1,230
Net cash from financing activities	\$ 4,484	\$ 241
Net cash used in investing activities	\$ (1,073)	\$ (1,708)
Net cash from (used in) discontinued operations	\$ 4,353	\$ (237)

6. INVESTMENT PROPERTIES

	September 30, 2012	September 30, 2011
Balance, beginning of year	\$ 907,835	\$ 743,255
Additions	\$ 81,924	\$ 81,965
Building improvements	\$ 9,470	\$ 5,733
Disposition	\$ (1,700)	\$ (103)
Fair value gains	\$ 54,021	\$ 76,985
Assets classified as held for sale (Note 5)	\$ (68,985)	–
Balance, end of year	\$ 982,565	\$ 907,835

The fair value of investment properties held by the Corporation as of September 30, 2012, September 30, 2011 and October 1, 2010 was determined by independent qualified real estate appraisers who are members of the Appraisal Institute of Canada and have appropriate qualifications and experience in the valuation of the Corporation's investment properties in relevant locations. The direct capitalization method was used to convert an estimate of a single year's income (net operating income) expectancy into an indication of value in one direct step by dividing the income (net operating income) estimated by an appropriate capitalization rate.

The fair value of Mainstreet's investment properties as of September 30, 2012, was determined by the following qualified appraisers:

Location	Appraiser Name	Qualification	Firm
Vancouver/Lower Mainland (Abbotsford & Surrey)	James Glen	AACI, P.App.	Colliers International
Calgary & Edmonton	Calgary – Tom Hewitt Edmonton – Ryan Miller, Andrew MacLeod	AACI, P.App.	Colliers International
Saskatoon	Tom Hewitt	AACI, P. App.	Colliers International
Greater Toronto Area	Demetri Andros	AACI, P. App.	Colliers International

The average capitalization rates used in determining the fair value of investment properties are set out below:

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Surrey, BC	5.65%	5.81%	5.80%
Abbotsford, BC	5.64%	5.63%	5.73%
Calgary, Alberta	5.06%	5.43%	5.42%
Edmonton, Alberta	5.92%	6.15%	6.21%
Saskatoon, Saskatchewan	7.50%	7.51%	7.96%
Greater Toronto Area, Ontario	5.48%	6.00%	6.51%
Overall	5.72%	5.93%	6.04%

The direct capitalization method requires that an estimated forecasted net operating income ("NOI") be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such changes in both NOI and Cap Rate would significantly alter the fair value of investment properties. The tables below set out the impact of changes in both NOI and Cap Rate on the Corporation's fair values.

As at September 30, 2012

Net operating income		-3%	-1%	As estimated	+1%	3%
		\$	\$	\$	\$	\$
		55,171	56,308	56,877	56,390	58,583
Capitalization rate						
-0.25%	5.47%	\$ 26,040	\$ 46,836	\$ 57,234	\$ 48,331	\$ 88,428
Cap rate used	5.72%	\$ (18,042)	\$ 1,845	\$ 982,565	\$ 3,274	\$ 41,619
+0.25%	5.97%	\$ (58,433)	\$ (39,379)	\$ (29,851)	\$ (38,009)	\$ (1,270)

As at September 30, 2011

Net operating income		-3%	-1%	As estimated	+1%	-3%
		\$	\$	\$	\$	\$
		52,220	53,296	53,835	54,373	55,450
Capitalization rate						
-0.25%	5.68%	\$ 11,524	\$ 30,480	\$ 39,958	\$ 49,435	\$ 68,391
Cap rate used	5.93%	\$ (27,235)	\$ (9,078)	\$ 907,835	\$ 9,078	\$ 27,235
+0.25%	6.18%	\$ (62,858)	\$ (45,436)	\$ (36,725)	\$ (28,014)	\$ (10,591)

As at October 1, 2010

Net operating income		-3%	-1%	As estimated	+1%	-3%
		\$	\$	\$	\$	\$
		43,546	44,444	44,893	45,342	46,239
Capitalization rate						
-0.25%	5.79%	\$ 8,832	\$ 24,339	\$ 32,092	\$ 39,846	\$ 55,353
Cap rate used	6.04%	\$ (22,298)	\$ (7,433)	\$ 743,255	\$ 7,433	\$ 22,298
+0.25%	6.29%	\$ (50,953)	\$ (36,678)	\$ (29,541)	\$ (22,404)	\$ (8,130)

The fair values of the properties in Ontario included in assets classified as held for sale were determined by the selling prices offered by the potential buyer with the exemption of one property which was determined by independent qualified real estate appraisers.

Investment properties with a fair value of \$935 million (September 30, 2011 – \$830 million, October 1, 2010 – \$715 million) are pledged as security against the Corporation's mortgages payable.

Investment properties with a fair value of \$59 million (September 30, 2011 – \$57 million, October 1, 2010 – \$46 million) are pledged as security against the Corporation's operating line of credit to the extent of \$20 million (note 15).

For the years ended September 30, 2012 and 2011, investment properties earned rental income (excluding ancillary rental income) of \$65.9 million (2011 – \$55.9 million) for continued operations respectively.

For the years ended September 30, 2012 and 2011, operating expenses in relation to investment properties were \$21.9 million (2011 – \$19.6 million) for continued operations respectively.

7. PROPERTY, PLANT AND EQUIPMENT

The carrying amount of property, plant and equipment were as follows:

	Sept. 30, 2012			Sept. 30, 2011			October 1, 2010		
	Cost	Accum. deprec.	Net book value	Cost	Accum. deprec.	Net book value	Cost	Accum. deprec.	Net book value
Admin. building	\$ 4,190	\$ 158	\$ 4,032	\$ 4,006	\$ 57	\$ 3,949	\$ –	\$ –	\$ –
Equipment	\$ 60	\$ 13	\$ 47	\$ 41	\$ 4	\$ 37	\$ –	\$ –	\$ –
Furniture	\$ 139	\$ 28	\$ 111	\$ 93	\$ 8	\$ 85	\$ –	\$ –	\$ –
Vehicles	\$ 37	\$ 12	\$ 25	\$ 26	\$ 1	\$ 25	\$ –	\$ –	\$ –
Computer	\$ 1,051	\$ 751	\$ 300	\$ 893	\$ 654	\$ 239	\$ 779	\$ 578	\$ 201
Assets classified as held for sale	\$ (23)	\$ (16)	\$ (7)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
	\$ 5,454	\$ 946	\$ 4,508	\$ 5,059	\$ 724	\$ 4,335	\$ 779	\$ 578	\$ 201

The change of the carrying amount of the property, plant and equipment for the year ended September 30, 2012 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Admin. building	\$ 3,949	\$ 184	\$ –	\$ (101)	\$ 4,032
Equipment	\$ 37	\$ 18	\$ –	\$ (8)	\$ 47
Furniture	\$ 85	\$ 47	\$ –	\$ (21)	\$ 111
Vehicles	\$ 25	\$ 11	\$ –	\$ (11)	\$ 25
Computer	\$ 239	\$ 157	\$ –	\$ (96)	\$ 300
Assets classified as held for sale	\$ –	\$ –	\$ (10)	\$ 3	\$ (7)
	\$ 4,335	\$ 417	\$ (10)	\$ (234)	\$ 4,508

The change of the carrying amount of the Property, plant and equipment for the year ended September 30, 2011 was as follows:

	Opening net book value	Additions	Dispositions	Depreciation	Closing net book value
Admin. building	\$ –	\$ 4,006	\$ –	\$ (57)	\$ 3,949
Equipment	\$ –	\$ 41	\$ –	\$ (4)	\$ 37
Furniture	\$ –	\$ 93	\$ –	\$ (8)	\$ 85
Vehicles	\$ –	\$ 26	\$ –	\$ (1)	\$ 25
Computer	\$ 201	\$ 114	\$ –	\$ (76)	\$ 239
	\$ 201	\$ 4,280	\$ –	\$ (146)	\$ 4,335

The administration building was pledged as security against the Corporation's operating line of credit to the extent of \$20 million (note 15).

8. PREPAID ASSETS

Prepaid assets comprise prepaid expenses and utility deposits:

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Prepaid expenses	\$ 1,054	\$ 1,228	\$ 1,077
Utility deposits	\$ 45	\$ 123	\$ 123
	\$ 1,099	\$ 1,351	\$ 1,200

9. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from tenants and other receivables comprise mortgage hold back and refundable mortgage commitment fees:

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Trade receivables	\$ 505	\$ 527	\$ 331
Other receivables	\$ 610	\$ 2,128	\$ 992
	\$ 1,115	\$ 2,655	\$ 1,323

10. INVENTORY

Inventories are measured at the lower of cost and net realizable value.

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Inventory	\$ 157	\$ –	\$ –

11. MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average interest rate of 4.35% (2011 – 4.55%) per annum and are payable in monthly principal and interest installments totaling \$2.7 million (2011 – \$2.5 million), maturing from 2012 to 2022 and are secured by specific charges against specific investment properties, having a fair value of \$935 million (September 30, 2011 – \$830 million, October 1, 2010 – \$715 million).

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Non-current	\$ 398,780	\$ 431,617	\$ 362,628
Current	\$ 74,450	\$ 38,697	\$ 31,937
	\$ 473,230	\$ 470,314	\$ 394,565

Estimated principal payments required to retire the mortgage obligations as of September 30, 2012 are as follows:

Year	Amount
2013	\$ 74,450
2014	\$ 84,064
2015	\$ 54,342
2016	\$ 52,736
2017	\$ 30,019
Subsequent	\$ 184,572
	\$ 480,183
Deferred financing cost	\$ (6,953)
	\$ 473,230

12. INCOME TAX EXPENSE

Income tax expense comprise:

	12 months ended Sept. 30, 2012	12 months ended Sept. 30, 2011
Deferred tax expense – continuing operations	\$ 8,849	\$ 5,858

No current or deferred income taxes were recognized in equity for the year ended September 30, 2012 and 2011. The income tax expense differs from the results that would be obtained by applying the combined federal and provincial income tax rate to income before income taxes. Non taxable income includes the non taxable portion of capital gain. This difference results from the following:

	Year ended Sept. 30, 2012	Year ended Sept. 30, 2011
Profit from continuing operations before income tax	\$ 58,829	\$ 85,615
Non taxable income/(expenses)	\$ 16,852	\$ 56,551
	\$ 41,977	\$ 29,064
Statutory tax rate	25.69%	27.34 %
Computed expected tax	\$ 10,784	\$ 7,946
Discontinued operations	\$ (1,903)	\$ (849)
Reduction in deferred tax liabilities for change in future tax rate	\$ (32)	\$ (1,239)
	\$ 8,849	\$ 5,858

As of September 30, 2012, September 30, 2011 and October 1, 2010, the Corporation does not have any unrecognized deductible temporary differences.

The deferred tax liabilities components and their changes were as follows

	Sept. 30, 2011	Recognized in profit	Sept. 30, 2012
Deferred tax liabilities differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 59,831	\$ 10,298	\$ 70,129
Differences in tax and book carrying amounts of deferred financing cost	\$ 645	\$ 454	\$ 1,099
Deferred tax liabilities for discontinued operations	\$ (2,859)	\$ (1,903)	\$ (4,762)
Deferred tax liabilities for continuing operations	\$ 57,617	\$ 8,849	\$ 66,466
	Oct. 1, 2010	Recognized in profit	Sept. 30, 2011
Deferred tax liabilities differences in tax and book carrying amounts of investment properties and property, plant and equipment	\$ 53,345	\$ 6,486	\$ 59,831
Differences in tax and book carrying amounts of deferred financing cost	\$ 424	\$ 221	\$ 645
Deferred tax liabilities for discontinued operations	\$ (2,010)	\$ (849)	\$ (2,859)
Deferred tax liabilities for continuing operations	\$ 51,759	\$ 5,858	\$ 57,617

13. TRADE AND OTHER PAYABLES

Trade and other payable comprise trade payable, accrued liabilities and deferred income:

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Trade payables and accrued liabilities	\$ 4,110	\$ 4,560	\$ 4,942
Deferred revenue	\$ 97	\$ 86	\$ 80
	\$ 4,207	\$ 4,646	\$ 5,022

14. REFUNDABLE SECURITY DEPOSITS

Refundable security deposits are considered as restricted cash as they are held in trust bank account and subject to the contingent rights of third parties.

15. BANK INDEBTEDNESS

The Corporation had a revolving line of credit of \$20 million and a revolving acquisition line of credit of \$35 million with a chartered financial institution. The revolving line of credit is secured by a first and second mortgage charge on specific properties with fair value of \$13 million. The revolving acquisition line of credit is to be used for acquisition of investment properties up to the lesser of 75% of the acquisition price or the appraised value and was secured by a first charge against the acquired investment properties. As at September 30, 2012, the Corporation has drawn \$37.8 million (September 30, 2011 – \$5.2 million, October 1, 2010 – \$Nil) against these credit facilities. The facilities carried an interest rate of prime plus 2.25%, interest payment only and are renewable on an annual basis.

The Corporation's credit facilities contain financial covenant to maintain an overall debt service coverage ratio of 1.20. As at September 30, 2012, the Corporation's overall debt service coverage ratio was 1.39 (September 30, 2011 – 1.31, October 1, 2010 – N/A) which is in compliance with the financial covenants.

16. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares with no par value

Unlimited number of preferred shares with no par value

Issued, outstanding and fully paid:

	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the year	10,401,281	\$ 26,762	10,377,615	\$ 26,214	10,355,827	\$ 25,422
Shares purchase loan reduction	–	\$ 46	–	\$ 322	–	\$ 406
Purchase and cancellation of shares	–	–	(1,334)	\$ (3)	(28,212)	\$ (71)
Exercise of stock options	64,000	\$ 935	25,000	\$ 138	50,000	\$ 275
Transfer from contributed surplus	–	\$ 660	–	\$ 91	–	\$ 182
Issued and outstanding, end of the year	10,465,281	\$ 28,403	10,401,281	\$ 26,762	10,377,615	\$ 26,214

All common shares share an equal right to dividends.

The Corporation has obtained approval from the TSX to continue to repurchase common shares of the Corporation under a Normal Course Issuer Bid commencing February 23, 2012. During the year ended September 30, 2012, no share was repurchased and cancelled. In 2011, a total of 1,334 common shares were repurchased and cancelled at an average price of \$11.33 per common share.

17. PROFIT PER SHARE

Basic profit per share are calculated using the weighted average number of shares outstanding during the year.

The treasury stock method of calculating the diluted profit per share is used. There is no anti-dilutive stock option outstanding as at September 30, 2012.

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

(In 000s, except share and per share amounts)

Year ended September 30,	2012	2011
Numerator		
Profit	\$ 56,051	\$ 82,111
Denominator		
For basic profit per share		
Weighted average shares	10,441,762	10,391,024
Dilutive effect	655,638	582,809
For diluted profit per share	11,097,400	10,973,833
Profit per share		
– basic	\$ 5.37	\$ 7.91
– diluted	\$ 5.05	\$ 7.48

18. STOCK OPTION PLAN

A summary of the Corporation's stock option plan as of September 30, 2012, September 30, 2011 and October 1, 2010 and changes during the years ended on September 30, 2012 and September 30, 2011 are presented below:

	September 30, 2012		September 30, 2011		October 1, 2010	
	Number of shares	Weighted Avg. exercise price	Number of shares	Weighted Avg. exercise price	Number of shares	Weighted Avg. Exercise price
Outstanding and exercisable, beginning of the year	1,168,700	\$ 8.11	1,193,700	\$ 8.05	1,243,700	\$ 7.95
Exercised	64,000	\$ 14.61	25,000	\$ 5.51	50,000	\$ 5.51
Cancelled	267,700	\$ 14.70	–	–	–	–
Outstanding and exercisable, end of the year	837,000	\$ 5.51	1,168,700	\$ 8.11	1,193,700	\$ 8.05
Weighted average contractual life-year	6.44		5.53		6.57	
The range of exercise prices	\$ 5.51		\$5.51 to \$15.06		\$5.51 to \$15.06	

Under the stock option plan adopted by the shareholders on April 24, 2007 and renewed on March 26, 2010, the Corporation may grant options to its directors, officers, employees and consultants of the Corporation, subsidiary and affiliated company for up to 20% of the issued and outstanding common shares. The exercise price of the option shall equal the market trading price of the Corporation's common share on the date of grant. The stock options are fully vested at the time of issue. The fair value of the stock options is determined at the date of grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included estimated risk free interest rate; expected life of the stock options; expected volatility rate of and expected dividend rate. 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 received by the Corporation 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.

During the year ended September 30, 2012, 64,000 (2011 – 25,000) options were exercised at a weighted average common share price of \$17.29 (2011 – \$17.25) per share.

During the year ended September 30, 2012, two officers and directors of the Corporation exercised options to purchase 267,700 common shares on a cash settlement alternative basis whereby the Corporation paid to these officers and directors an amount of \$2.0 million representing the in- the- money- value of the options on the dates of exercise (being the difference between the weighted average closing price of the common shares of the Corporation on the dates of exercise and the exercise prices of the options multiplied by the number of common shares exercised on such basis) and cancelled the stock option. The amounts paid to the officers and directors were recognized as a stock option cancellation expense in the statement of net profit and total comprehensive income.

19. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

Fair value of financial assets and liabilities

The Corporation's financial assets and liabilities comprise restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, mortgages payable, trade and other payables, 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 restricted cash, cash and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

The fair values of mortgages are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages. In identifying the appropriate level of fair value, the Corporation performs a detailed analysis of the financial assets and liabilities. The inputs used to measure fair value determine different levels of the fair value hierarchy categorized as follows:

- **Level 1:** Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- **Level 2:** Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- **Level 3:** Values based on valuation techniques for which any significant input is not based on observable market data.

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

	September 30, 2012		September 30, 2011		October 1, 2010	
Carrying amount	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Restricted cash	\$ 2,232	\$ 2,232	\$ 1,818	\$ 1,818	\$ 1,608	\$ 1,608
Cash and cash equivalents	\$ 2,205	\$ 2,205	\$ 1,166	\$ 1,166	\$ 1,419	\$ 1,419
Trade and other receivables	\$ 1,115	\$ 1,115	\$ 2,655	\$ 2,655	\$ 1,323	\$ 1,323
Financial liabilities:						
Bank indebtedness	\$ 37,762	\$ 37,762	\$ 5,177	\$ 5,177	—	—
Mortgages payable	\$ 473,230	\$ 550,593	\$ 470,314	\$ 489,005	\$ 394,565	\$ 411,568
Trade and other payables	\$ 4,207	\$ 4,207	\$ 4,646	\$ 4,646	\$ 5,022	\$ 5,022
Refundable security deposits	\$ 2,903	\$ 2,903	\$ 2,604	\$ 2,604	\$ 2,263	\$ 2,263

20. 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 is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. Most of the Corporation's financial assets and liabilities are short term in nature, the fluctuation in the fair values is therefore minimum.

Interest risk

The Corporation is exposed to interest rate risk to the extent of any upward or downward revision in prime lending rates. Mortgages totaling \$64 million are subject to renewal in the next 12 month period. Change 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 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 \$430,000 in interest expense for the year ended September 30, 2012.

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 and collecting security deposits from 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, 2012, rents due from current tenants amounted \$539,000 (2011 – \$627,000). The possibility of not receiving payment of rent due from current tenants was covered by security deposits of \$2.9 million (2011 – \$2.6 million) and provisions for bad debts of \$100,000 (2011 – \$100,000).

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 chartered financial institutions.

Liquidity Risk

Liquidity risk is the risk the Corporation will encounter difficulties in meeting its financial liability obligations. The Corporation manages its liquidity risk by monitoring forecast and cash flows on a regular basis to meet expected operational expenses, by maintaining adequate banking facilities, and by matching the maturity profiles of financial assets and liabilities.

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

(000s of dollars)	1 year	2 years	3 years	4 years	4 years	Beyond Total
Mortgages payable	\$ 74,450	\$ 84,065	\$ 54,342	\$ 52,736	\$ 214,590	\$ 480,183
Bank indebtedness	\$ 37,762	–	–	–	–	\$ 37,762
Trade and other payables	\$ 4,207	–	–	–	–	\$ 4,207
Refundable security deposits	\$ 2,903	–	–	–	–	\$ 2,903

21. GUARANTEES, CONTINGENCIES, COMMITMENTS

In the normal course of business, the Corporation may enter into various agreements that may contain features that meet the definition of guarantees, contingencies, commitments in accordance with IAS 37 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 financial statements with respect to these indemnification commitments.

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.

As of September 30, 2012 and 2011, no amounts have been recorded and none are required to be disclosed in the consolidated financial statements with respect to guarantees, contingencies and commitments.

22. 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 in its normal course of business. Commissions are determined on an exchange value basis. 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 ended September 30, 2012 amounted to \$505,000 (2011 – \$346,000, 2010 – \$27,000).
- The Corporation paid legal and professional fees and reimbursements for the year ended September 30, 2012 amounting to \$186,000 (2011 – \$307,000, 2010 – \$196,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As at September 30, 2012 the amounts payable to the law firm were \$Nil (September 30, 2011 – \$5,000, October 1, 2010 – \$2,000).
- The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$200,000 as at September 30, 2012 (September 30, 2011 – \$245,632, October 1, 2010 – \$567,650)

– were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 100,000 (September 30, 2011 – 100,000) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2012 was \$27.38 (September 30, 2011 – \$17.15, October 1, 2010 – \$11.25) 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.

23. KEY MANAGEMENT PERSONNEL

Key management personnel of the Corporation during the year ended September 30, were:

Bob Dhillon, President and Chief Executive Officer
 Johnny Lam, Chief Operating Officer and Chief Financial Officer
 Sheena Keslick, VP Operations
 Rob Leparque, VP Operations

The remuneration of the Corporation's key management personnel were as follows:

Year ended September 30,	2012	2011
Short-term benefits	\$ 1,740	\$ 1,013
	\$ 1,740	\$ 1,013

24. 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 continued operations by geographic location:

Rental Operations

(in 000s)

Year ended September 30,	2012	2011
BRITISH COLUMBIA		
Rental revenue	18,052	16,334
Ancillary rental income	247	261
Fair value gains	3,922	22,166
Property operating expenses	6,539	5,857
ALBERTA		
Rental revenue	40,452	32,623
Ancillary rental income	584	575
Fair value gains	39,385	44,655
Property operating expenses	13,156	11,602
SASKATCHEWAN		
Rental revenue	7,377	6,985
Ancillary rental income	113	130
Fair value gains	3,602	7,793
Property operating expenses	2,225	2,106
TOTAL		
Rental revenue	65,881	55,942
Ancillary rental income	944	966
Fair value gains	46,909	74,614
Property operating expenses	21,920	19,565
Unallocated revenue*	25	152
Unallocated expenses**	41,859	32,352
Discontinued operations	6,071	2,354
Profit for the year	56,051	82,111

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

** Unallocated expenses include general and administrative expenses, mortgage interest, financing cost, depreciation, loss on disposal of investment property, stock option cash settlement expense and income taxes.

Identifiable Assets and Liabilities

(in 000s)

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
BRITISH COLUMBIA			
Investment properties	\$ 255,025	\$ 240,425	\$ 188,450
Property, plant and equipment	\$ 20	\$ 24	\$ 16
Mortgages payable	\$ 121,570	\$ 119,310	\$ 96,811
Refundable security deposits	\$ 895	\$ 834	\$ 655
ALBERTA			
Investment properties	\$ 640,415	\$ 527,960	\$ 428,995
Property, plant and equipment	\$ 4,481	\$ 4,294	\$ 172
Mortgages payable	\$ 308,909	\$ 283,722	\$ 234,519
Refundable security deposits	\$ 1,689	\$ 1,454	\$ 1,279
SASKATCHEWAN			
Investment properties	\$ 87,125	\$ 78,650	\$ 69,310
Property, plant and equipment	\$ 7	\$ 7	\$ 5
Mortgages payable	\$ 42,751	\$ 31,795	\$ 27,990
Refundable security deposits	\$ 319	\$ 316	\$ 329
ONTARIO			
Investment properties	\$ –	\$ 60,800	\$ 56,500
Property, plant and equipment	\$ –	\$ 10	\$ 8
Mortgages payable	\$ –	\$ 35,487	\$ 35,245
Refundable security deposits	\$ –	\$ –	\$ –
TOTAL			
Investment properties	\$ 982,565	\$ 907,835	\$ 743,255
Property, plant and equipment	\$ 4,508	\$ 4,335	\$ 201
Mortgages payable	\$ 473,230	\$ 470,314	\$ 394,565
Refundable security deposits	\$ 2,903	\$ 2,604	\$ 2,263

Identifiable Capital Expenditures

(in 000s)

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
BRITISH COLUMBIA	\$ 10,725	\$ 34,355	\$ 35,527
ALBERTA	\$ 74,930	\$ 54,340	\$ 16,272
SASKATCHEWAN	\$ 4,878	\$ 1,559	\$ 679
TOTAL – Identifiable capital expenditures	\$ 90,533	\$ 90,254	\$ 52,478

25. 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 as at September 30, 2012 amounted to \$944 million (September 30, 2011 – \$851 million, October 1, 2010 – \$688 million).

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 and mortgages.

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, 2012, is summarized below:

(in 000s)

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Mortgages payable	\$ 473,230	\$ 470,314	\$ 394,565
Bank indebtedness	\$ 37,762	\$ 5,177	\$ –
Total equity	\$ 432,975	\$ 375,943	\$ 293,387
Total capital	\$ 943,967	\$ 851,434	\$ 687,952

The Corporation's policy for capital risk management is to maintain a debt to fair value of investment properties ratio, as defined below, of no greater than 70%. The ratio as at September 30, 2012 is approximately 52% (September 30, 2011 – 52%, October 1, 2010 – 53%) which leaves a sufficient additional capacity to raise additional funds from refinancing before it reaches its internal target ratio of 70%.

The debt to market value ratios at September 30, 2012 was as follows:

(in 000s)

	Sept. 30, 2012	Sept. 30, 2011	Oct. 1, 2010
Mortgages payable	\$ 473,230	\$ 470,314	\$ 394,565
Bank indebtedness	\$ 37,762	\$ 5,177	\$ –
Total debts	\$ 510,992	\$ 475,491	\$ 394,565
Investment properties	\$ 982,565	\$ 907,835	\$ 743,255
Debt to fair value ratio	52%	52%	53%

In managing the capital requirements of the Corporation, the management makes assessments of the capital and liquid resources required to ensure the going concern of the Corporation. Management believes that the existing liquid resources, funds to be generated from operations, and funds to be raised through the refinancing of debt will be sufficient to support the Corporation's operations on the going concern basis.

26. SUBSEQUENT EVENTS

Subsequent to September 30, 2012, the Corporation acquired 12 properties consisting of 260 units of residential apartments in Edmonton, AB for total consideration of \$23.7 million.

The Corporation disposed of three residential properties in Ontario for the consideration of \$46.9 million. The disposition is expected to be closed on January 23, 2013.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on December 6, 2012.

CORPORATE INFORMATION

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

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

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

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Human Resource Committee

Chair

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

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Calgary, AB

AUDITORS

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Calgary, AB

SOLICITORS

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Calgary, AB

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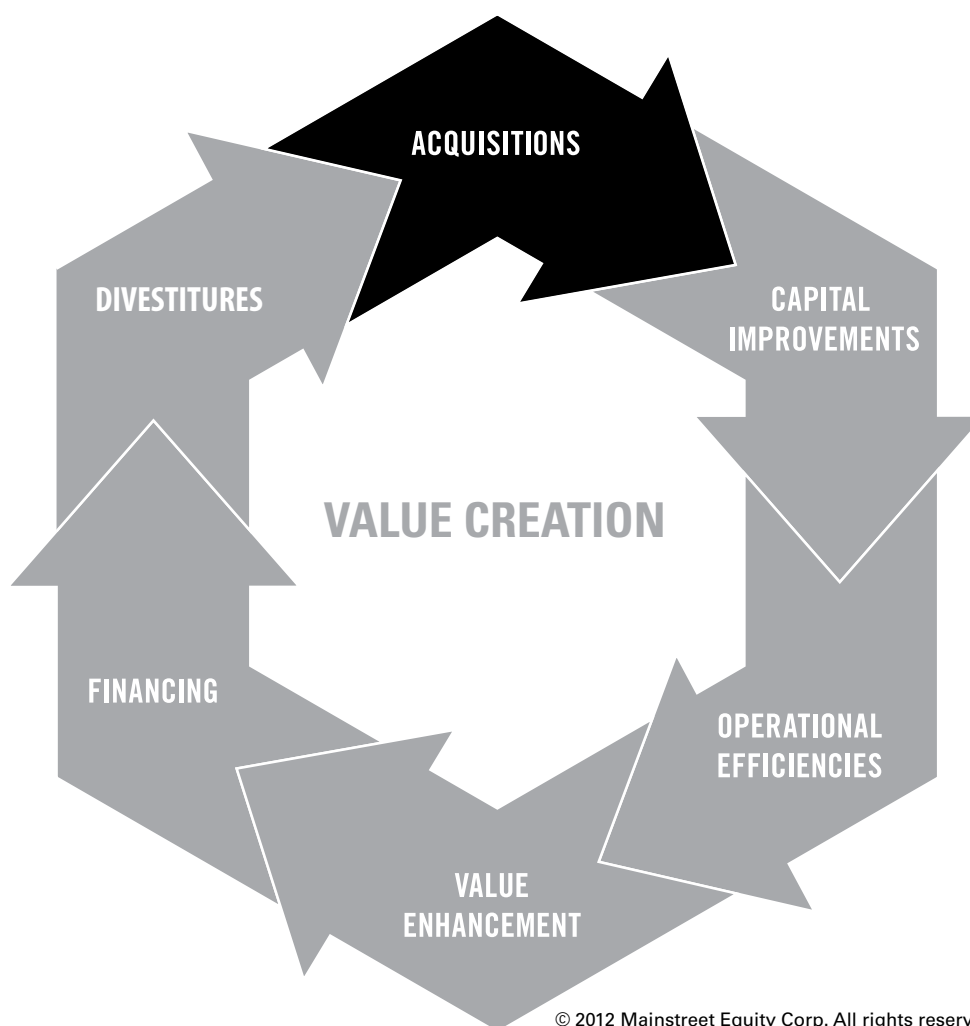
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Web site: www.mainst.biz

STOCK EXCHANGE

Toronto Stock Exchange
Trading symbol: MEQ

The Mainstreet
VALUE CHAIN



How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the “Mainstreet Value Chain.” It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of \$17 million to 8,440 units with appraised values of approximately \$1.08 billion (YTD) with minimal equity dilution.**