

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides an explanation of the financial condition and results of operations of Mainstreet Equity Corp. ("Mainstreet" or "Corporation") as at and for the fiscal year ended September 30, 2009. The results from fiscal year 2009 are directly comparable with those from fiscal year 2008. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic and political conditions. Additionally, other events may occur that could affect the Corporation in the future. This MD&A should be read in conjunction with the Corporation's audited financial statements and the accompanying notes included in the Annual Report. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada. The intent of this MD&A is to provide information about the Corporation's performance, financial position and outlook, and was prepared as of December 4, 2009. 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 11, 2009. All amounts expressed are in Canadian dollars. Additional information regarding the Corporation is available under the Corporation's profile at SEDAR (www.sedar.com).

Forward-Looking Information

Certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to general and administrative expenses, labour costs, future profitability, timing of refinancing of debt, stabilization rates, renovation plans, increased cash flow, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, expanding the management team, 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 such other business risks as discussed herein. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, 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 in this MD&A.

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

Business Overview

Based in Calgary, Alberta, Mainstreet 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's portfolio includes 5,939 multi-family residential units consisting of townhouses, garden-style apartments, and mid-rise and high-rise apartments. Three of these properties (95 units in Calgary) are being held for resale.

	Number of units
Calgary and Edmonton, Alberta	2,948
Abbotsford and Surrey, British Columbia	1,474
Saskatoon, Saskatchewan	758
Mississauga and Toronto, Ontario	664
Total revenue – producing units	5,844
Units held for resale (Calgary, Alberta)	95
Total units	5,939

As of September 30, 2009, 82% of these units were rented, 7% were being renovated and the remainder were vacant because of market conditions. Since 1997, the Corporation's portfolio has increased from 10 to 127 buildings, while the appraised value of properties within this portfolio has grown from about \$17 million to approximately 679 million as of September 30, 2009.¹

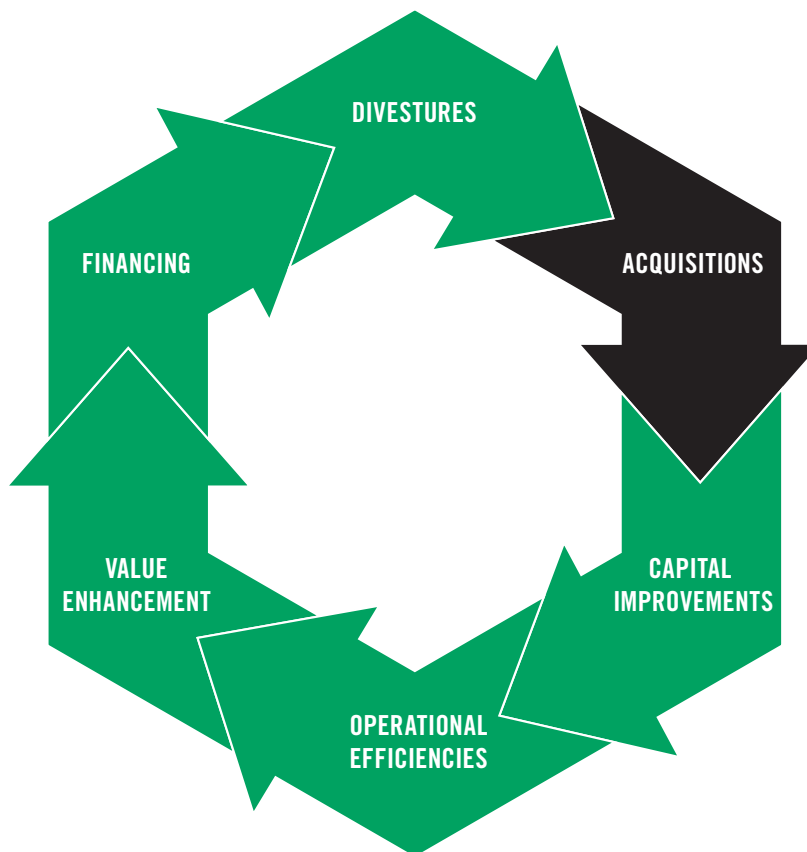
Mainstreet is listed on the Toronto Stock Exchange (TSX) under the symbol "MEQ".

1. Market value held on September 30, 2009, was determined by independent qualified real estate appraisers. The actual selling value of these properties may be substantially different and depends on market conditions at the time of sale.

Business Strategy

Mainstreet's goal is to become Canada's leading provider of affordable mid-sized, mid-tiered 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:

1. **Acquisitions.** Identify and purchase under-performing rental units at prices well below replacement costs.
2. **Capital improvements.** Increase the asset value of Mainstreet's portfolio by renovating acquired properties.
3. **Operational efficiencies.** Minimize operating costs through professional management, efficient technology and energy-saving equipment.
4. **Value enhancement.** Reposition renovated properties in the market as Mainstreet branded products for higher rents, and build and sustain customer loyalty through high levels of service.
5. **Financing.** Maintain a sound capital structure with access to low-cost, long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans.
6. **Divestitures.** Occasionally sell mature real estate properties to redirect capital into newer, higher potential properties.



Review of Financial and Operating Results

SUMMARY OF FINANCIAL RESULTS

(000s of dollars except per share amounts)

	2009	2008	2007	% change from 2008	% change from 2007
Gross revenue	\$ 51,029	\$ 45,483	\$ 39,207	12%	30%
Net income (loss)					
– from continuing operations	\$ (8,413)	\$ (5,319)	\$ (6,473)	58%	30%
– from discontinued operations	\$ 5,387	\$ 429	\$ 368	1,156%	1,364%
– from sale of properties held for resale	\$ –	\$ 610	\$ –		
Total net loss	\$ (3,026)	\$ (4,280)	\$ (6,105)	(29%)	(50%)
Net loss from continuing operations before stock compensation expense	\$ (5,043)	\$ (5,319)	\$ (3,084)	(5%)	64
Funds from operations ¹					
– from continuing operations	\$ 4,953	\$ 2,955	\$ 4,272	68%	16%
– from discontinued operations	\$ 6,458	\$ 828	\$ 761	680%	749%
– from sale of properties held for resale	\$ –	\$ 726	\$ –		
Total funds from operations	\$ 11,411	\$ 4,509	\$ 5,033	153%	127%
Net operating income from continuing operations ²	\$ 30,704	\$ 25,315	\$ 23,500	21%	31%
Net operating margin from continuing operations (%)	60%	57%	61%	5%	(1%)
EBITDA excluding stock option expense from continuing operations ³	\$ 21,931	\$ 18,102	\$ 18,802	21%	17%
Net loss per share					
– basic from continuing operations	\$ (0.44)	\$ (0.36)	\$ (0.28)	22%	57%
– basic from discontinued operations	\$ 0.47	\$ 0.03	\$ 0.03	1,467%	1,467%
– basic from sale of properties held for resale	\$ –	\$ 0.04	\$ –		
– from stock compensation expense	\$ (0.29)	\$ –	\$ (0.31)		(6%)
Net loss per share	\$ (0.26)	\$ (0.29)	\$ (0.56)	(10%)	(54%)
Funds from operations per share					
– basic from continuing operations	\$ 0.43	\$ 0.20	\$ 0.39	115%	10%
– basic from discontinued operations	\$ 0.56	\$ 0.06	\$ 0.07	833%	700%
– basic from sale of properties held for resale	\$ –	\$ 0.05	\$ –		
Funds from operations per share	\$ 0.99	\$ 0.31	\$ 0.46	219%	115%
Total asset	\$ 381,167	\$ 337,515	\$ 306,480	13%	24%
Total long term liabilities	\$ 379,899	\$ 308,313	\$ 269,627	23%	41%

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

2. Net operating income is rental revenue minus property operating expenses including utility rebate. It does not include financing costs, general and administrative expenses, or depreciation and amortization expenses. It is used by Mainstreet to measure its operational performance. Net operating income is not a recognized measure under GAAP. The GAAP measure most directly comparable to it is net income. Net operating income should not be construed as an alternative to net income determined in accordance with GAAP. Readers are cautioned that net operating revenue may differ from similar calculations used by other comparable entities.

3. EBITDA is earnings before interest, taxes, depreciation, stock compensation expense and amortization and is used by Mainstreet to measure its financial performance. EBITDA is not, however, a recognized measure under GAAP. Management believes EBITDA is a useful supplemental measure to net earnings, providing investors with an indicator of cash available for distribution prior to debt service, capital expenditures and income taxes. The GAAP measure most directly comparable to EBITDA is net income. EBITDA should not be construed as an alternative to net income determined in accordance with GAAP. Readers are cautioned that EBITDA may differ from similar calculations used by other comparable entities.

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 from revenue-producing properties, sale of properties acquired for resale purposes, and the periodic sale of revenue-producing properties. Mainstreet generally reinvests proceeds from the latter into properties with higher potential for long-term returns.

Funds from Operations

(000s of dollars)

	2009	2008	% change
Net (loss) from continuing operations	\$ (8,413)	\$ (5,319)	58%
Stock compensation expense	\$ 3,370	\$ –	–
Depreciation	\$ 11,595	\$ 9,706	19%
Future income tax on continuing operations	\$ (1,599)	\$ (1,432)	12%
Funds from operations from continuing operations	\$ 4,953	\$ 2,955	68%
Funds from operations from discontinued operations	\$ 6,458	\$ 828	
Funds from sale of properties held for sale	\$ –	\$ 726	
Total funds from operations	\$ 11,411	\$ 4,509	153%
Financing cost (one-time cost)	\$ 3,334	\$ 2,585	29%
Funds from operations from continuing operations excluding financing cost	\$ 8,287	\$ 5,540	50%
Funds from operations excluding financing cost	\$ 14,745	\$ 7,094	108%

In 2009, Mainstreet's FFO increased to \$11.4 million – up 153% from \$4.5 million in 2008 – as a result of increased rental revenue, decreased vacancy rate and lower operating expenses, as well as a disposal of property.

The Corporation's portfolio increased to 5,844 units as of September 30, 2009 – a 7.6% increase from its portfolio of 5,431 units a year previous.

The expected results of rapid growth and the costs associated with stabilizing properties continue to adversely affect Mainstreet's financial performance. Stabilization involves renovating and improving the operating efficiencies of acquired properties and repositioning them in the marketplace for higher rents and improved asset value. All properties Mainstreet acquires require substantial exterior and interior renovations; and as of September 30, 2009, 28% of Mainstreet's total portfolio remained non-stabilized.

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

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

- Higher interest rates on the short-term conventional financing required for properties undergoing stabilization. The longer it takes to stabilize a property, the longer Mainstreet pays higher interest rates for interim financing.
- Increased general and administrative ("G&A") expenses due to expansion of Mainstreet's overall portfolio, particularly in Saskatoon and the Greater Toronto Area, where the number of properties is relatively small. As Mainstreet acquires more properties, G&A expenses on a per unit basis are expected to decrease through economies of scale.
- The costs of refinancing floating conventional debt to lower interest, long-term CMHC-insured mortgage loans. During the financial year ended September 30, 2009, the Corporation raised about \$65 million of additional funds by financing under CMHC-insured mortgage loans at an average interest rate of 4.35%. The total cost of financing was \$3.3 million. Although this had an adverse impact on income and funds from operations in 2009, its long-term benefits to the Corporation's future growth and profitability are expected to be significant.

Before a financing cost of \$3.3 million – a one-time, non-cash expense item – Mainstreet's FFO from continuing operations increased 50% to \$8.3 million in 2009 from \$5.5 million in 2008.

Mainstreet reported a net loss of \$8.4 million (\$0.73 per basic share) from continuing operations in 2009, compared with a net loss of \$5.3 million (\$0.37 per share) in 2008. The loss in 2009 and 2008 included a financing cost of \$3.3 million and \$2.6 million respectively. The loss in 2009 also included a stock compensation expense of \$3.4 million. **Excluding these one-time, non-cash expense items, the 2009 loss was \$1.7 million (\$0.15 per share) compared to \$2.7 million (\$0.19 per share) in 2008.**

Revenues

(000s)

	2009	2008	% change
Rental revenue	\$ 50,822	\$ 44,509	14%
Interest income	\$ 207	\$ 248	(17%)
Sale of properties held for resale	\$ –	\$ 726	
Gross revenues	\$ 51,029	\$ 45,483	12%

Rental revenue increased 14% to \$50.8 million in 2009 from \$44.5 million in 2008 primarily from growth in the Corporation's property portfolio, an increase in rental rates and a decrease in vacancy rate.

Rental Operations

(000s except per unit data)

	2009	2008	% change
Same assets rental revenues	\$ 47,346	\$ 43,884	8%
Acquisition rental revenues	\$ 3,476	\$ 625	456%
Total rental income	\$ 50,822	\$ 44,509	14%
Average vacancy rate	17.28%	20.60%	(16%)
Weighted average number of units	5,695	5,239	9%
Average rental rate per unit per month	\$ 744	\$ 708	5%

Rental revenues from “same assets” properties (properties owned for the fiscal year ended September 30, 2009 and 2008) increased by 8% to \$47.3 million in 2009 from \$43.9 million in 2008 – a result of newly renovated rental units being reintroduced into the market, higher rental rates and a decrease in vacancy rate.

In 2009, rental revenues from new property acquisitions were \$3.5 million – a substantial increase of 456% over 2008. This increase reflects Mainstreet's acquisition of 725 units since the year ended September 30, 2007.

Operating Costs

(000s)

	2009	2008	% change
Same assets operating expenses	\$ 18,724	\$ 18,428	2%
Acquisition operating expenses	\$ 1,394	\$ 766	82%
Total operating costs	\$ 20,118	\$ 19,194	5%

Overall, operating costs (after utility rebate¹) increased 5% to \$20.1 million in 2009 compared to \$19.2 million in 2008, due mainly to the increase in the number of units in Mainstreet's portfolio during the year.

Operating costs for “same assets” properties increased only slightly by 2% over the period.

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

RENTAL OPERATIONS BY PROVINCE

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

BRITISH COLUMBIA (Total number of units – 1,474 (2008 – 1,281))

Mainstreet continues to expand its British Columbia operations. The average number of rental units has grown 19% to 1,416 units in 2009 compared to 1,186 units in 2008. As a result, rental revenue increased by 17% to \$11.8 million in 2009 compared to \$10.0 million in 2008. Rental revenue per unit, however, decreased from \$706 per month in 2008 to \$694 per month in 2009, while the vacancy rate increased to 9.6% in 2009 compared to 4.6% for the same period in 2008 due mainly to stabilization of units acquired during the period (primarily in Abbotsford, BC, in which the average rental rate in Lower Mainland is lower than the average rental rate in Surrey, BC).

Due mainly to a decrease in heating and repair and maintenance costs, the average monthly operating cost per unit decreased to \$258 per unit per month in 2009 – down 8% from \$280 in 2008. As a result, the operating margin increased to 63% in 2009 compared to 60% in 2008. (000s except per unit data)

	2009	2008	% change
Rental revenue	\$ 11,793	\$ 10,041	17%
Operating expenses	\$ 4,387	\$ 3,986	10%
Net operating income	\$ 7,406	\$ 6,055	22%
Weighted average number of units	1,416	1,186	19%
Average rent per unit per month	\$ 694	\$ 706	(2%)
Operating cost per unit per month	\$ 258	\$ 280	(8%)
Average vacancy rate	9.60%	4.60%	
Operating margins	63%	60%	

ALBERTA (Total number of units – 2,948 (2008 – 2,935))

Mainstreet's Alberta operations showed an improvement over the past year, due primarily to an increase in rental revenue, decrease in vacancy rate and decrease in operating expenses (especially repair and maintenance and heating costs). The average rental rate per unit per month increased to \$775 in 2009 from \$737 in 2008. The average monthly operating cost per unit decreased to \$283 in 2009 – down 1% from \$285 in 2008. As a result, the operating margin increased to 64% in 2009 from 61% in 2008.

(000s except per unit data)

	2009	2008	% change
Rental revenue	\$ 27,400	\$ 25,653	7%
Operating expenses	\$ 9,986	\$ 9,908	1%
Net operating income	\$ 17,414	\$ 15,745	11%
Weighted average number of units	2,945	2,902	1%
Average rent per unit per month	\$ 775	\$ 737	5%
Operating cost per unit per month	\$ 283	\$ 285	(1%)
Average vacancy rate	22.44%	24.90%	
Operating margins	64%	61%	

SASKATCHEWAN (Total number of units – 758 (2008 – 551))

The Corporation's Saskatchewan portfolio continues to grow. From 2008 to 2009, the average number of units increased by 38% – from 486 units to 670. As Mainstreet has renovated most of these properties, the operating results have improved significantly. Rental revenue increased 101% to \$4.8 million in 2009 from \$2.4 million in 2008. The vacancy rate dropped significantly from 40% in 2008 to 18% in 2009. The overall operating margin improved to 59% in 2009 compared to 34% in 2008.

(000s except per unit data)

	2009	2008	% change
Rental revenue	\$ 4,751	\$ 2,359	101%
Operating expenses	\$ 1,971	\$ 1,550	27%
Net operating income	\$ 2,780	\$ 809	244%
Weighted average number of units	670	486	38%
Average rent per unit per month	\$ 591	\$ 404	46%
Operating cost per unit per month	\$ 245	\$ 266	(8%)
Average vacancy rate	17.88%	40.30%	
Operating margins	59%	34%	

ONTARIO (Total number of units – 664 (2008 – 664))

Mainstreet's Ontario operations continued to improve gradually over the year. Rental revenue rose 7% – primarily the result of more units at higher rental rates after stabilization. The operating margin increased to 45% in 2009 from 42% in 2008.

(000s except per unit data)

	2009	2008	% change
Rental revenue	\$ 6,878	\$ 6,456	7%
Operating expenses	\$ 3,774	\$ 3,750	1%
Net operating income	\$ 3,104	\$ 2,706	15%
Weighted average number of units	664	664	0%
Average rent per unit per month	\$ 863	\$ 810	7%
Operating cost per unit per month	\$ 474	\$ 471	1%
Average vacancy rate	10.18%	16.30%	
Operating margins	45%	42%	

General and Administrative Expenses

(000s except per unit data)

	2009	2008	% change
Total	\$ 5,646	\$ 5,602	1%
Per unit per month	\$ 83	\$ 89	(7%)

G&A expenses include corporate costs such as salaries and professional fees. The Corporation's G&A expenses remained fairly constant over the year. On a per unit basis, the G&A cost decreased by 7% to \$83 per month in 2009 from \$89 in 2008.

Financing Costs

(000s)

	2009	2008	% change
Same assets mortgage interest	\$ 16,310	\$ 13,845	18%
Acquisition mortgage interest ¹	\$ 589	\$ 496	18.75%
Total interest expenses	\$ 16,899	\$ 14,341	18%
Financing charges	\$ 3,334	\$ 2,585	29%

1. Mortgage interest for properties acquired after the financial year ended September 30, 2007.

Same assets mortgage interest increased by 18%, primarily from an increase in mortgage loans after refinancing some existing stabilized properties and from conversion of short-term financing to long-term mortgage loans on stabilized properties.

Financing charges include Canada Mortgage and Housing Corporation ("CMHC") insurance premiums, legal fees, commitment fees and other expenses incurred in obtaining financing. **These are one-time, non-cash expense items.**

Capital Investment

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

In 2009, the Corporation spent \$12 million on property improvements – specifically for exterior upgrades such as new roofs, new siding and insulation and for interior upgrades such as new flooring and paint, new appliances and energy-efficiency measures. To address the balance of non-renovated units in the current portfolio, Mainstreet plans about \$9 million in renovations for the 2010 fiscal year, mainly for properties in British Columbia (renovations may be delayed depending on the tenant turnover and the Landlord and Tenant Acts of the province). These improvements will be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of these renovations within the next six to 24 months. Revenue and income will increase over time as more and more units are renovated and reintroduced to the market at higher rental rates.

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

Summary of Quarterly Results

(000s of dollars except per share amounts)

	Sept. 30, 2009	June 30, 2009	March 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007
Rental revenue	\$ 12,827	\$ 12,593	\$ 12,708	\$ 12,694	\$ 11,789	\$ 11,352	\$ 10,609	\$ 10,759
Interest income	\$ 16	\$ 19	\$ 67	\$ 105	\$ 54	\$ 13	\$ 74	\$ 107
Sale of properties held for resale	–	–	–	–	–	–	–	\$ 726
Total revenue from continuing operations	\$ 12,843	\$ 12,612	\$ 12,775	\$ 12,799	\$ 11,843	\$ 11,365	\$ 10,683	\$ 11,592
Net loss from continuing operations	\$ (1,704)	\$ (605)	\$ (3,551)	\$ (2,553)	\$ (1,963)	\$ (831)	\$ (1,058)	\$ (1,467)
Net income from discontinued operations	\$ 5,183	55	74	75	121	106	91	111
Net gain on sale of property held for resale	–	–	–	–	–	–	–	\$ 610
Net Income (loss)	\$ 3,479	\$ (550)	\$ (3,477)	\$ (2,478)	\$ (1,842)	\$ (725)	\$ (967)	\$ (746)
Per share results – basic and diluted	–	–	–	–	–	–	–	–
Loss per share from continuing operations	\$ (0.16)	\$ (0.06)	\$ (0.32)	\$ (0.19)	\$ (0.14)	\$ (0.06)	\$ (0.08)	\$ (0.10)
Earnings per share from discontinued operations	\$ 0.50	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Earnings per share from sale of properties held for resale	–	–	–	–	–	–	–	\$ 0.04
Net loss per share – basic and diluted	\$ 0.34	\$ (0.05)	\$ (0.31)	\$ (0.18)	\$ (0.13)	\$ (0.05)	\$ (0.07)	\$ (0.05)

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2009:

Quarterly Results Comparison

(000s of dollars)

Three months ended	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008
Rental revenue	\$ 12,827	\$ 12,593	\$ 11,789
Property operating expenses (including utility rebate)	\$ 4,543	\$ 4,561	\$ 4,771
Mortgage and debenture interest	\$ 4,756	\$ 4,072	\$ 3,895
Stock compensation expense	\$ 184		
Financing cost	\$ 644	\$ 336	\$ 1,267
Vacancy rate	18%	17%	19%

- During Q4 2009, Mainstreet acquired five new buildings with 159 units at an average cost of \$63,000 per unit.
- In Q4 2009, rental income increased 2% to \$12.8 million from \$12.6 million in Q3 2009 and \$11.8 million in Q4 2008, due mainly to acquisition of more rental units.
- In Q4 2009, vacancy rate increased to 18% from 17% in Q3 2009 – a decrease from 19% in Q4 2008.
- In Q4 2009, Mainstreet incurred mortgage interest of \$4.7 million, a 17% increase from \$4.1 million in Q3 2009. However, this amount included an interest adjustment of \$0.2 million for mortgage loans matured prior to the fourth quarter. Excluding this one-time adjustment, the mortgage interest for Q4 2009 is \$4.5 million. The increase is due mainly to more mortgage liability incurred after the acquisition of new properties and the refinancing of existing properties.
- In Q4 2009, Mainstreet incurred one-time, non-cash financing costs of \$644,000.
- Additional stock compensation expense of \$184,000 for the option granted in Q2 2009 was adjusted in Q4 2009.

Same Assets Properties

"Same assets" properties are defined as properties owned by the Corporation for the entire 12-month periods ended September 30, 2009 and 2008. As of September 30, 2009, 105 properties (5,119 units) out of 124 properties (5,844 units) constituted same assets properties.

(000s)

	2009	2008	% change
Same assets – rental revenues	\$ 47,346	\$ 43,884	8%
Same assets – operating costs	\$ 18,724	\$ 18,428	2%
Same assets – net operating income	\$ 28,622	\$ 25,456	12%
Operating margin	60%	58%	

Primarily from newly renovated rental units being reintroduced into the market at higher rental rates and a decrease in vacancy rate, rental revenues from same assets properties increased to \$47.3 million in 2009 – up 8% from \$43.9 million in 2008.

Operating costs for same assets properties increased slightly by 2% over the period. As a net result, the operating margin increased to 60% in 2009 from 58% in 2008.

Stabilized Properties

Mainstreet defines a stabilized property as a building with 90% of its units renovated and repositioned in the market at current market rents. As of September 30, 2009, 94 properties (4,199 units) out of 124 properties (5,844 units) were stabilized. As previously noted, Mainstreet's performance during the stabilization process is adversely affected due to lower rental revenue, higher vacancy rates and higher operating expenses. Management believes that a more fair measure of performance for the Corporation is FFO of stabilized properties.

Funds From Operations of Stabilized Properties

For 2009, FFO of Mainstreet's stabilized portfolio amounted to \$4.7 million (\$0.40 per basic and fully diluted share). Before financing cost, FFO amounted to \$7.5 million (\$0.65 and \$0.64 per basic and diluted share respectively).

(000s of dollars except per share amounts)

	Three months ended September 30			For the year ended September 30		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental revenue	\$ 9,751	\$ 3,076	\$ 12,827	\$ 40,205	\$ 10,617	\$ 50,822
Property operating expenses	\$ 3,211	\$ 1,332	\$ 4,543	\$ 14,905	\$ 5,213	\$ 20,118
Net operating income	\$ 6,540	\$ 1,744	\$ 8,284	\$ 25,300	\$ 5,404	\$ 30,704
Operating margin	67%	57%	65%	63%	51%	60%
Interest income	\$ 11	\$ 4	\$ 15	\$ 150	\$ 57	\$ 207
General & administrative expenses	\$ 1,192	\$ 355	\$ 1,547	\$ 4,293	\$ 1,353	\$ 5,646
Mortgage and debenture interest	\$ 3,489	\$ 1,267	\$ 4,756	\$ 13,599	\$ 3,300	\$ 16,899
Financing cost	\$ 298	\$ 346	\$ 644	\$ 2,852	\$ 482	\$ 3,334
Current income tax	\$ 3	\$ 1	\$ 4	\$ 57	\$ 22	\$ 79
Funds from operation from continuing operations	\$ 1,569	\$ (221)	\$ 1,348	\$ 4,649	\$ 304	\$ 4,953
Funds from operations per common share						
– basic	\$ 0.15	\$ (0.02)	\$ 0.13	\$ 0.40	\$ 0.03	\$ 0.43
– diluted	\$ 0.15	\$ (0.02)	\$ 0.13	\$ 0.40	\$ 0.02	\$ 0.42
Funds from operation before financing cost	\$ 1,867	\$ 125	\$ 1,992	\$ 7,501	\$ 786	\$ 8,287
Funds from operations before financing cost per common share						
– basic	\$ 0.18	\$ 0.01	\$ 0.19	\$ 0.65	\$ 0.07	\$ 0.72
– diluted	\$ 0.18	\$ 0.01	\$ 0.19	\$ 0.64	\$ 0.07	\$ 0.71
Weighted average number of common shares						
– basic	10,355,827			11,572,749		
– fully diluted	10,645,058			11,737,323		

Acquisitions

(000s of dollars except per unit amounts)

	2009 Abbotsford, BC, Edmonton, AB & Saskatchewan	2008 Abbotsford, BC & Saskatoon, SK
Rental units (number)	413	312
Total purchase costs	\$ 29,995	\$ 25,620
Average price per unit	\$ 73	\$ 82

Following strict criteria, particularly during the year of recession in 2009, Mainstreet identifies and acquires underperforming rental properties that offer high potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In 2009, Mainstreet purchased 413 apartment units in Abbotsford, Edmonton, Saskatoon and Surrey for \$30 million. At \$73,000¹, the average price per unit was well below the estimated market value and replacement cost.

1. Does not include cost of significant capital improvements.

Liquidity and Capital Resources

Working Capital Requirements

Mainstreet requires sufficient working capital to cover day-to-day operating, mortgage and debenture interest expenses as well as income tax payments. In the 12-month period ended September 30, 2009, after payments of all required expenses, the Corporation generated funds from continuing operations of \$5 million. Mainstreet's cash balance as of September 30, 2009, was \$25 million. The Corporation expects that funds generated from operations combined with cash on hand will be sufficient to meet its working capital requirements in 2010.

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. This should be sufficient to meet the Corporation's working capital requirements on a year-to-year basis.

Other Capital Requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. In addition to its cash balance of approximately \$25 million as of September 30, 2009, Mainstreet expects to raise substantial funds by refinancing existing properties as the related debts mature. In addition, after newly acquired properties are stabilized, the Corporation expects to raise funds by refinancing these properties. As of September 30, 2009, the Corporation owns the following 11 clear title properties:

Property	Number of units	Cost of acquisition (\$000s)
336 – 18 Avenue SW, Calgary, AB	4	–
338 – 18 Avenue SW, Calgary, AB	3	–
205 Ross Avenue, Cochrane, AB	42	\$ 3,607
11920 – 82 Street, Edmonton, AB	13	\$ 800
10125 – 114 Street, Edmonton, AB	24	\$ 1,103
33136 George Ferguson Way, Abbotsford, BC	84	\$ 8,300
33405 Bourquin Place, Abbotsford, BC	60	\$ 5,400
128 Avenue O, Saskatoon, SK	11	\$ 455
202 Avenue N South, Saskatoon, SK	19	\$ 830
3701 – 8 Street E, Saskatoon, SK	24	\$ 1,824
1622 – 22 Street, Saskatoon, SK	24	\$ 921
Total	308	\$ 23,240

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

Contractual Obligations

As of September 30, 2009, the Corporation had the following contractual obligations, which will be met using existing cash on hand, funds from operations, and proceeds from the renewal of mortgage loans on maturity.

Payments Due by Period

(000s of dollars)

	Total	2010	2011	2012	2013	2014	Subsequent
Mortgages payable	379,899	77,428	9,844	10,967	56,409	76,818	148,433

Long-Term Debt

(000s of dollars)

	Amount	Average interest rate (%)
Fixed rate debt		
– CMHC-insured	308,136	4.73%
– non-CMHC-insured	42,481	6.04%
Total fixed rate debt	350,617	4.89%
Floating rate debt		
– non-CMHC-insured	29,282	5.39%
	379,899	4.93%

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

As of September 30, 2009, mortgages payable were \$380 million compared with \$308 million at September 30, 2008 – an increase of 23% due to additional mortgage loans of \$65 million being raised after refinancing of \$34 million short-term and matured mortgages on stabilized properties through 2009.

At September 30, 2009, the Corporation's financial position was stable, with overall mortgage levels reported at 110% of depreciated book value and 56% of estimated market value. About 81% 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 debt. In 2009, the Corporation financed \$98 million long-term CMHC-insured mortgages at an average interest rate of 4.35%. The additional funds generated from financing are expected to be used for future expansion.

Mortgage Maturity Schedule

(000s)

Maturing during the 12 month period ending September 30	Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2010	\$ 71,061	19%	5.76%
2011	\$ 3,290	1%	6.17%
2012	\$ 4,516	1%	4.63%
2013	\$ 53,101	14%	4.44%
2014	\$ 78,922	21%	3.94%
Subsequent	\$ 169,009	44%	5.17%
	\$ 379,899	100%	4.93%

Approximately 19% of mortgage loans will mature within the next 12 months, due mainly to the acquisition of undervalued properties, all requiring renovation. Upon acquisition, these properties are financed through short-term, floating-rate loans. When the properties are stabilized, these short-term loans are anticipated to be refinanced under long-term, CMHC-insured mortgages.

Internal Control

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and other key management personnel have conducted an evaluation of the effectiveness of the Corporation's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures were effective as at September 30, 2009, to provide reasonable assurance that all material financial information relating to the Corporation was made known to the CEO and CFO by others within the Corporation in order for them to complete their analysis and review of the financial position and results of the Corporation for the period ended September 30, 2009.

The Corporation evaluated the design of its internal controls over financial reporting as defined in Multilateral Instrument 52-109 for the period ended September 30, 2009; and based on this evaluation, it has determined these controls to be effective except as noted in the following paragraph.

This evaluation of the design of internal control over financial reporting for the Corporation resulted in the identification of 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 increase. The risk of material misstatement is mitigated by direct involvement of senior management in the day-to-day operations of the Corporation and review of the financial statements and disclosures by senior management and the Board of Directors. These mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. There were no changes during the fourth quarter of 2009 and financial year ended September 30, 2009 to material weaknesses in internal controls over financial reporting.

Financial Instruments and Their Risk Management

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

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

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

	September 30, 2009		September 30, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Restricted cash	\$ 1,464	\$ 1,464	\$ 1,576	\$ 1,576
Cash and cash equivalents	25,005	25,005	8,485	8,485
Accounts receivable	381	381	219	219
Other receivable and deposits	4,028	4,028	5,399	5,399
Financial liabilities				
Mortgages	379,899	394,097	308,313	307,994
Accounts payable	4,386	4,386	5,345	5,345
Refundable security deposits	\$ 1,945	\$ 1,945	\$ 2,066	\$ 2,066

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 – comprises the following:

Interest Risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$71 million are subject to renewal in the next 12-month period. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by CMHC under the National Housing Association ("NHA") mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and it significantly reduces the potential for a lender to call a loan prematurely. A 1% change in the prime lending rate would have resulted in a change of \$293,000 in interest expense for the year ended September 30, 2009.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an in-depth credit assessment of all tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation.

Liquidity Risk

Liquidity risk is the risk 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:

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 77,428	\$ 9,844	\$ 10,967	\$ 56,409	\$ 225,251	\$ 379,899
Accounts payable	\$ 4,386	–	–	–	–	\$ 4,386
Refundable security deposits	\$ 1,945	\$ –	\$ –	\$ –	\$ –	\$ 1,945

Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

	2009		2008	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the year	14,487,876	\$ 36,928	11,910,393	\$ 18,837
Issued pursuant to conversion of debenture	–	–	2,853,280	18,794
Shares purchase loan	–	(974)		
Purchase and cancellation of shares	(4,132,049)	(10,532)	(275,797)	(703)
Issued and outstanding, end of the year	10,355,827	\$ 25,422	14,487,876	\$ 36,928

Management believes the Corporation's recent share prices are substantially undervalued. During the financial year ended September 30, 2009, the Corporation purchased for cancellation 4,132,049 common shares for an average price of \$6.35 per common share under the substantial and normal course issuer bid. As the common shares were purchased for an amount higher than their average book value per common share, \$302,000 has been charged to contributed surplus, and \$15,389,000 has been charged to retained earnings.

Stock Option Plan

A summary of the Corporation's stock option plan as of September 30, 2009 and 2008, and changes during the years ended on those dates are presented below:

Stock option	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of year	318,700	\$ 15.02	318,700	\$ 15.02
Granted	925,000	\$ 5.51	—	—
Outstanding and exercisable, end of year	1,243,700	\$ 7.95	318,700	\$ 15.02

During financial year 2009, the Corporation granted options to its directors and officers to purchase 925,000 (2008 – Nil) common shares at the market price of \$5.51 per common share at the date of the grant. The stock options expire on March 10, 2019 and are fully vested at the time of issue. The fair value of the options was determined at the date of the grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included risk-free interest rate of 2.29%; expected life of the stock options of 10 years; expected volatility rate of 51%; and expected dividend rate of 0%. The fair value amounting to \$3,370,000 is recognized as stock compensation expense in income with a corresponding increase to contributed surplus. As of September 30, 2009, none of the stock options were exercised.

Significant Accounting Policies and Estimates

General

Mainstreet is a real estate corporation specializing in the acquisition and rental of multiple-unit residential buildings.

Basis of Presentation

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

Revenue Recognition

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

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

Revenue-producing Real Estate Properties

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

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

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

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

Properties Held for Resale

Periodically, the Corporation makes an assessment of its portfolio and determines whether properties should be retained or sold in order to redeploy capital to investments with higher potential. When a determination is made to sell a property, it is transferred to properties held for sale. In certain other situations, the Corporation also purchases buildings with the intention of selling the property within a predetermined period of time. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

Cash and Cash Equivalents

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

Amortization

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

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

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

Comprehensive Income

Comprehensive income comprises net earnings and other comprehensive income (“OCI”), which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI would generally include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. For the years ended September 30, 2009 and 2008, there were no other comprehensive income items.

Financial Instruments and Hedges

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

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

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

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

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

Stock Option Plans

The Corporation has shareholder-approved stock option plans. For stock options issued prior to January 1, 2003, no compensation expense is recognized for the plan when the stock options are issued.

For stock options issued after January 1, 2003, the fair value of the stock options is determined at the date of grant using an acceptable option-pricing model. The fair value is recognized as stock compensation expense over the vesting period of the options with a corresponding increase to contributed surplus. Any consideration paid on exercise of stock options is credited to share capital as well as the amounts previously credited to contributed surplus for services rendered that were charged to compensation cost.

Fair Value

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

The fair value of mortgages payable is disclosed below:

	2009		2008	
(000s of dollars)	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	379,899	394,097	308,313	307,994

Earnings per Share

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

Income Taxes

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

Transactions with Related Parties

- The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to \$188,800 (2008 – \$355,000) respectively.
- The Corporation paid legal and professional fees and reimbursements amounting to \$130,000 (2008 – \$113,000) to a law firm of which a director and officer of the Corporation is a partner.
- The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$974,000 as at September 30, 2009 (September 30, 2008 – \$980,000), were advanced on October 31, 2005. The loans are interest free and secured against 243,800 common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2009 was \$7.90 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to quarterly payments over the next five years effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

Proposed Transactions

Subsequent to the financial year ended September 30, 2009, the Corporation obtained approval from the TSX to continue the repurchase under a Normal Course Issuer Bid commencing in October 2009 until October 2010. As of December 1, 2009, a total of 2,826 common shares had been repurchased at an average price of \$8.36 per common share.

The Corporation has obtained a line of credit amounting to \$22 million from the Alberta Treasury Branch.

On September 30, 2009, the Corporation entered into an agreement to sell three properties (95 units) for a total consideration of approximately \$13 million. Mainstreet expects the transactions to be closed before Q2 2010.

Appraisal Report

The market value of Mainstreet's properties held on September 30, 2009 was determined by the following qualified appraisers:

Location	Name of Appraisers	Qualification	Firm
Vancouver Lower Mainland (Abbotsford and Surrey)	James Glen	AACI	Colliers International
Calgary and Edmonton	Tony Omura & Ken Ho	AACI	Wernick Omura Ltd, Calgary
Saskatoon	Tony Omura	AACI	Wernick Omura Ltd, Calgary
Greater Toronto Area	Tony Omura & Sandy Mandel	AACI	Sanford Mandell & Associates Inc, Toronto

Mainstreet's total portfolio is independently estimated to be valued at \$679 million. The breakdown of the estimated market value by city is set forth below:

	Number of units	Market value \$ million	Average value per unit (\$)	Average value capitalization rate
Calgary, Alberta	1,146	174	152,000	5.8%
Edmonton, Alberta	1,802	214	119,000	6.3%
Saskatoon, Saskatchewan	758	66	87,000	7.0%
Greater Toronto Area, Ontario	664	49	74,000	6.7%
Vancouver/Lower Mainland (Abbotsford & Surrey), BC	1,474	163	118,000	6.0%
Property held for resale (Calgary, Alberta)	95	13	137,000	5.8%
Total	5,939	679	114,000	

Off Balance Sheet Arrangements

No off balance sheet arrangements have been made by the Corporation for the three- and 12-month periods ended September 30, 2009.

Risk Assessment and Management

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

Vacancy Risk

The Corporation is subject to tenant vacancy risk when, in some markets and under certain economic conditions, housing/condominiums are affordable, financing is readily available and interest rates are low, making it easier for renters to become first-time home buyers. 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 totaling \$71 million are subject to renewal in the 2010 financial year. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of Mainstreet's mortgages are insured by Canada Mortgage and Housing Corporation (CMHC) under the National Housing Association (NHA) mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, significantly reducing the potential for a lender to call a loan prematurely.

Utilities Risk

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

Credit Risk

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

Financing Risk

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

Reliance on Key Employees

Mainstreet's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. Mainstreet does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations are likely to be of central importance. In addition, 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 recent worldwide economic slowdown, stock market uncertainty and international credit crisis could adversely impact the business and future profitability of the Corporation. During the current period of recession, tenants may experience financial difficulty and may default in payment of rent or possibly look for less expensive accommodations. In addition, Mainstreet's ability to obtain financing or renegotiate line of credit financing may be negatively affected by the international credit crisis. The Corporation can predict neither the impact current economic condition will have on future financial results nor when the general economy will show meaningful improvement.

International Financial Reporting Standards

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

The Corporation has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities such as financing and compensation arrangements, prior to December 31, 2010.

Challenges

Through 2007 and 2008, the Corporation's greatest challenges included a persistent labour crunch (which protracted cycle times and spurred ever-escalating costs for qualified tradespeople), low-supply restrictions in the acquisition pipeline, and higher costs of borrowing cash.

Today, those challenges are largely behind the Corporation. In their place have come the typical repercussions of an economic downturn on the apartment rental business:

Operational Challenges

- **Softening in the rental market.** Negative GDP and higher unemployment have historically precipitated higher vacancy rates, and the present economic recession was no exception. In 2009, Mainstreet experienced high vacancy rates in the portfolio.
- **Lower rent coupled with higher concessions.** As a result of softening in the rental market, Mainstreet has been impelled to adjust its rental rents and install rental incentives in some key locations.
- **A more rapidly revolving door.** Recessionary conditions tend to spur a higher 'churn rate' in mid-market apartment rentals; and during the past 12 months, Mainstreet experienced a higher tenant turnover rate than in past years.
- **More bad debts.** With economic turmoil come increased unemployment and wage rollbacks; and with these come an increase in the number of tenants who default on rent payments – a challenge that negatively impacted Mainstreet's rental revenue in 2009.
- **Idle cash.** As of September 30, 2009, the Corporation had \$25 million cash in hand, which incurs interest expenses but generates no income. Management will endeavour to invest these funds into revenue producing properties that generate operational income and offset expenses.

CMHC anticipates that in 2010, improvements in economic activity coupled with a decrease in housing supply will strengthen demand for apartment rentals and put upward pressure on rental rates.

Capital Market Challenges

Undervalued shares. The volatility and fragility of the capital markets through 2009 precipitated a decline in Mainstreet's share price. Valued at \$12.95 on September 30, 2008, the Corporation's share price ended a year of significant fluctuations at \$7.90 on September 30, 2009. To address the disconnect between market prices and what Mainstreet believes to be the true value of Mainstreet shares, the Corporation has been repurchasing and cancelling common shares through substantial and normal course issuer bids. Mainstreet's share price increased to \$9.00 as of December 4, 2009.

Debt Market Challenges

Management remains concerned about restrictions placed on the mortgage debt market during the past year, and increased spreads may negatively impact our strategy for growth. Fortunately, the debt market appears to be easing. Subsequent to the financial year ended September 30, 2009, the Corporation obtained an Alberta Treasury Branch line of credit amounting to \$22 million.

Outlook & Strategy

Where other companies saw challenge, loss and devastation in the economic conditions that prevailed in 2009, Mainstreet saw opportunity. Amid the rubble of the economic crash, Mainstreet found everything it needed to build a solid foundation for the next market cycle. Structurally and strategically, Mainstreet went through many positive transformations. And with cash in hand, excellent cash flow and the capacity to borrow, Mainstreet is well positioned for continued growth.

With so many opportunities for growth and profitability in our existing markets, we will remain focused in 2010 on our current geographic locations, where we will continue to consolidate and add value to the mid-market apartment rental space.

For the coming year, our business goals include:

- Seizing the current market's exceptional opportunities to acquire 'add value' mid-market buildings in Mainstreet's existing geographic platforms;
- Taking advantage of low interest rates and mitigating risk by consolidating the balance of our floating debt with long-term, lower interest CMHC-insured mortgages;
- Continuing to take advantage of recessionary conditions to build a stronger, more effective team;
- Building reoccurring cash flow by renovating and stabilizing our entire portfolio of properties;
- Maximizing margins;
- Continuing the normal course issuer bid as management believes that Mainstreet shares are undervalued; and
- Reducing vacancy rates in Mainstreet apartments. (With renovations nearly complete on our existing portfolio, every 1% drop in our overall vacancy rate is expected to add \$634,436 annually to Mainstreet's NOI).

ADDITIONAL INFORMATION

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

Management's Report

To the Shareholders of Mainstreet Equity Corp.:

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

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

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

(signed)

Bob Dhillon
Director

December 4, 2009

(signed)

Joe Amantea
Director

Auditors' Report

To the Shareholders of Mainstreet Equity Corp.:

We have audited the balance sheets of Mainstreet Equity Corp. as at September 30, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Deloitte & Touche LLP
Chartered Accountants

December 4, 2009
Calgary, Alberta

Balance Sheets

Audited

(000s of dollars)

As at	Final adjusted September 30, 2009	September 30, 2008
ASSETS		
Real estate properties (Note 2)	\$ 338,110	\$ 307,303
Properties held for resale (Note 1)	5,981	9,039
Other assets (Note 3)	4,433	5,688
Future income tax recoverable (Note 6)	6,174	5,424
Restricted cash (Note 4)	1,464	1,576
Cash and cash equivalents	25,005	8,485
	\$ 381,167	\$ 337,515
LIABILITIES		
Mortgages payable (Note 5)	379,899	308,313
Accounts payable	4,386	5,345
Refundable security deposits	1,945	2,066
	386,230	315,724
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	25,422	36,928
Contributed surplus	3,369	302
Deficit	(33,854)	(15,439)
	(5,063)	21,791
	\$ 381,167	\$ 337,515

Guarantees (Note 12)

See accompanying notes to the financial statements

(signed)

(signed)

Bob Dhillon
DirectorJoe Amantea
Director

Statements of Loss and Comprehensive Loss and Deficit

Audited

(000s of dollars, except per share amounts)

For the years ended September 30	2009	2008
Revenue		
Rental revenue	\$ 50,822	\$ 44,509
Net gain on sale of properties held for resale	–	726
Interest income	207	248
	51,029	45,483
Expenses		
Property operating expenses	20,209	19,377
Utility rebate	(91)	(183)
General and administrative expenses	5,646	5,602
Mortgage and debenture interest	16,899	14,341
Financing costs	3,334	2,585
Depreciation	11,595	9,706
Stock compensation expense (Note 8)	3,370	–
	60,962	51,428
Loss before income taxes	(9,933)	(5,945)
Income taxes (recovery) expense (Note 6)	–	–
– current	79	80
– future	(1,599)	(1,316)
	(1,520)	(1,236)
Net loss and comprehensive loss from continuing operations	(8,413)	(4,709)
Net income from discontinued operations (Note 10)	5,387	429
Net loss for the year including comprehensive income	(3,026)	(4,280)
Deficit beginning of year	(15,439)	(11,159)
Prior period adjustment	–	–
(Deficit) retained earnings, beginning of year restated	(15,439)	(11,159)
Excess over the average value of the shares purchased for cancellation (Note 8)	(15,389)	–
Deficit, end of year	\$ (33,854)	\$ (15,439)
Loss per share – Basic and diluted (Note 9)	\$ (0.26)	\$ (0.29)

See accompanying notes to the financial statements

Statements of Cash Flows

Audited

(000s of dollars)

For the years ended September 30

2009

2008

Cash obtained from (used in):**Operating activities**

Net loss	\$	(3,026)	\$	(4,280)
Items not affecting cash				
(Income) loss from discontinued operations, net of tax		(5,387)		(429)
Depreciation		11,595		9,706
Future income taxes		(1,599)		(1,316)
Stock compensation expense		3,370		—
Net gain on sale of properties held for resale		—		(726)

Cash from discontinued operations

	\$	4,953	\$	2,955
Cash from discontinued operations	\$	573	\$	828
Change in non-cash operating balances				
Other assets		280		(2,886)
Restricted cash		112		391
Accounts payable		(959)		321
Refundable security deposits		(121)		99
		4,838		1,708

Financing activities

Financing of real estate properties		98,372		89,223
Repayment of secured debts on revenue producing properties, and other debts		(44,921)		(50,537)
Shares purchased for cancellation		(26,224)		(3,791)
		27,227		34,895

Investing activities

Net proceeds on sale of real estate property		9,006		7,145
Purchase of and addition to real estate properties		(20,670)		(38,344)
Purchase of and addition to real estate held for resale		(3,881)		(142)
		(15,545)		(31,341)

Net increase (decrease) in cash and cash equivalents**Cash and cash equivalents (bank indebtedness), beginning of year**

		16,520		5,262
		8,485		3,223

Cash and cash equivalents (bank indebtedness), end of year**Cash and cash equivalents (bank indebtedness) are comprised:**

Cash (Bank Indebtedness)	\$	3,825	\$	(605)
Short-term deposits	\$	21,180	\$	9,090
	\$	25,005	\$	8,485

Income taxes paid**Interest paid**

	\$	20	\$	30
	\$	17,503	\$	15,116

See accompanying notes to the financial statements

Notes to the Financial Statements

For the years ended September 30, 2009 and 2008

(000s of dollars, except per share amounts)

1. Significant Accounting Policies

GENERAL

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

BASIS OF PRESENTATION

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

REVENUE RECOGNITION

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

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

REVENUE PRODUCING REAL ESTATE PROPERTIES

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

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

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

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

PROPERTIES HELD FOR RESALE

Periodically, the Corporation makes an assessment of its portfolio and determines whether properties should be retained or sold in order to redeploy capital to investments with higher potential. When a determination is made to sell a property it is transferred to properties held for sale. In

certain other situations, the Corporation also purchases buildings with the intention of selling the property within a pre-determined period of time. The Corporation capitalizes property taxes, interest charges and other direct costs, net of any revenue, to properties held for sale. The properties are recorded at the lower of cost or net realizable value.

CASH AND CASH EQUIVALENTS

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

AMORTIZATION

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

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

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

COMPREHENSIVE INCOME

Comprehensive Income is comprised of net earnings and other comprehensive income “OCI”, which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale, For the financial year ended September 30, 2009 and 2008, there were no other comprehensive income items.

FINANCIAL INSTRUMENTS AND HEDGES

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

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

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

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

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

STOCK OPTION PLAN

The Corporation had stock option plans, which are described in Note 8.

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

FAIR VALUE

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

EARNINGS PER SHARE

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

INCOME TAXES

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

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted the following CICA Handbook sections as of October 1, 2008:

* Section 3031, Inventories; and

* Section 3064, Goodwill and intangible assets.

There was no material impact on the financial statements upon adoption of these sections by the Corporation in financial year 2009.

2. Real Estate Properties

	September 30, 2009			September 30, 2008		
	Cost	Accumulative depreciation	Net book value	Cost	Accumulative depreciation	Net book value
Land	\$ 110,963	\$ –	\$ 110,963	\$ 98,788	\$ –	\$ 98,788
Buildings	225,428	25,969	199,459	206,305	20,531	\$ 185,774
Building improvements	49,677	23,438	26,239	39,098	17,608	21,490
Furniture and fixtures	2,704	1,255	1,449	2,178	927	1,251
	\$ 388,772	\$ 50,662	\$ 338,110	\$ 346,369	\$ 39,066	\$ 307,303

ACQUISITIONS OF APARTMENT BUILDINGS

(000s)	2009	2008
Mortgages arranged	9,037	2,899
Cash paid	11,860	18,722
Total consideration	\$ 20,897	\$ 21,621
Allocation of total consideration		
Land	\$ 12,185	\$ 10,337
Buildings	17,810	15,283
Debt assumed at fair value	(9,098)	(3,999)
	\$ 20,897	\$ 21,621
Units acquired	413	312

The property purchased during the period required a considerable amount of capital improvements. Efforts are currently underway to remove the current tenant base and to begin renovating the property. As such, upon review of the leases and the tenant relationships relating to the buildings acquired, the Corporation has established that there is no significant value associated with above and below value leases, in place leases or customer relationships associated with the properties. Therefore, the Corporation has not placed any value on the intangible assets acquired upon the acquisition.

DISPOSITION

(000s)

	2009	2008
Net proceeds	\$ 9,006	7,145
Net book value	\$ 3,121	6,419
Gain on disposition	\$ 5,885	726
Unit disposed	58	86

3. Other Assets

	2009	2008
Accounts receivable	\$ 381	\$ 219
Other receivable	2,715	3,314
Loans to employees (Note 14c)	–	980
Deferred rent concession	25	70
Deposits and prepayments	1,313	1,105
	\$ 4,434	\$ 5,688

4. Restricted Cash

Restricted cash represents deposits from tenants for apartment security deposits.

5. Mortgages Payable

Mortgages payable bearing interest at a weighted average rate of 4.93% (2008 – 5.17%) per annum, are payable in monthly principal and interest installments totaling \$2,128,000 (2008 – \$1,724,000), maturing from 2010 to 2018 and are secured by specific charges against specific properties, having a carrying value of \$344,092,000 (2008 – \$316,342,000) and several personal guarantees of certain directors to the extent of \$3,454,000 (September 30, 2008 – \$9,912,000).

	2009	2008
	\$ 379,899	\$ 308,313

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

Year	Amount
2010	\$ 77,428
2011	\$ 9,844
2012	\$ 10,967
2013	\$ 56,409
2014	\$ 76,818
Subsequent	\$ 148,433
	\$ 379,899

6. Income Taxes

	2009	2008
The income tax recovery		
– Continuing operations	\$ (1,520)	\$ (1,236)
– Discontinued operations	849	169
Total income tax recovery	\$ (671)	\$ (1,067)

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

(000s)	2009	2008
Statutory tax rate	31.76%	31.74%
Computed expected tax	\$ (1,174)	\$ (1,697)
Non-taxable portion of taxable capital gain	(1,027)	(97)
Stock compensation expense	1,070	–
Large corporation tax	79	80
Reduction in future tax asset for change in future tax rate	94	642
Others	287	5
Provision for income tax	\$ (671)	\$ (1,067)

The future income tax asset is calculated as follows:

(000s)	2009	2008
September 30		
Tax assets related to differences in tax and book bases	\$ 6,174	\$ 5,424

7. Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

	2009		2008	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the year	14,487,876	\$ 36,928	11,910,393	\$ 18,837
Issued pursuant to conversion of debenture	–	–	2,853,280	18,794
Shares purchase loan (note 14c)	–	(974)		
Purchase and cancellation of shares	(4,132,049)	(10,532)	(275,797)	(703)
Issued and outstanding, end of the year	10,355,827	\$ 25,422	14,487,876	\$ 36,928

In December, 2008, the Corporation proceeded with a substantial issuer bid to purchase up to 4,000,000 common shares of the Corporation (of which 3.3 million common shares were purchased). On February 20, 2009, the Corporation obtained approval from the TSX to amend the normal course issuer bid granted in August 2008 to purchase an additional 342,437 common shares by July 1, 2009.

During the financial year ended September 30, 2009, the Corporation purchased for cancellation 4,132,049 common shares for an average price of \$6.35 per common share. As the common shares were purchased for an amount higher than their average book value per common share, \$302,000 has been charged to contributed surplus, and \$15,389,000 has been charged to retained earnings.

8. Stock Option Plan

A summary of the Corporation's stock option plan as of September 30, 2009 and 2008, and changes during the years ended on those dates is presented below:

Stock option	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding and exercisable, beginning of year	318,700	\$ 15.02	318,700	\$ 15.02
Granted	925,000	\$ 5.51	–	–
Outstanding and exercisable, end of year	1,243,700	\$ 7.95	318,700	\$ 15.02

During financial year 2009, the Corporation granted options to its directors and officers to purchase 925,000 (2008 – Nil) common shares at the market price of \$5.51 per common share at the date of the grant. The stock options expire on March 10, 2019 and are fully vested at the time of issue. The fair value of the options was determined at the date of the grant using the Black-Scholes Model. The assumptions used in determining the fair value of the stock options included risk free interest rate of 2.29%; expected life of the stock options of 10 years; expected volatility rate of 51% and expected dividend rate of 0%. The fair value amounting to \$3,370,000 is recognized as stock compensation expense in income with a corresponding increase to contributed surplus. As of September 30, 2009, none of the stock options were exercised.

9. Loss per Share

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

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

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

(000s, except share and per share amounts)	2009	2008
Numerator		
Net loss	\$ (3,026)	\$ (4,280)
Denominator		
For basic loss per share		
Weighted average shares	11,572,749	14,560,145
Dilutive effect	–	–
For diluted loss per share	11,572,749	14,560,145
Basic and diluted loss per share	\$ (0.26)	\$ (0.29)

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

10. Disposal of Long-lived Assets and Discontinued Operations

During the fourth quarter of 2009, the Corporation completed the sale of a 58-unit rental property located in Calgary, Alberta. This property formed part of our Alberta segment in our segmented information disclosure.

The results of operations associated with the long-lived asset, separately reported as discontinued operations for 2009 and 2008 are as follows:

	2009	2008
Rental Income	\$ 1,470	\$ 1,682
Property operating expenses	\$ 434	\$ 400
Utility rebate	\$ (9)	\$ (11)
General and administrative expenses	\$ 137	\$ 120
Mortgage and debenture interest	\$ 335	\$ 345
Depreciation	\$ 222	\$ 230
	\$ 1,119	\$ 1,084
Income from discontinued operations before income taxes	\$ 351	\$ 598
Income tax	\$ 99	\$ 169
Income from discontinued operations	\$ 252	\$ 429
Gain on disposition	\$ 5,885	–
Income tax	\$ 750	–
Gain on disposition after income taxes	\$ 5,135	–
Income from discontinued operations	\$ 5,387	\$ 429

The total net income from discontinued operations includes \$252,000 net income from discontinued operations and \$5,135,000 gain on disposition of a 58-unit rental property in Alberta in 2009.

11. Financial Instruments and Risk Management

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

	September 30, 2009		September 30, 2008	
(000s)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Restricted cash	\$ 1,464	\$ 1,464	\$ 1,576	\$ 1,576
Cash and cash equivalents	25,005	25,005	8,485	8,485
Accounts receivable	381	381	219	219
Other receivable and deposits	4,028	4,028	5,399	5,399
Financial liabilities:				
Mortgages	379,899	394,097	308,313	307,994
Accounts payable	4,386	4,386	5,345	5,345
Refundable security deposits	\$ 1,945	\$ 1,945	\$ 2,066	\$ 2,066

RISK ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

MARKET RISK

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

Interest Risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling \$71 million are subject to renewal in the next 12 month period. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages. The majority of the Corporation's mortgages are insured by CMHC under the National Housing Association "NHA" mortgage program. This added level of insurance offered to lenders allows the Corporation to receive the best possible financing and interest rates, and 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 \$293,000 in interest expense for the year ended September 30, 2009.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Corporation incurring a financial loss. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an in-depth credit assessment of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation.

Liquidity Risk

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

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

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	\$ 77,428	\$ 9,844	\$ 10,967	\$ 56,409	\$ 225,251	\$ 379,899
Accounts payable	\$ 4,386	—	—	—	—	\$ 4,386
Refundable security deposits	\$ 1,945	\$ —	\$ —	\$ —	\$ —	\$ 1,945

12. Guarantees

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

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

13. Commitments and Contingencies

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

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

14. Related Party Transactions

- The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to \$188,800 (2008 – \$355,000) respectively.
- The Corporation paid legal and professional fees and reimbursements amounting to \$ 130,000 (2008 – \$113,000) to a law firm of which a director and officer of the Corporation is a partner.
- The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – \$974,000 as at September 30, 2009 (September 30, 2008 – \$980,000), were advanced on October 31, 2005. The loans are interest free and secured against 243,800 common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2009 was \$7.90 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to quarterly payments over the next five years effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

15. Utility rebate

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

16. Segmented information

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

RENTAL OPERATIONS

(000s)	2009	2008
ALBERTA		
Rental revenue	\$ 27,400	\$ 25,653
Operating expenses	9,986	9,908
BRITISH COLUMBIA		
Rental revenue	11,793	10,041
Operating expenses	4,387	3,986
ONTARIO		
Rental revenue	6,878	6,456
Operating expenses	3,774	3,750
SASKATCHEWAN		
Rental revenue	4,751	2,359
Operating expenses	1,971	1,550
TOTAL		
Rental revenue	50,822	44,509
Operating expenses	20,118	19,194
Unallocated revenue *	207	974
Unallocated expenses **	39,324	30,998
Net loss from continuing operations for the year	(8,413)	(4,709)
Net income from discontinued operations – Alberta	5,387	429
Net loss for the year	\$ (3,026)	\$ (4,280)

* Unallocated revenue includes interest income and net gain on sale of properties held for resale.

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

IDENTIFIABLE ASSETS AND LIABILITIES

(000s)

September 30	2009	2008
ALBERTA		
Real estate properties	\$ 143,753	\$ 141,934
Mortgages payable	226,511	180,879
Security deposit	1,079	1,361
BRITISH COLUMBIA		
Real estate properties	107,845	92,148
Mortgages payable	83,756	75,769
Security deposit	533	490
ONTARIO		
Real estate properties	47,306	48,135
Mortgages payable	39,089	37,484
SASKATCHEWAN		
Real estate properties	39,206	25,086
Mortgages payable	30,543	14,181
Security deposit	333	215
TOTAL		
Real estate properties	\$ 338,110	\$ 307,303
Mortgages payable	\$ 379,899	\$ 308,313
Security deposit	\$ 1,945	\$ 2,066
Properties held for resale – Alberta	\$ 5,981	\$ 9,039

IDENTIFIABLE CAPITAL EXPENDITURES

(000s)

September 30	2009	2008
ALBERTA		
Capital expenditures	7,931	10,020
BRITISH COLUMBIA		
Capital expenditures	18,483	19,878
ONTARIO		
Capital expenditures	864	1,724
SASKATCHEWAN		
Capital expenditures	15,432	6,721
TOTAL		
Identifiable capital expenditures	42,710	38,343

17. Capital Management

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

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

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

The total managed capital for the Corporation as at September 30, 2009, and September 30, 2008, are summarized below:

(000s)

September 30	2009	2008
Mortgage Payable	\$ 379,899	\$ 308,000
Shareholders' equity	\$ (5,000)	\$ 22,000
Total capital	\$ 374,899	\$ 330,000

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

The ratios at September 30, 2009 and 2008, were as follows:

(000s)

September 30	2009	2008
Debt	\$ 379,899	\$ 308,313
Market value	679,000	625,000
Debt to market value ratio	56%	49%

In managing the capital requirement, the management makes assessment on the capital and liquid resources required to ensure the going concern of the Corporation's operations. As of September 30, 2009, the Corporation has cash balances of \$25 million. The management believes that the existing liquid resources and funds to be raised through the refinancing are sufficient to support the Corporation's operation on the going concern basis.

18. Subsequent Events

Subsequent to the financial year ended September 30, 2009, the Corporation has obtained approval from the TSX to continue the repurchase under a Normal Course Issuer Bid commencing in October 2009 until October 2010. As of December 1, 2009, a total of 2,826 common shares have been repurchased at a average price of \$8.36 per common share.

The Corporation has obtained a line of credit amounting to \$22 million from the Alberta Treasury Branch.

On September 30, 2009, the Corporation entered in an agreement to sell three properties (95 units) for a total consideration of approximately \$13 million. The transactions are expected to be closed before Q2 2010.

Corporate Information

Officers

President and CEO

Bob Dhillon
Calgary, AB

Secretary

Joe Amantea
Calgary, AB

Chief Financial Officer & Chief Operating Officer

Johnny Lam
Calgary, AB

VP, Operations

Don Murray
Calgary, AB

Board of Directors

Joe Amantea
Calgary, AB

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

Lawrence Tapp
Langley, BC

Directors' Committees

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair

Lawrence Tapp
Langley, BC

Rich Grimaldi
Westport, CT

John Irwin
London, ON

Karanveer Dhillon
San Francisco, CA

Human Resource Committee

Chair
Joe Amantea
Calgary, AB

Rich Grimaldi
Westport, CT

Lawrence Tapp
Langley, BC

Investor Relations

Bob Dhillon
Tel: 403 215-6063
Fax: 403 264-8870
bdhillon@mainst.biz

Financial Inquiries

Johnny Lam
Tel: 403 215-6067
Fax: 403 266-8867
jlam@mainst.biz

Registrar & Transfer Agent

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

Auditors

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

Solicitors

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

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

Banker

TD Canada Trust
335 – 4 Avenue SW
Calgary, AB

Stock Exchange

Toronto Stock Exchange
(TRADING SYMBOL: MEQ)

Head Office

Mainstreet Equity Corp.
Suite 100
1122 – 8 Avenue SW
Calgary, AB T2P 1J5

Tel: 403 215-6060
Fax: 403 266-8867
mainstreet@mainst.biz
www.mainst.biz

DESIGN & PRODUCTION
ion communications inc.

Reasons to Invest in Apartments and Mainstreet

WHY APARTMENTS?

BELOW REPLACEMENT COST

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

NEED

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

CONTINUED LOW INTEREST RATES

Mortgage interest rates are expected to remain near current low levels through 2009 and insured mortgage loans at attractive rates are available to multi-family investors through the Canada Mortgage and Housing Corporation (CMHC).

POSITIVE DEMOGRAPHICS

People who prefer rental housing – including singles, the 50–65 age group and the 20–29 year old “echo boomers” – are increasing in numbers. The number of echo boomers alone is projected to rise by about 200,000 (Stats Canada). As well, strong rental demand across Canada’s metropolitan centres is expected to continue in 2009, due to high immigration into Canada, especially Ontario and B.C., and inter-provincial migration into Alberta and B.C. (CMHC).

CLASSIFIED AS A “SAFE ASSET”

In 2008 Moody’s Investors Service ranked the multi-family rental market at 99 points out of 100. The score is the strongest amongst all property types measured by Moody’s.

WHY MAINSTREET?

TRACK RECORD OF GROWTH

Since 1998, Mainstreet has achieved a 43% average compound annual growth rate in the value of its portfolio.

SHARES TRADING BELOW NAV

Mainstreet shares currently trade below its estimated net asset value.

NON-DILUTIVE GROWTH

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

STRONG MANAGEMENT ALIGNMENT

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

COMPETITIVE ADVANTAGE

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

www.mainst.biz