2011 Annual Report

Positive Trends & Value Creation Continue

MAINSTREET
EQUITY CORP.

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

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

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Forward-looking information

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

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

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TRENDS

($ millions except number of units, percentages and shares)	% change 2010 vs. 2011	2011	2010	2009	2008	2007
Property rental revenue	21%	**$ 64.2**	$ 53.1	$ 50.8	$ 46.28	$ 40.4
Net operating income – from continuing operations	23%	**$ 40.8**	$ 33.2	$ 31.3	$ 26.6	$ 24.7
Funds from operations before financing cost and gain on disposition	47%	**$ 13.6**	$ 9.3	$ 8.3	$ 5.5	$ 5
Operating margins	1%	**63%**	62%	60%	57%	61%
Vacancy rate **(Dec. 1, 2011 – 8.1%)**	2.8%	**11.30%**	14.10%	9.60%	4.60%	12.8%
Total number of units	15%	**7,362**	6,419	5,939	5,584	5,250
Market value of the portfolio	21%	**$ 911**	$ 752	$ 679	$ 625	$ 710
Number of shares outstanding	–	**10,401,281**	10,377,615	10,355,827	14,487,876	11,910,393

MESSAGE FROM THE PRESIDENT & CEO

September 30, 2011 Fiscal Year End

2011: POSITIVE TRENDS AND VALUE CREATION CONTINUE

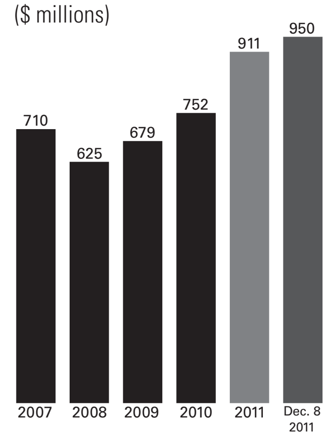
In fiscal 2011, Mainstreet Equity Corp. ("Mainstreet" or the "Corporation") had a strong year. It increased its revenue, NOI, FFO and operating margins by focusing on accelerating the stabilization process and reducing the vacancy rate across its portfolio. As a result, the total number of stabilized units increased by 19 per cent to 5,700 units from 4,795 units in 2010 while the average overall vacancy rate dropped from 14.1 per cent to 11.3 per cent. Subsequent to year end, the overall vacancy rate dropped further to 8.1 per cent as of December 1, 2011. The vacancy rate includes approximately 136 un-rentable units in buildings that are undergoing reconstruction. Excluding those units, our vacancy rate stood at 6.5 per cent as of December 1, 2011. We achieved this at the same time as growing the portfolio by 15 per cent by acquiring 943 units of underperforming assets.

Funds from operations (FFO) before financing rose 47 per cent from 2010. FFO including financing costs was up 44 per cent from 2010. Most importantly, net operating income (NOI) climbed 23 per cent from 2010 to $41 million, while same asset NOI increased by 11 per cent and NOI margins increased to 64 per cent in 2011 from 63 per cent in 2010.

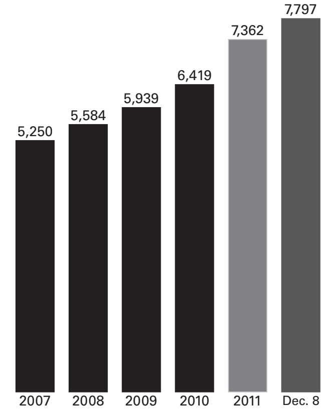
Our portfolio of assets continued to grow in fiscal 2011. We added 943 residential apartment units in our core geographic locations and an office building (Calgary Head Office) for a total consideration of $81 million. The size of the portfolio increased by 15 per cent to 7,362 units. Subsequent to the year-end date we purchased an additional 435 units for $42 million. As of December 8, 2011, Mainstreet's total portfolio included 7,797 residential apartment units and one office building (Calgary Head Office) with a total appraised value of over $950 million. It is very important to note that Mainstreet achieved this growth – over $120 million of acquisitions in total – organically and without any equity dilution

How did we do it? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the "Mainstreet Value Chain". It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of $17 million to 7,797 units with appraised values of over $950 million with minimal equity dilution.

MARKET VALUE OF PORTFOLIO
($ millions)



TOTAL NUMBER OF UNITS



In fiscal year 2011 Mainstreet refinanced $47.3 million in matured mortgages and financed four newly-stabilized properties for $97.8 million, mostly in long-term (10-year) CMHC-insured mortgages at rates as low as 3.4 per cent. As a result, approximately $51 million of additional capital was generated for our growth.

CHALLENGES

Mainstreet's growth-oriented model creates certain operational stresses. While we've come a long way toward developing our unique operating system, in the mid-market add value space, to manage our business in an effective and efficient way, there is still more work to be done. Mainstreet's overall vacancy rates are skewed upward because of the Corporation's acquisition of underperforming assets and the time they need to be stabilized; this creates vacancy during the period of stabilization. As Mainstreet continues to bring down the cycle time it takes to stabilize a property, we are confident that we will further reduce vacancy rates across the portfolio.

Rental market conditions remained very competitive in 2011, and Mainstreet continued to offer substantial rental concessions to attract and retain high-quality tenants during 2011. Concessions have come down from the recessionary high and we believe that they will continue to decline further in 2012, given that CMHC data points toward more favorable market conditions in the near-term.

Our churn rate – the turnover of tenants in our properties – also remains higher than we'd like it to be. The challenging macro-economic conditions have played a part in this, but it is also an inherent part of the Mainstreet model – as we add new properties and bring them up to standard, there is some natural turnover in the tenants that live in them. This transition from old to new tenants also increases Mainstreet's exposure to bad debts.

The good news is that in a fixed-cost business like ours, as we meet these operational challenges, the results will flow directly to the bottom line.

OUTLOOK

2011 was the most active year in Mainstreet's history in terms of acquisitions, but already we have some insight that 2012 could be even more active. Subsequent to year-end, Mainstreet acquired 435 units for $42 million, and refinanced $5.9 million long-term CMHC-insured mortgages at an average rate of 2.85 per cent. As mentioned previously, our vacancy rate continued to drop subsequent to year-end as well.

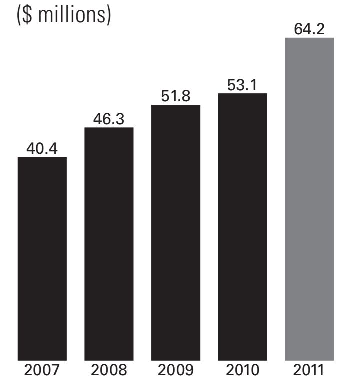
We are well situated in our core markets, all of which are showing relatively strong growth with the potential for further growth based on the latest independent economic forecasts. Economic forecasts indicate that Western Canada, where 92 per cent of Mainstreet's portfolio is located (with 54 per cent in Alberta) as of today, will continue to be the country's economic "sweet spot". Commodity prices continue to show strength – oil prices are projected to average $95.75 per barrel in 2013/14 – while billions of dollars in private sector investment continue to flow into Alberta's energy sector. In fact, Alberta leads all Canadian provinces in GDP growth over the last 20 years, with an average GDP growth rate of over 3 per cent.

Demographic trends in our core markets are equally favorable. The Government of Alberta forecasts that in-migration to Alberta will continue to remain positive, and may achieve levels as high as 40,000 persons per year by 2014 if there is another prolonged boom in the energy sector. Net inter-provincial migration meanwhile, could triple from 2010 levels over the next few years. The only other provinces with net positive inter-provincial migration over the past five years have been British Columbia and Saskatchewan, two of Mainstreet's other core markets. Alberta and Saskatchewan also have the most landlord-friendly Tenancy acts in the country, which enables Mainstreet to raise rents as market conditions allow.

We believe the conditions are in place for continued organic growth. Interest rates remain at 60-year lows, a rare opportunity for a corporation for which interest on its debt is its largest expense. Mainstreet has access to over $90 million in liquidity in the form of clear title assets worth approximately $73 million in appraised value as well as cash on hand and a line of credit that can be used to make strategic acquisitions without equity dilution.

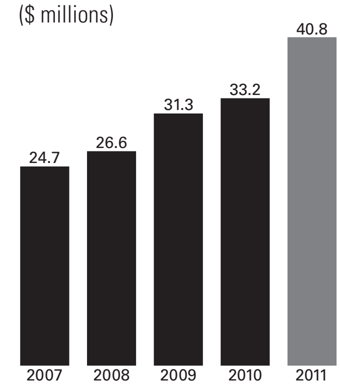
RENTAL REVENUE

($ millions)



NET OPERATING INCOME – FROM CONTINUING OPERATIONS

($ millions)



NET OPERATING INCOME – SAME ASSETS

($ millions)

The macroeconomic environment in our key markets continues to improve, and the long-term trends that have been in place at Mainstreet – rising revenues, FFO, NOI and same-asset NOI – appear set to continue.

Mainstreet has learned the lessons from the last boom and is ready to apply them in the months and years ahead. Like most companies in Alberta the previous labour crunch in 2006-7 hit us hard, and so Mainstreet has been very proactive in pursuing initiatives that will provide the Corporation with a steady and secure source of foreign workers to supplement our team. Mainstreet is also wary of the possibility of cost inflation, and so we are working on securing a supply pipeline from China that will deliver high-quality materials such as cabinets, flooring and other renovation-related expenditures at a lower cost. The absence of any third-party intermediaries in this internalized supply chain will help keep those material costs as low as possible.

Mainstreet is exploring its options for expanding its business to the United States, where there are abundant opportunities to acquire distressed mid-market properties. In-depth research is being conducted in order to ascertain whether Mainstreet can apply its proven value-added business model in the U.S.

Mainstreet is preparing for the adoption of International Financial Reporting Standards (IFRS) for the 2012 fiscal year. The market value of the Corporation's assets will be reported on our balance sheet under IFRS, and as such will more accurately reflect the shareholder value that we have created and serve as a testament to our business model. As of December 8, 2011, our new appraisal indicates a property value of over $950 million, which, net of our total mortgage debt of approximately $505 million, translates into $42.80 net asset value per share versus a current market price of just over $20 per share. Consequently, we believe that our shares are substantially undervalued.

I look forward to another year of promising results for our shareholders in 2012.

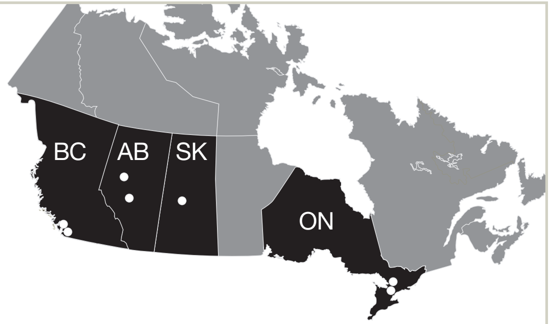
[Signed]

"Bob Dhillon"
President & CEO

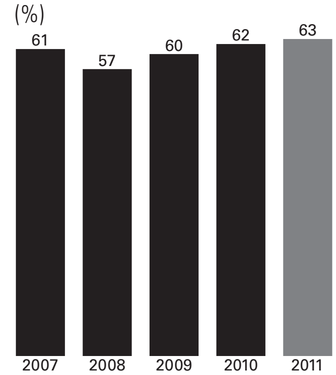
December 8, 2011
Calgary, Alberta

92% of Mainstreet's Portfolio is in western Canada

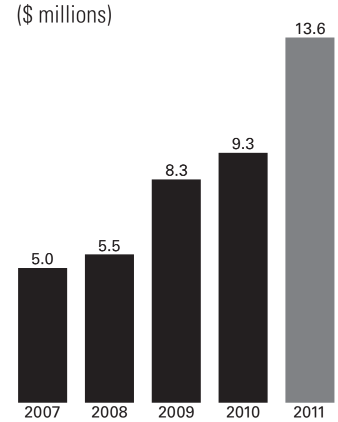
Edmonton, AB	2,662
Calgary, AB	1,537
Surrey, BC	1,360
Saskatoon, SK	843
Abbotsford, BC	731
GTA, ON	664
Total Units (as of Dec. 8, 2011)	**7,797**



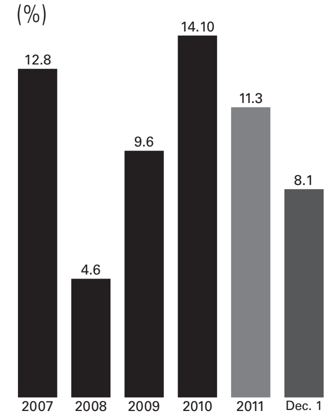
OPERATING MARGINS
(%)



FUNDS FROM OPERATIONS BEFORE FINANCING COST and GAIN ON DISPOSITION
($ millions)



VACANCY RATE
(%)



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an explanation of the financial position, operating results, performance and outlook of Mainstreet Equity Corp. ("Mainstreet" or "Corporation") as at and for the years ended September 30, 2011 and 2010. The results from the fiscal year 2011 are directly comparable with those from the fiscal year 2010. 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 accompanying notes for the years ended September 30, 2011 and 2010, and the MD&A for the year ended September 30, 2011. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. 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 8, 2011. All amounts are expressed in Canadian dollars. Additional information regarding the Corporation is available under the Corporation's profile at SEDAR (www.sedar.com).

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BUSINESS OVERVIEW

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

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

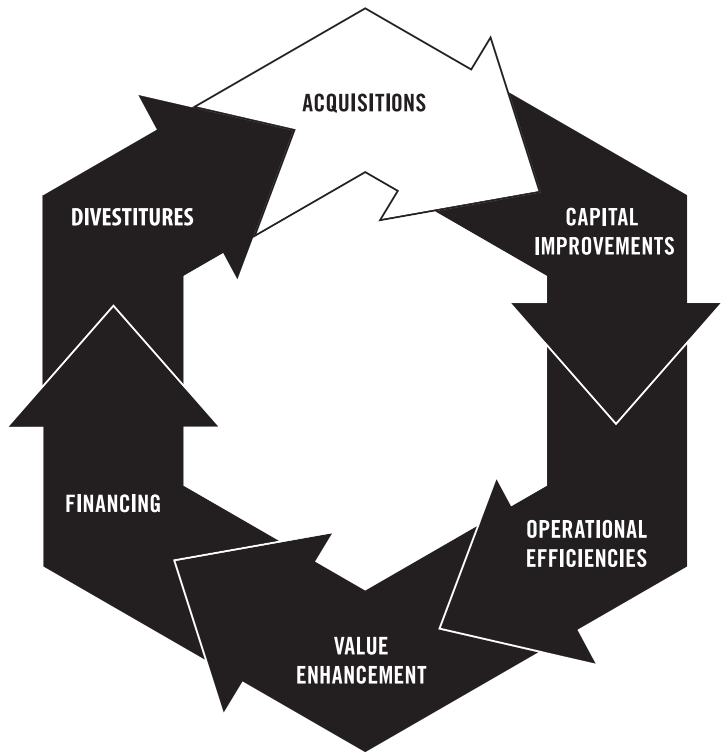
BUSINESS STRATEGY

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

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

The Mainstreet

VALUE CHAIN



ACQUISITION AND GROWTH

(000s of dollars)

	2011	2010
	Abbotsford, Calgary, Edmonton, Saskatoon and Surrey	Calgary, Saskatoon and Surrey
Number of rental units	943	480
Total costs	$ 76,742	$ 45,416
Average price per unit	$ 81	$ 95
Office building – Calgary	$ 3,800	

Following a strict set of criteria, Mainstreet identifies and acquires underperforming rental properties that offer the potential to enhance the Corporation's asset value and its long-term revenues through increased rental rates. In 2011, Mainstreet purchased 943 apartment units in Abbotsford Calgary, Edmonton, Saskatoon and Surrey for $76.7 million – an average purchase price of $81,000 per unit. It also purchased one office building (Mainstreet Head Office) in Calgary for $3.8 million. Since Mainstreet's previous financial year-end (September 30, 2010), the Corporation has grown its portfolio of properties by 15%. Mainstreet's portfolio now includes 7,362 residential units, which include townhouses, garden-style apartments and concrete mid-rise and high-rise apartments. One of these properties (22 units in Calgary) is being held for resale.

As of September 30, 2011, 89% of these residential units were rented, while 7% were being renovated and the remainder left vacant because of current market conditions.

Since 1997, the Corporation's portfolio has increased from 10 to 151 buildings (including one office building), while the appraised market value of the properties within this portfolio has grown from approximately $17 million to $911 million as of September 30, 2011.

The following table sets forth the growth of the Corporation by region since the end of the previous financial year, September 30, 2010.

	Number of units as of Oct. 1, 2010	Acquisitions during the year ended Sep. 30, 2011	Number of units as of Sep. 30, 2011	% Growth
Surrey, British Columbia	1,132	228	**1,360**	20%
Abbotsford, British Columbia	525	206	**731**	39%
Calgary, Alberta	1,414	32	**1,446**	2%
Edmonton, Alberta	1,855	459	**2,346**	25%
Saskatoon, Saskatchewan	807	18	**825**	2%
Mississauga and Toronto, Ontario	664	–	**664**	–
Total revenue-producing units	6,397	943	**7,340**	15%
Units held for resale (Calgary, Alberta)	22	–	**22**	–
Total units	6,419	943	**7,362**	15%

As of September 30, 2011, Mainstreet owned and managed a total of 7,340 residential units for revenue producing purposes and 22 resident units for re-sale purposes. Details of Mainstreet's properties are set forth in the tables below.

Surrey, BC	Address	# of Units	Apartment Type
Pacific Park Apartments	9450 – 128 Street	288	Garden style
Cedartree Village	7155/7185 Hall Road & 13485 – 71 Avenue	228	Garden style
Imperial Park Apartment	9555 – 126 Street	204	Garden style
Greenwood Apartments	14831/14881 – 104 Ave &14840 – 105 Avenue	183	Garden style
Ashley Court	14921 – 104 Street	150	Garden style
Gateway Apartments	11022 – 136 Street	133	Garden style
Regent Place Apartments	14918 – 108 Street	102	Garden style
Hillside Apartments	10320/66 – 127A Street	72	Garden style
Surrey, BC – Total		**1,360**	

Abbotsford, BC	Address	# of Units	Apartment Type
Chelsea	33710 Marshall Road	114	Garden style
Hill-Tout	2485 Hill-Tout Street	92	Garden style
Pinetree	2525/2585 Hill-Tout Street	89	Condo titled
Mount View	33136 George Ferguson Way	84	Garden style
Sunshine	33184 George Ferguson	69	Condo titled
Dahlstrom	32030 George Ferguson	60	Garden style
Bridgeport	33405 Bourquin Place	60	Garden style
Villa Vista	33292 Robertson Avenue	48	Garden style
Villa Monaco	33263 Bourquin Crescent East	44	Garden style
Abbotsford	2814 Pratt Crescent	37	Garden style
Royal	33298 Robertson Road	34	Garden style
Multi-family development lot	33283 Bourquin Crescent East	–	–
Abbotsford, BC – Total		**731**	

Calgary, AB	Address	# of Units	Apartment Type
Trevella Park	1300 – 42 Street SE	218	Townhouse complex
Bonaventure	205 Heritage Drive SE	195	Condo titled
Falconcrest Village	360 Falshire Drive NE	176	Garden style
Doverglen Estates	216 Doverglen Cres. SE	98	Garden style
Avenue Towers	333 – 17 Avenue SW	89	Concrete hi-rise
Windsor Green Apartments	4610 Hubalta Road SE	88	Garden style
Glenbow Manor	4646 – 73 Street NW	50	Garden style
Mainstreet Place	1122 – 8 Avenue SW	50	Concrete hi-rise
Delburn House	1419 – 17 Avenue NW	47	Garden style
Cochrane House	205 Ross Avenue, Cochrane	42	Garden style
White Plains	2620 – 16 Street SW	34	Concrete hi-rise
Vintage	528 & 530 – 15 Avenue SW, Calgary	32	Concrete mid-rise
The Westwinds	211 – 14 Avenue SW	31	Concrete hi-rise
Anna Court	4508 – 8 Avenue SE	30	Garden style
The Wilmax	1212 – 13 Avenue SW	30	Concrete hi-rise
Maggie Manor	1439 – 37 Street SW	27	Garden style
1612	1612 – 24 Avenue SW	24	Concrete hi-rise
Bankview Place	1715 – 24 Avenue SW	24	Garden style
Chinook Winds Apartments	707 – 57 Avenue SW	24	Garden style
Westview Terrace	1611 – 23 Avenue SW	24	Concrete hi-rise
Lincoln	2107/2111 – 54 Avenue SW	23	Garden style
North Hill Manor	305 – 13 Avenue NE	23	Concrete mid-rise
Floyd	1607 – 4 Street NW	22	Garden style
Spring Garden Terrace	1723 – 26 Avenue SW	21	Garden style
Grace Apartments	1639 – 26 Avenue SW	18	Garden style
Westbrook Manor	937 – 37 Street SW	18	Concrete mid-rise
2501	2501 – 15 Street SW	10	Garden style
Calgary, AB – Total		**1,468**	

Edmonton, AB	Address	# of Units	Apartment Type
Hampton Court	16404/16424 – 105 Street NW	150	Garden style
Wedgewood Homes	12269 – 131 Street	132	Townhouse complex
Clareview Court	3830 – 134 Avenue	86	Townhouse complex
Oakmount	10710/10720/10730 – 110 Street NW	72	Garden style
Hartford	11819 – 106 Street	71	Garden style
Riverside Estates	9209/9315 Jasper Avenue	66	Garden style
McCam 2	10325 – 123 Street	66	Garden style
Bannerman	2604 to 2608 – 139 Avenue	64	Townhouse complex
Trinity A & B	10720/30 – 104 Street	62	Garden style
Cornerstone	10040 – 152 Street	48	Concrete mid-rise
Ross	103220 – 113A Street	48	Garden style
Granville	10605 – 112 Street	43	Garden style
Lauderdale Manor	10504 Lauder Avenue	39	Townhouse complex
Second Street Manor	10620 – 102 Street	38	Garden style
Seventh Street Manor	10716 – 107 Street	38	Garden style
Gilford	10638 – 106 Street	35	Garden style
Majestic	11416 – 124 Street	33	Garden style

Edmonton, AB (continued)	Address	# of Units	Apartment Type
Wellington	10730 – 111 Street	33	Garden style
McCam 1	10330 – 123 Street	33	Garden style
McCam 4	10235 – 123 Street	33	Garden style
Hilton Manor	10633 – 111 Street NW	33	Garden style
Hudson	10625 – 117 Street	33	Garden style
Nova Manor	15628 – 100 Avenue	32	Garden style
Marco	8215 – 144 Avenue	31	Garden style
Oliver 3 Apartments	10330 – 115 St NW	31	Garden style
Virginian	10615 – 107 Street	29	Garden style
Deluca	10128 – 161 Street	27	Garden style
McQueen Place	14224 McQueen Road	27	Garden style
Queen Mary	10835 – 115 Street	26	Garden style
Elizabeth Manor	11334 – 124 Street	25	Concrete mid-rise
Twilight	10723 – 102 Street	24	Garden style
Tiffany	10721 – 117 Street	24	Garden style
Argyll A	7109 – 79 Street	24	Garden style
Argyll B	7108 – 78 Avenue	24	Garden style
Priya	10711 – 103 Street	24	Condo titled
Leamington	10125 – 114 Street	24	Garden style
Washington	10715 – 104 Street	24	Garden style
Vista Green	10610 – 115 Street	23	Garden style
Karen Hall	9451 – 94 Avenue, Ft. Saskatchewan	23	Garden style
Oliver 1	10320 – 115 St NW	23	Garden style
Oliver 4	10315 – 116 St NW	23	Garden style
Cypress	10745 – 110 Street	22	Garden style
Lorraine	10727 – 110 Street	22	Garden style
Villa	11217 – 124 Street	22	Garden style
Amera Manor	11615 – 124 Street	22	Garden style
Somerset	10710 – 111 Street	22	Garden style
McLaren	10720 – 111 Street	22	Garden style
Dickens	10325 – 117 Street	22	Garden style
Kane	10316 – 119 Street	22	Garden style
Carina Court	10610 – 106 Street	22	Garden style
McCam 3	10320 – 123 Street	22	Garden style
Oliver 2 Apartments	10325 – 115 Street NW	22	Garden style
Murray	11906 – 104 Street	21	Garden style
Taurus	11937 – 105 Street	21	Garden style
Grand	11919 – 105 Street	21	Garden style
King Edward	7108 – 79 Avenue	21	Garden style
Chelsey	10730 – 109 Street	20	Garden style
Rockhill	11930 – 104 Street	18	Garden style
Alexandra	12220 – 82 Street	18	Garden style
Pine	10741 – 112 Street	18	Garden style
Erin Place	11828 – 105 Street	17	Garden style
Ariel	10729 – 104 Street	17	Garden style
Grace Manor	10634 – 113 Street	17	Garden style

Edmonton, AB (continued)	Address	# of Units	Apartment Type
Pride	13608 – 109A Avenue	17	Garden style
Aspen	12207 – 82 Street	15	Garden style
Westmore	10820 – 114 Street	15	Garden style
Massimo	11717 – 48 Street	15	Garden style
Serenity	10416 – 119 Street	15	Garden style
Berkley Manor	10810 – 114 Street	15	Garden style
Cedarwood Arms	10614 – 122 Street	14	Garden style
Eastwood	11920 – 82 Street	13	Garden style
Edmonton, AB – Total		**2,314**	

Saskatoon, SK	Address	# of Units	Apartment Type
Fairhaven Apartment	365 Pendygrasse Road	165	Garden style
Meadow Green	517/521 Avenue X	72	Garden style
Coronation	444 – 5 Avenue North	35	Garden style
Kewanee	502 – 5 Avenue North	35	Garden style
Belmae	445 – 3 Avenue North	33	Garden style
Park Manor	102 Avenue O South	31	Garden style
Camino	115 Avenue O South	31	Garden style
Montrose	305 – 26 Street E	30	Garden style
Parkview	445 – 5 Avenue N	26	Garden style
Booth	106 – 111 Street	24	Garden style
Diane	541 Avenue W	24	Garden style
Key West	135 Avenue W South	24	Garden style
Peat	3701 – 8 Street East	24	Garden style
Pisces	1622 – 22 Street	24	Garden style
Libra	202 Avenue N South	19	Garden style
Diane 2	2310 – 17 Street	18	Garden style
Preston	909 Preston Avenue	18	Garden style
Linde	1101 Avenue W North	18	Garden style
Aquarius Place	2014 – 20th Street West	18	Garden style
Scorpio	114 Avenue T South	18	Garden style
Laurentian	2513 – 7 Street	17	Garden style
St. Paul	1701 – 20 Street West	17	Garden style
Leo Manor	355 Avenue T South	16	Garden style
Victoria park	612 Spadina Cres. W	15	Garden style
Gemini Court	403 Avenue P South	15	Garden style
Duchess	901 – 5 Avenue	12	Garden style
Raydel	339 Avenue Q South	12	Garden style
Kerpel	131 Avenue P South	12	Garden style
Pleasant	1628 – 22 Street West	11	Garden style
Capricorn	128 Avenue O South	11	Garden style
Saskatoon, SK – Total		**825**	

Toronto & Mississauga, ON	Address	# of Units	Apartment Type
Woolner Apartments	220/230 Woolner Avenue	260	Concrete hi-rise
Caravelle Apartments	5 Dufresne Court	218	Concrete hi-rise
Westdale Apartments	1175 West Dundas	104	Concrete hi-rise
North Service	275 North Service Road	82	Concrete hi-rise
Toronto & Mississauga – Total		**664**	

APPRAISAL REPORT

The market value of Mainstreet's properties as of September 30, 2011, was determined by the following qualified appraisers:

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

Mainstreet's total portfolio is valued at $911 million. The table below is the breakdown of market value by city:

	Number of units		Market value ($ million)		Average value per unit ($)	Average value capitalization rate
Surrey, B.C.	1,360	$	157	$	115	5.81%
Abbotsford, B.C.	731	$	83	$	114	5.63%
Calgary, Alberta	1,468	$	270	$	184	5.43%
Edmonton, Alberta	2,314	$	262	$	113	6.06%
Saskatoon, Saskatchewan	825	$	78	$	94	7.51%
Greater Toronto Area, Ontario	664	$	61	$	92	6.00%
Total	7,362	$	911	$	124	5.91%
Office building (Calgary – Head Office)		$	5			

1. Market value of units on September 30, 2011, was determined by independent qualified real estate appraisers. The direct capitalization method was used to convert an estimate of a single year's income expectancy into an indication of value in one direct step by dividing the income estimate by an appropriate capitalization rate. The actual selling value of these properties may be substantially different and depends on market conditions at the time of sale.

CAPITAL IMPROVEMENTS

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

In 2011, the Corporation spent $11.4 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 to spend an estimated $12.0 million on renovations for 2012, of which approximately $8.0 million is budgeted for stabilization of unstabilized properties. These improvements are expected to be financed through existing cash balances, funds from operations and ongoing refinancing of existing properties. Mainstreet expects to complete most of these renovations within the next six to 24 months. Revenue and income are expected to increase over time as more units are renovated and reintroduced to the market at higher rental rates.

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

Financing

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

In 2011, Mainstreet refinanced $47.3 million matured mortgages and financed 4 stabilized properties for $97.8 million mostly in long-term (10-year), CMHC-insured mortgages at an average interest rate of 4.14%.

Subsequent to fiscal year 2011, Mainstreet has refinanced $5.9 million of matured debt into long-term (5-10 year) mortgages for $16.2 million at an interest rate of 2.85%. This refinancing raised an additional fund of $10.3 million.

Vacancy rates

Mainstreet reduced its overall average vacancy rate to 11.3% in 2011 from 14.1% in 2010. As of December 1, 2011, the average vacancy rate dropped to 8.1%. Excluding 136 un-rentable units currently undergoing complete re-development, the average vacancy rate in 2011 was 6.5%.

REVIEW OF FINANCIAL & OPERATING RESULTS

Summary of financial results

(000s of dollars except per share amounts)

	2011	2010	2009	% change from 2010	% change from 2009
Gross revenue	**$ 64,384**	$ 53,539	$ 51,868	20%	3%
Net income (loss)					0%
– from continuing operations	**$ (3,048)**	$ (3,863)	$ (8,238)	(21%)	(53%)
– from discontinued operations	**$ –**	$ –	$ 5,212	–	–
Total net loss	**$ (3,048)**	$ (3,863)	$ (3,026)	(21%)	28%
Net loss from continuing operations before stock compensation expense	**$ (3,048)**	$ (3,863)	$ (4,868)	(21%)	(21%)
Funds from operations[1]					
– from continuing operations	**$ 10,918**	$ 7,742	$ 5,315	41%	46%
– from discontinued operations	**$ –**	$ –	$ 6,096	–	–
Total funds from operations	**$ 10,918**	$ 7,742	$ 11,411	41%	(32%)
Net operating income from continuing operations[2]	**$ 40,787**	$ 33,189	$ 31,315	23%	6%
Net operating margin from continuing operations (%)	**63%**	62%	61%	2%	3%
EBITDA before stock option expense from continuing operations[3]	**$ 34,603**	$ 27,378	$ 25,801	26%	6%
Net loss per share					
– basic from continuing operations before stock compensation expense	**$ (0.29)**	$ (0.37)	$ (0.42)	(22%)	(12%)
– basic from discontinued operations	**$ –**	$ –	$ 0.45	–	–
– from stock compensation expense	**$ –**	$ –	$ (0.29)	–	–
Net loss per share	**$ (0.29)**	$ (0.37)	$ (0.26)	(22%)	42%
Funds from operations per share					
– basic from continuing operations	**$ 1.05**	$ 0.75	$ 0.46	40%	63%
– basic from discontinued operations	**$ –**	$ –	$ 0.53	–	–
Funds from operations per share	**$ 1.05**	$ 0.75	$ 0.99	40%	(24%)
Weighted average number of shares					
– basis and fully diluted	**10,391,024**	10,362,881	11,572,749	0%	(10%)
Total Assets	**$ 477,665**	$ 399,440	$ 381,167	20%	5%
Total Long terms liabilities	**$ 477,530**	$ 400,678	$ 379,899	19%	5%

1. Funds from operations ("FFO") are calculated as net earnings before depreciation of real estate properties and future income taxes. FFO is a widely accepted supplemental measure of a Canadian real estate company's performance 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 ("NOI") is rental revenue minus property operating expenses. It does not include financing costs, general and administrative expenses, or depreciation and amortization expenses. While Mainstreet uses NOI to measure its operational performance, it is not a recognized measure under GAAP. The GAAP measure most directly comparable to NOI is net income. NOI should not be construed as an alternative to net income determined in accordance with GAAP. Readers are cautioned that NOI may differ from similar calculations used by other comparable entities. A reconciliation of net income to net operating income for the period is as follows:

(000s of dollars)

		2011		2010	% change
Net loss and comprehensive loss	$	(3,048)	$	(3,863)	(37%)
Interest income	$	(55)	$	(112)	(51%)
Gain on settlement on debt	$	(40)	$	(310)	–
Net gain on insurance	$	(57)	$	–	–
General and administrative expenses	$	6,336	$	6,233	2%
Mortgage interest	$	20,981	$	18,119	16%
Financing cost	$	2,704	$	1,530	77%
Depreciation	$	14,516	$	12,870	13%
Income taxes (recovery) expense					
Current	$	–	$	(13)	–
Future	$	(550)	$	(1,265)	(9%)
Net operating income	$	40,787	$	33,189	23%

3. EBITDA is earnings before interest, financing cost, taxes, depreciation and amortization and is used by Mainstreet to measure 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, future growth and capital expenditure prior to debt service, depreciation 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. A reconciliation of net income to EBITDA for the period is as follows:

(000s of dollars)

		2011		2010	% change
Net loss and comprehensive loss	$	(3,048)	$	(3,863)	(37%)
Mortgage interest	$	20,981	$	18,119	16%
Financing cost	$	2,704	$	1,530	77%
Depreciation	$	14,516	$	12,870	13%
Income taxes (recovery) expense					
Current	$	–	$	(13)	–
Future	$	(550)	$	(1,265)	(9%)
EBITDA from continuing operations	$	34,603	$	27,378	26%

FUNDS FROM OPERATIONS

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

(000s of dollars)

		2011		2010	% change
Net loss	$	**(3,048)**	$	(3,863)	(37%)
Depreciation	$	**14,516**	$	12,870	13%
Future income tax	$	**(550)**	$	(1,265)	(9%)
Funds from operations	$	**10,918**	$	7,742	41%
Funds from operations per common share					
– basic	$	**1.05**	$	0.75	
– diluted	$	**0.99**	$	0.72	
Financing cost	$	**2,704**	$	1,530	77%
Funds from operations excluding financing cost	$	**13,622**	$	9,272	47%
Funds from operations excluding financing cost per common share					
– basic	$	**1.31**	$	0.89	
– diluted	$	**1.24**	$	0.86	
Weighted average number of shares					
– basic		**10,391,024**		10,362,881	
– fully diluted		**10,973,833**		10,771,496	

In 2011, Mainstreet's FFO increased to $10.9 million – up 41% from $7.7 million in 2010 – as a result of increased rental revenues and a decline in the average vacancy rate.

FFO excluding financing cost increased by 47% to $13.6 million in 2011 as compared to $9.3 million in 2010. The increase reflects an increase in net rental revenue as a result of growth in Mainstreet's portfolio (to 7,362 units in 2011 from 6,419 units in 2010 – a 15% increase) and an improvement in vacancy rate (to 11.3% in 2011 from 14.1% in 2010).

The expected effects of the Corporation's rapid growth and the costs associated with stabilizing recently acquired 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. Most properties that Mainstreet acquires need substantial exterior and interior renovations, and as of September 30, 2011 23% of Mainstreet's total portfolio remained unstabilized.

During the stabilization process, 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 these higher than average 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 current average interest rate for 10-year, CMHC-insured mortgages is about 3.4%. The longer it takes to stabilize a property, the longer Mainstreet pays higher interest rates for interim financing.
- Higher salary expenses due to our efforts to strengthen the Corporation's human resources, particularly at the senior management level. These expenses are an investment in the Corporation's future, allowing it to achieve greater operational efficiencies and equipping it for long-term growth.
- The costs of refinancing floating conventional debt to lower interest, long-term mortgage loans.

Mainstreet reported a net loss of $3.0 million ($0.29 per basic share) in 2011, compared with a net loss of $3.9 million ($0.37 per share) in 2010. The losses in 2011 and 2010 included financing costs of $2.7 million and $1.5 million respectively.

REVENUES

(000s of dollars)

	2011	2010	% change
Rental revenue	$ 64,232	$ 53,117	21%
Gain on settlement on debt	$ 40	$ 310	(87%)
Gain on insurance	$ 57	$ –	–
Interest income	$ 55	$ 112	(51%)
Gross revenues	$ 64,384	$ 53,539	20%

Rental revenue increased by 21% (to $64.2 million in 2011 from $53.1 million in 2010) due mainly to growth in the Corporation's portfolio and a decrease in the average vacancy rate.

Gain on insurance represents the excess of insurance paid out for flood damages over the net book value of the related assets.

RENTAL OPERATIONS

(000s of dollars except per unit data)

	2011	2010	% change
Same assets rental revenues	$ 55,640	$ 51,131	9%
Acquisition rental revenues	$ 8,592	$ 1,986	333%
Total rental revenue	$ 64,232	$ 53,117	21%
Average vacancy rate	11.3%	14.1%	(20%)
Weighted average number of units	7,083	6,190	14%
Average rental rate per unit per month	$ 1,008	$ 953	6%

Rental revenues from "same assets" properties (properties owned during the twelve month periods ending September 30, 2011 and 2010) increased by 9% to $55.6 million in 2011 from $51.1 million in 2010 – a result of an increase in rental rate and a decrease in vacancy rate to 11.3% in 2011 from 14.1% in 2010.

In 2011, rental revenues from newly acquired properties were $8.6 million – a substantial increase of 333% over 2010. This increase is a product of Mainstreet's acquisition of 1,423 units since October 1, 2009.

RENTAL RATES INFORMATION

The following table set forth a comparison of the current in place rental rates with the market rental rates of Mainstreet's portfolio as of September 30, 2011.

Per unit per month			Average 2011 Net Rent		Overall Avg. 2011
City	Market Rent Rate	Current Rent Rate	Stabilized	Unstabilized	Net Rate
British Columbia	$ 838	$ 795	$ 798	$ 795	$ 692
Alberta	$ 985	$ 969	$ 987	$ 893	$ 740
Saskatchewan	$ 865	$ 859	$ 861	$ 821	$ 694
Ontario	$ 1,021	$ 990	$ 987	N/A	$ 880
Overall	$ 933	$ 909	$ 927	$ 842	$ 735

OPERATING COSTS

(000s of dollars)

		2011		2010	% change
Same assets operating expenses	$	19,961	$	19,104	4%
Acquisition operating expenses	$	3,484	$	824	323%
Total operating costs	$	23,445	$	19,928	18%
Operating cost per unit	$	276	$	268	3%

Overall, operating costs increased 18% to $23.4 million in 2011 compared to $19.9 million in 2010, due mainly to growth in the Corporation's portfolio of properties. Operating costs for "same assets" increased by 4% as compared with last fiscal year mainly due to increased utility and maintenance expenses.

RENTAL OPERATIONS BY PROVINCE

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

British Columbia

Mainstreet continues to expand its British Columbia operations. The average number of rental units has grown 18% to 1,952 units in 2011 compared to 1,649 units in 2010. As a result, rental revenue increased by 25% to $16.6 million in 2011 compared to $13.2 million in 2010. Rental revenue per unit increased to $708 per month in 2011 from $672 per month in 2010, while the vacancy rate decreased to 9.6% in 2011 from 10.8% in the same period last year.

The operating cost per unit increased by 3% from $243 in 2010 to $250 in 2011. As a net result, the operating margin in 2011 increased to 65% from 64% in 2010.

(000s of dollars except per unit data)

		2011		2010	% change
Rental revenue	$	16,595	$	13,290	25%
Operating expenses	$	5,857	$	4,805	22%
Net operating income	$	10,738	$	8,485	27%
Weighted average number of units		1,952		1,649	18%
Average rent per unit per month	$	708	$	672	5%
Operating cost per unit per month	$	250	$	243	3%
Average vacancy rate		9.6%		10.8%	
Operating margin		65%		64%	

Alberta

Rental revenue increased by 24% to $33.2 million in 2011 from $26.8 million in 2010, due mainly to a substantial increase in the Corporation's Alberta portfolio to an average of 3,647 units in 2011 from 3,144 units in 2010. Furthermore, the vacancy rate dropped to 12.5% in 2011 from 15.9% in 2010. Operating costs per unit per month increased only slightly by 2% to $265 in 2011 from $259 in 2010. As a net result, the operating margin increased to 675% in 2011 as compared to 64% in 2010.

(000s of dollars except per unit data)

		2011		2010	% change
Rental revenue	$	33,198	$	26,772	24%
Operating expenses	$	11,602	$	9,758	19%
Net operating income	$	21,596	$	17,014	27%
Weighted average number of units		3,647		3,144	16%
Average rent per unit per month	$	759	$	710	7%
Operating cost per unit per month	$	265	$	259	2%
Average vacancy rate		12.5%		15.9%	
Operating margin		65%		64%	

Saskatchewan

The Corporation's Saskatchewan portfolio grew slightly in 2011. The average number of units in 2011 was 821 – a 3% increase over 797 units in 2010. Rental revenue increased 8% to $7.1 million in 2011 from $6.6 million in 2010. Operating expenses increased 14% to $2.1 million in 2011 from $1.8 million in 2010 – primarily the result of increased maintenance expenses during the fiscal year. The vacancy rate increased slightly to 14.7% in 2010 from 13.2% in 2010, due mainly to the fact that several newly acquired properties which were completely vacant in anticipation of their redevelopment. As a result, the overall operating margin decreased slightly to 70% in 2011 compared to 72% in 2010.

(000s of dollars except per unit data)

	2011	2010	% change
Rental revenue	$ 7,115	$ 6,591	8%
Operating expenses	$ 2,106	$ 1,841	14%
Net operating income	$ 5,009	$ 4,750	5%
Weighted average number of units	821	797	3%
Average rent per unit per month	$ 722	$ 689	5%
Operating cost per unit per month	$ 243	$ 192	26%
Average vacancy rate	14.7%	13.2%	
Operating margin	70%	72%	

Ontario

Mainstreet's Ontario operations continue to improve. Rental revenue increased by 13% to $7.3 million in 2011 from $6.5 million in 2010, largely because the vacancy rate during the same periods decreased to 5.1% from 14.6% in last year. Operating costs per unit per month increased to $487 from $442 in 2010 due mainly to increased utility and maintenance expenses. The overall operating margin increased to 47% in 2011 from 45% in 2010.

(000s of dollars except per unit data)

	2011	2010	% change
Rental revenue	$ 7,324	$ 6,464	13%
Operating expenses	$ 3,880	$ 3,524	10%
Net operating income	$ 3,444	$ 2,940	17%
Weighted average number of units	664	664	0%
Average rent per unit per month	$ 919	$ 811	13%
Operating cost per unit per month	$ 487	$ 442	10%
Average vacancy rate	5.1%	14.6%	
Operating margin	47%	45%	

GENERAL & ADMINISTRATIVE (G&A) EXPENSES

(000s of dollars except per unit data)

	2011	2010	% change
Total	$ 6,336	$ 6,233	2%
Per unit per month	$ 75	$ 83	(10%)

G&A expenses include corporate costs such as salaries and professional fees. The average G&A expense per unit per month over the fiscal year ended September 30, 2011 decreased by 10% to $75 as compared to $83 per unit per month last year.

FINANCING COSTS

(000s of dollars)

	2011	2010	% change
Same assets mortgage interest	$ **18,003**	$ 17,002	6%
Acquisition mortgage interest (Note 1)	$ **2,978**	$ 1,117	167%
Total interest expenses	$ **20,981**	$ 18,119	16%
Financing charges	$ **2,704**	$ 1,530	77%

1. Mortgage interest for properties acquired after the financial year ended September 30, 2009

Mainstreet's "same assets" mortgage interest increased by 6% to $18.0 million in 2011 as compared to $17.0 million in 2010, mainly as a result of refinancing matured debts and floating debts following the stabilization of properties.

During fiscal year ended September 30, 2011, Mainstreet refinanced $47.3 million matured mortgages and financed four stabilized properties for $97.8 million mostly in long-term (10-year), CMHC-insured mortgages at an average interest rate of 4.14%. The total cost of financing was $2.47 million in 2011 compared to $1.5 million in 2010. Although this had an adverse impact on income and funds from operations in 2011, the long-term benefits to the Corporation's growth and profitability are expected to be significant.

SUMMARY OF QUARTERLY RESULTS

(000s of dollars except per share amounts)

	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Rental revenue	**$ 16,877**	$ 16,416	$ 15,607	$ 15,332	$ 14,326	$ 13,130	$ 13,060	$ 12,600
Interest income	**$ 11**	$ 4	$ 25	$ 14	$ 2	$ 15	$ 69	$ 25
Gain on insurance	**–**	$ 35	$ 22	–	–	–	–	–
Gain on settlement on debt	**–**	–	–	$ 40	$ 210	–	–	$ 100
Total revenue from continuing operations	**$ 16,888**	$ 16,455	$ 15,654	$ 15,386	$ 14,328	$ 13,145	$ 13,129	$ 12,625
Net Income (loss) from continuing operations	**$ (701)**	$ (380)	$ (1,441)	$ (525)	$ 22	$ (1,556)	$ (1,294)	$ (1,036)
Net Income (loss)	**$ (701)**	$ (380)	$ (1,441)	$ (525)	$ 22	$ (1,556)	$ (1,294)	$ (1,036)
Per share results – basic and diluted								
Earnings per share for continuing operations	**$ (0.06)**	$ (0.04)	$ (0.14)	$ (0.05)	$ 0.02	$ (0.15)	$ (0.12)$	$ (0.10)
Net loss per share	**$ (0.06)**	$ (0.04)	$ (0.14)	$ (0.05)	$ 0.02	$ (0.15)	$ (0.12)	$ (0.10)

Highlights of the Corporation's financial results for the fourth quarter ended September 30, 2011:

QUARTERLY RESULTS COMPARISON

(000s of dollars)

Three months ended	Sep. 30, 2011	Jun. 30, 2011	Sep. 30, 2010
Rental revenue	$ **16,877**	$ 16,416	$ 14,326
Property operating expenses (including utility rebate)	$ **5,933**	$ 5,721	$ 4,791
Mortgage and debenture interest	$ **5,366**	$ 5,335	$ 4,555
Financing cost	$ **402**	$ 563	$ 325
Vacancy rate	**10.7%**	11.3%	11.3%

- During Q4 2011, Mainstreet acquired one new residential apartment building (32 units) at an average cost of $112,000 per unit.
- In Q4 2011, rental income increased to $16.9 million from $16.4 million in Q3 2011 and $14.3 million in Q4 2010, due mainly to the acquisition of more rental units and decrease in vacancy rate.
- In Q4 2011, the average vacancy rate for the quarter was 10.7% compared to 11.3% in Q4 2010 and 11.3% in Q3 2011.
- In Q4 2011, the Corporation incurred total financing costs of $402,000 in Q4 2011 as compared to $563,000 in Q3 2011 and $325,000 in Q4 2010.

SAME ASSETS PROPERTIES

"Same assets" properties are properties owned by the Corporation for the twelve- month periods ended September 30, 2011 and 2010. As of September 30, 2011, 127 properties (5,939 units) out of Mainstreet's 151 properties (7,362 units) constituted same assets properties.

(000s of dollars)

		2011		2010	% change
Same assets – rental revenues	$	55,640	$	51,131	9%
Same assets – operating costs	$	19,962	$	19,104	4%
Same assets – net operating income	$	35,678	$	32,027	11%
Operating margin		64%		63%	

Rental revenues from same assets properties increased by 9% to $55.6 million in 2011 from $51.1 million in 2010 – a result of a substantial reduction in vacancy rate to 9.4% versus 15.7% in the same quarter last year.

Operating costs for same assets properties increased by 4% mainly due to increased utility and maintenance expenses. As a net result, the operating margin in 2011 increased to 64% from 63% in 2010.

STABILIZED PROPERTIES

Properties acquired over three years ago in Ontario and British Columbia and over two years ago in Alberta and Saskatchewan are classified as stabilized properties, except for those properties acquired for resale and complete redevelopment purposes. As of September 30, 2011, 123 properties (5,700 units) out of 151 properties (7,362 units) were stabilized. As previously noted, Mainstreet's performance during the stabilization process is adversely affected by lower rental revenue, higher vacancy rates and higher operating expenses. Management believes that a more appropriate measure of performance for the Corporation is FFO of stabilized properties.

FUNDS FROM OPERATIONS OF STABILIZED PROPERTIES

For 2011, FFO of Mainstreet's stabilized property portfolio before and after financing cost amounted to $11.6 million ($1.11 per basic share and $1.05 per fully diluted share) and $10.8 million ($1.04 per basic share and $0.98 per fully diluted share) respectively.

(000s of dollars except per share amounts)

	Three months ended September 30, 2011			Twelve months ended September 30, 2011		
	Stabilized properties	Non-stabilized properties	Total	Stabilized properties	Non-stabilized properties	Total
Rental revenue	$ 13,651	$ 3,226	$ 16,877	$ 53,595	$ 10,637	$ 64,232
Property operating expenses	$ 4,790	$ 1,143	$ 5,933	$ 19,408	$ 4,037	$ 23,445
Net operating income	$ 8,861	$ 2,083	$ 10,944	$ 34,187	$ 6,600	$ 40,787
Operating margin	65%	64%	65%	64%	62%	63%
Vacancy rate	8.1%	19.6%	10.7%	9.1%	20.3%	11.3%
Interest income	$ 9	$ 2	$ 11	$ 44	$ 11	$ 55
Gain on insurance	$ –	$ –	$ –	$ 57	$ –	$ 57
Gain on early repayment of debt	$ –	$ –	$ –	$ –	$ 40	$ 40
General & administrative expenses	$ 1,297	$ 367	$ 1,664	$ 5,137	$ 1,199	$ 6,336
Mortgage interest	$ 4,099	$ 1,267	$ 5,366	$ 17,588	$ 3,393	$ 20,981
Financing cost	$ 233	$ 169	$ 402	$ 769	$ 1,935	$ 2,704
Funds from operations	$ 3,241	$ 282	$ 3,523	$ 10,794	$ 124	$ 10,918
Funds from operations per common share						
– basic	$ 0.31	$ 0.03	$ 0.34	$ 1.04	$ 0.01	$ 1.05
– diluted	$ 0.29	$ 0.03	$ 0.32	$ 0.98	$ 0.01	$ 0.99
Funds from operations before financing cost	$ 3,474	$ 451	$ 3,925	$ 11,563	$ 2,059	$ 13,622
Funds from operations before financing cost per common share						
– basic	$ 0.33	$ 0.04	$ 0.38	$ 1.11	$ 0.20	$ 1.31
– diluted	$ 0.31	$ 0.04	$ 0.36	$ 1.05	$ 0.19	$ 1.24
Weighted average number of common shares						
– basic	10,401,281			10,391,024		
– fully diluted	11,037,620			10,984,146		

Comparing to fiscal year 2010, FFO of the stabilized property portfolio before financing cost increased by 74% to $11.6 million, while the number of stabilized units increased by 22% to 5,700 units as of September 30, 2011 compared to 4,795 units as of September 30 2010.

(in 000s)

	Three months ended September 30			Twelve months ended September 30		
	2011	2010	% change	2011	2010	% change
Stabilized FFO before financing cost	$ 3,474	$ 1,998	74%	$ 11,563	$ 6,639	74%
Financing cost	$ 233	$ 266	(12%)	$ 769	$ 1,393	(45%)
Stabilized FFO after financing cost	$ 3,241	$ 1,732	87%	$ 10,794	$ 5,246	106%
Number of stabilized units	5,700	4,795	19%	5,700	4,795	19%

LIQUIDITY & CAPITAL RESOURCES

Working capital requirement

Mainstreet requires sufficient working capital to cover day-to-day operating and mortgage expenses as well as income tax payments. In the fiscal year ended September 30, 2011, after payments of all required expenses, the Corporation generated funds from operations of $11 million. The Corporation has an operating line of credit of $15 million from which $4 million has been drawn. The Corporation expects that funds generated from operations and the existing operating line of credit will be sufficient to meet its working capital requirements in 2011.

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

Other capital requirements

Mainstreet also needs sufficient capital to finance continued growth and capital improvement. As of September 30, 2011, the Corporation had an acquisition line of credit in an amount of $15 million, from which $1.5 million has been drawn. In addition to approximately $13.5 million still available on this acquisition line of credit, Mainstreet expects to raise approximately $34 million in the fiscal year 2012 by refinancing existing mortgages on maturity to long-term, mostly CMHC-insured mortgages. The Corporation's policy for capital risk management is to maintain a debt-to-market-value ratio of 70%. The current ratio is approximately 52%, which leaves considerable room for raising additional funds from refinancing.

As of September 30, 2011, the Corporation owned the following 20 clear title properties with appraised value of approximately $73 million:

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition		Appraised Value	
33136 George Ferguson Way, Abbotsford, BC	84	$	8,300	$	9,850
33710 Marshall Road, Abbotsford, BC	114	$	7,580	$	13,100
33405 Bourquin Place, Abbotsford, BC	60	$	5,400	$	7,350
103220 – 113A St. Edmonton,AB	48	$	4,207	$	5,100
528 & 530 – 15 Ave SW, Calgary, AB	32	$	3,600	$	4,910
33292 Robertson Avenue, Abbotsford, BC (Note 1)	48	$	3,436	$	5,000
33263 Bourquin Cr. East, Abbotsford, BC (Note 1)	44	$	3,178	$	4,600
10625 – 117 St., Edmonton, AB	33	$	2,893	$	3,150
7108 – 79 Avenue Edmonton, AB	21	$	1,911	$	2,420
3701 – 8 Street E, Saskatoon, SK	24	$	1,824	$	2,675
10125 – 114 St., Edmonton, AB	24	$	1,103	$	830
1622 – 22 St., Saskatoon, SK	24	$	921	$	2,340
202 Avenue N South, Saskatoon, SK	19	$	830	$	1,550
11920 – 82 St., Edmonton, AB	13	$	800	$	1,350
11717 – 48 St., Edmonton, AB	15	$	645	$	1,570
2014 – 20 St. West, Saskatoon, SK	18	$	494	$	1,550
128 Avenue O, Saskatoon, SK	11	$	455	$	910
355 Avenue T South, Saskatoon, SK	16	$	422	$	1,440
403 Avenue P South, Saskatoon, SK	15	$	398	$	1,290
114 Avenue T South, Saskatoon, SK (Note 1)	18	$	342	$	1,685
Multi-family developing lot, 33283 Bourquin Cr E, Abbotsford, BC (Note 1)	–	$	306	$	450
Total as of September 30, 2011	681	$	49,045	$	73,120
Subsequent to the year end date					
905 Preston Avenue East, Saskatoon, SK	18	$	1,530	$	1,650

Properties pledged as securities of the line of credit

(000s of dollars except unit information)

Property	Number of units	Cost of Acquisition	Appraised Value
205 Ross Avenue, Calgary, AB	42	$ 3,607	$ 5,800
326-328 – 18 Avenue SW, Calgary, AB	7	$ –	$ 1,020
305 – 10 Ave SE, Calgary, AB (Mainstreet Head Office)	–	$ 3,800	$ 5,000
Total as of September 30, 2011	49	$ 7,407	$ 11,820

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

CONTRACTUAL OBLIGATIONS

As of September 30, 2011, the Corporation had the following contractual obligations, which are anticipated to be met using the existing line of credit, funds from operations and proceeds from the refinancing of maturing and floating mortgage loans.

PAYMENTS DUE BY PERIOD

(000s of dollars)

	Total	2012	2013	2014	2015	2016	Subsequent
Mortgages payable	477,530	40,350	60,063	82,630	49,341	52,430	192,716

LONG-TERM DEBT

(000s of dollars)

	Amount	% of debt	Average interest rate (%)
Fixed rate debt			
– CMHC-insured	387,377	81%	4.53%
– non-CMHC-insured	69,903	15%	4.65%
Total fixed rate debt	457,280	96%	4.55%
Floating rate debt			
– non-CMHC-insured	20,250	4%	4.57%
	477,530	100%	4.55%

Mainstreet's long-term debt consists primarily of low-rate, fixed-term mortgage financing. All individual mortgages are secured with their respective real estate assets. Based largely on the 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, 2011, mortgages payable were $478 million compared to $401 million on September 30, 2010 – an increase of 19% due to additional mortgages assumed and raised for acquisitions and refinancing during the twelve-month period ended September 30, 2011.

At September 30, 2011, management believed the Corporation's financial position to be stable, with overall mortgage levels reported at 103% of depreciated book value and 57% of the estimated market value of properties. 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-rate debt.

MORTGAGE MATURITY SCHEDULE

(000s of dollars)

Maturing during the 12 month period ending December 31		Balance maturing	% of debt maturing	Weighted average rate on expiry (%)
2012	$	32,028	7%	4.70%
2013	$	51,965	11%	4.38%
2014	$	79,419	17%	3.98%
2015	$	46,058	10%	4.60%
2016	$	52,927	11%	4.71%
Subsequent	$	215,133	45%	4.73%
	$	477,530	100%	4.55%

Approximately 7% of Mainstreet's mortgage loans will mature within the next 12 months due mainly to the acquisition of undervalued properties, all of which require renovation. Upon acquisition, these properties are financed through short-term, floating-rate loans. When the properties are stabilized, Mainstreet seeks to refinance these short-term loans under long-term, CMHC-insured mortgages.

INTERNAL CONTROL

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed an internal control framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework used to design the Corporation's Internal Control over Financial Reporting (ICFR) is Risk Management and Governance – Guidance on Control, published by the Canadian Institute of Chartered Accountants. The CEO and CFO have concluded that the design and operation of the Corporation's disclosure controls and procedures were not effective as of September 30, 2011 due to the deficiencies noted in the following paragraph.

The Corporation identified internal control deficiencies that are not atypical for a Corporation of this size including lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management believes that at this time, the potential benefits of adding employees to clearly segregate duties do not justify the costs associated with such increase. The risk of material misstatement is mitigated by the direct involvement of senior management in the day-to-day operations of the Corporation and review of the financial statements and disclosures by senior management, the members of Audit Committee and the Board of Directors. These mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. There were no changes during the fiscal year of 2011 to material weaknesses in internal controls over financial reporting.

FINANCIAL INSTRUMENTS & RISK MANAGEMENT

Fair Value of Financial Assets & Liabilities

The Corporation'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 restricted cash, cash and cash equivalents, accounts receivable, other receivables and deposits, accounts payable, and refundable security deposits approximate their carrying amounts due to the short-term maturity of those instruments.

The fair values of mortgages are determined using the current market interest rates as discount rates, the net present value of principal balances and future cash flows over the terms of the mortgages.

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

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

		September 30, 2011		September 30, 2010	
	Fair Value Hierarchy Level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Restricted cash	level 1	$ 1,818	$ 1,818	$ 1,608	$ 1,608
Cash and cash equivalents	level 1	–	–	$ 1,419	$ 1,419
Accounts receivable	level 1	$ 627	$ 627	$ 331	$ 331
Other receivable and deposits	level 1	$ 3,482	$ 3,482	$ 2,196	$ 2,196
Financial liabilities:					
Bank indebtedness	level 1	$ 4,011	$ 4,011	–	–
Mortgages	level 1	$ 477,530	$ 504,850	$ 400,678	$ 411,568
Accounts payable	level 1	$ 4,646	$ 4,646	$ 5,022	$ 5,022
Refundable security deposits	level 1	$ 2,604	$ 2,604	$ 2,263	$ 2,263

RISK ASSOCIATED WITH FINANCIAL ASSETS & LIABILITIES

The Corporation is exposed to risks arising from its financial assets and liabilities. These include market risk related to interest rates, credit risk and liquidity risk. For detailed explanations of these risks, refer to the section entitled "Risk Assessment and Management" on page 19.

SHARE CAPITAL

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and outstanding:

	Year ended September 30, 2011		Year ended September 30, 2010	
	Number of common shares	Amount (000s)	Number of common shares	Amount (000s)
Issued and outstanding, beginning of the period	10,377,615	$ 26,214	10,355,827	$ 25,422
Shares purchase loan	–	$ 322	–	$ 406
Purchase and cancellation of shares	(1,334)	$ (3)	(28,212)	$ (71)
Exercise of stock options	25,000	$ 138	50,000	$ 275
Transfer from contributed surplus	–	$ 91	–	$ 182
Issued and outstanding, end of the period	10,401,281	$ 26,762	10,377,615	$ 26,214

The Corporation obtained approval from the TSX to continue the repurchase of its common shares under a Normal Course Issuer Bid that commenced in October 2010. As of September 30, 2011, a total of 1,334 common shares had been repurchased at an average price of $11.33 per common share.

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

	September 30, 2011		September 30, 2010	
Stock option	Number of shares	Weighted Average Exercise price	Number of shares	Weighted Average Exercise price
Outstanding and exercisable, beginning of period	1,193,700	8.05	1,243,700	$ 7.95
Exercised	25,000	5.51	50,000	$ 5.51
Outstanding and exercisable, end of period	1,168,700	8.11	1,193,700	$ 8.05

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, 2011, 75,000 of the stock options were exercised.

CRITICAL ACCOUNTING ESTIMATES

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

TRANSACTIONS WITH RELATED PARTIES

a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to $346,000 (2010 – $27,000).

b) The Corporation paid legal and professional fees and reimbursements amounting to $307,000 (2010 – $196,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As of September 30, 2011 and September 30, 2010, the amounts payable to the law firm were $5,000 and $13,600 respectively.

c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – $245,632 as at September 30, 2011 (September 30, 2010 – $567,650) – were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 100,000 (September 30, 2010 – $192,200) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2011 was $17.15 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to 20 quarterly payments effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

OFF BALANCE SHEET ARRANGEMENTS

No off balance sheet arrangements were made by the Corporation for the three- and nine-month periods ended September 30, 2011.

RISK ASSESSMENT & MANAGEMENT

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

Vacancy risk

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

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

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

Financial risk

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

Interest risk

Mainstreet is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling approximately $41 million are subject to renewal in the next 12 months. Increases in the interest rate have the potential to adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates of its mortgages. The majority of Mainstreet's mortgages 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 possibility of a lender calling a loan prematurely.

Utilities risk

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

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants. The Corporation's tenants are numerous, which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of September 30, 2011, the possibility of not receiving payment of rent due from current tenants was covered by security deposits and provisions for bad debts.

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

Liquidity risk

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

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

(000s of dollars)

	1 year	2 years	3 years	4 years	Beyond 4 years	Total
Mortgages payable	$ 40,350	$ 60,063	$ 82,630	$ 49,341	$ 245,146	$ 477,530
Bank indebtedness	$ 4,011	$ –	$ –	$ –	$ –	$ 4,011
Accounts payable	$ 4,646	$ –	$ –	$ –	$ –	$ 4,646
Refundable security deposits	$ 2,604	$ –	$ –	$ –	$ –	$ 2,604

Financing risk

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

Reliance on key employees

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

Income tax risk

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

Economic uncertainty

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

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 will adopt "IFRS" in the financial year ending September 30, 2012.

CHALLENGES

Mainstreet's growth-oriented model creates certain operational stresses. While the Corporation has come a long way toward developing its unique operating system, in the mid-market add value space, to manage its business in an effective and efficient way, there is still more work to be done. Mainstreet's overall vacancy rates are skewed upward because of the Corporation's acquisition of underperforming assets and the time they need to be stabilized; this creates vacancy during the period of stabilization. As Mainstreet continues to bring down the cycle time it takes to stabilize a property, management is confident that it will further reduce vacancy rates across the portfolio.

Rental market conditions remained very competitive in 2011, and Mainstreet continued to offer substantial rental concessions to attract and retain high-quality tenants during 2011. Concessions have come down from the recessionary high and management believes that they will continue to decline further in 2012, given that CMHC data points toward more favorable market conditions in the near-term.

The churn rate – the turnover of tenants in Mainstreet's properties – also remains higher than it would like it to be. The challenging macro-economic conditions have played a part in this, but it is also an inherent part of the Mainstreet model – as Mainstreet adds new properties and bring them up to standard, there is some natural turnover in the tenants that live in them. This transition from old to new tenants also increases Mainstreet's exposure to bad debts.

The good news is that in a fixed-cost business like Maintreet's, as it meets these operational challenges, the results will flow directly to the bottom line.

OUTLOOK

2011 was the most active year in Mainstreet's history in terms of acquisitions, but already it has some insight that 2012 could be even more active. Subsequent to year-end, Mainstreet acquired 435 units for $42 million, and refinanced $5.9 million long-term CMHC-insured mortgages at an average rate of 2.85 per cent. As mentioned previously, the vacancy rate continued to drop subsequent to year-end as well.

Mainstreet is well situated in its core markets, all of which are showing relatively strong growth with the potential for further growth based on the latest independent economic forecasts. Economic forecasts indicate that Western Canada, where 92 per cent of Mainstreet's portfolio is located (with 54 per cent in Alberta) as of today, will continue to be the country's economic "sweet spot". Commodity prices continue to show strength – oil prices are projected to average $95.75 per barrel in 2013/14 – while billions of dollars in private sector investment continue to flow into Alberta's energy sector. In fact, Alberta leads all Canadian provinces in GDP growth over the last 20 years, with an average GDP growth rate of over 3 per cent.

Demographic trends in Mainstreet's core markets are equally favorable. The Government of Alberta forecasts that in-migration to Alberta will continue to remain positive, and may achieve levels as high as 40,000 persons per year by 2014 if there is another prolonged boom in the energy sector. Net inter-provincial migration meanwhile, could triple from 2010 levels over the next few years. The only other provinces with net positive inter-provincial migration over the past five years have been British Columbia and Saskatchewan, two of Mainstreet's other core markets. Alberta and Saskatchewan also have the most landlord-friendly Tenancy acts in the country, which enables Mainstreet to raise rents as market conditions allow.

Management believes the conditions are in place for continued organic growth. Interest rates remain at 60-year lows, a rare opportunity for a corporation for which interest on its debt is its largest expense. Mainstreet has access to over $90 million in liquidity in the form of clear title assets worth approximately $73 million in appraised value as well as cash on hand and a line of credit that can be used to make strategic acquisitions without equity dilution. The macroeconomic environment in our key markets continues to improve, and the long-term trends that have been in place at Mainstreet – rising revenues, FFO, NOI and same-asset NOI – appear set to continue.

Mainstreet has learned the lessons from the last boom and is ready to apply them in the months and years ahead. Like most companies in Alberta the previous labour crunch in 2006-7 hit the Corporation hard, and so Mainstreet has been very proactive in pursuing initiatives that will provide the Corporation with a steady and secure source of foreign workers to supplement our team. Mainstreet is also wary of the possibility of cost inflation, and so Mainstreet is working on securing a supply pipeline from China that will deliver high-quality materials such as cabinets, flooring and other renovation-related expenditures at a lower cost. The absence of any third-party intermediaries in this internalized supply chain will help keep those material costs as low as possible.

Mainstreet is exploring its options for expanding its business to the United States, where there are abundant opportunities to acquire distressed mid-market properties. In-depth research is being conducted in order to ascertain whether Mainstreet can apply its proven value-added business model in the U.S.

Mainstreet is preparing for the adoption of International Financial Reporting Standards (IFRS) for the 2012 fiscal year. The market value of the Corporation's assets will be reported on its balance sheet under IFRS, and as such will more accurately reflect the shareholder value that the Corporation has created and serve as a testament to its business model. As of December 8, 2011, the new appraisal indicates a property value of over $950 million, which, net of the total mortgage debt of approximately $505 million, translates into $42.80 net asset value per share versus a current market price of just over $20 per share. Consequently, management believes that Mainstreet shares are substantially undervalued.

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF MAINSTREET EQUITY CORP.

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

Management has implemented a system of internal controls that are designed to provide reasonable assurance that transactions are property 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

[Signed]

"Joe Amantea"
Director

December 8, 2011

AUDITORS' REPORT

TO THE SHAREHOLDERS OF MAINSTREET EQUITY CORP.

We have audited the accompanying financial statements of Mainstreet Equity Corp., which comprise the balance sheets as at September 30, 2011 and 2010, and the statements of loss and comprehensive loss and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of thesefinancial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mainstreet Equity Corp. as at September 30, 2011 and 2010, 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 12, 2011
Calgary, Alberta

BALANCE SHEETS

(000s of dollars)

As at September 30,	2011	2010
ASSETS		
Real estate properties [Note 2]	$ 461,735	$ 384,342
Properties held for resale	2,117	2,109
Other assets [Note 3]	4,006	2,523
Future income tax recoverable [Note 7]	7,989	7,439
Restricted cash [Note 4]	1,818	1,608
Cash and cash equivalents	–	1,419
	$ 477,665	$ 399,440
LIABILITIES		
Mortgages payable [Note 5]	477,530	400,678
Bank indebtedness [Note 6]	4,011	–
Accounts payable	4,646	5,022
Refundable security deposits	2,604	2,263
	$ 488,791	$ 407,963
SHAREHOLDERS' EQUITY		
Share capital [Note 8]	26,762	26,214
Contributed surplus	3,096	3,187
Deficit	(40,984)	(37,924)
	(11,126)	(8,523)
	$ 477,665	$ 399,440

Guarantees (Note 12)

See accompanying notes to the financial statements

[Signed]

"Bob Dhillon"
Director

"Joe Amantea"
Director

December 8, 2011

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS AND DEFICIT

(000s of dollars, except per share amounts)

For the years ended September 30,		2011		2010
Revenue				
Rental revenue	$	64,232	$	53,117
Net gain on insurance		57		–
Gain on settlement on debt		40		310
Interest income		55		112
		64,384		53,539
Expenses				
Property operating expenses		23,445		19,928
General and administrative expenses		6,336		6,233
Mortgage interest		20,981		18,119
Financing costs		2,704		1,530
Depreciation		14,516		12,870
		67,982		58,680
Loss before income taxes		(3,598)		(5,141)
Income taxes recovery [Note 7]				
– current		–		(13)
– future		(550)		(1,265)
		(550)		(1,278)
Net loss and comprehensive loss for the year		(3,048)		(3,863)
Deficit beginning of year		(37,924)		(33,854)
Excess over the average value of the shares purchased for cancellation		(12)		(207)
Deficit, end of year	$	(40,984)	$	(37,924)
Loss per share – Basic and diluted [Note 10]	$	(0.29)	$	(0.37)

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(000s of dollars)

For the years ended September 30,	2011	2010
Cash obtained from (used in):		
Operating activities		
Net loss	$ (3,048)	$ (3,863)
Items not affecting cash		
Loss on disposal of property	56	–
Depreciation	14,516	12,870
Future income taxes	(550)	(1,265)
	$ 10,974	$ 7,742
Change in non-cash operating balances		
Other assets	(1,483)	1,910
Restricted cash	(210)	(144)
Accounts payable	(376)	636
Refundable security deposits	341	318
	9,246	10,462
Financing activities		
Financing of real estate properties	128,430	73,267
Repayment of secured debts on revenue producing properties, and other debts	(56,840)	(67,248)
Repayment of shares purchase loan	322	406
Shares purchased for cancellation	(15)	(279)
Exercise of stock options	138	275
	72,035	6,421
Investing activities		
Purchase of and addition to real estate properties	(86,703)	(40,450)
Purchase of and addition to real estate held for resale	(8)	(19)
	(86,711)	(40,469)
Net decrease in cash and cash equivalents	(5,430)	(23,586)
Cash and cash equivalents, beginning of year	1,419	25,005
Cash and cash equivalents , end of year	$ (4,011)	$ 1,419
Cash and cash equivalents are comprised:		
Cash	$ 871	$ 1,380
Line of credit	$ (4,914)	$ –
Short-term deposits	$ 32	$ 39
	$ (4,011)	$ 1,419
Income taxes paid	–	–
Interest paid	$ 21,119	$ 18,377

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

(000s of dollars, except per share amounts)

For the years ended September 30, 2011 and 2010

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.

Critical Accounting Estimates

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

Revenue recognition

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

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

Revenue producing real estate properties

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

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

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

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

Properties held for resale

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

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

Cash and cash equivalents

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

Amortization

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

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

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

Comprehensive income

Comprehensive Income is comprised of net earnings and other comprehensive income "OCI", which represents changes in retained earnings during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale. For the financial years ended September 30, 2011 and 2010, 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 and cash equivalents which has been classified as held-for-trading. The Corporation has classified all financial liabilities as other financial liabilities.

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

Stock option plan

The Corporation has stock option plans, which is described in Note 9.

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

Fair value

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

Earnings per share

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

Income taxes

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

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 will materially affect the Corporation's reported financial position and results of operations. The Corporation will adopt "IFRS" on October 1, 2011.

2. REAL ESTATE PROPERTIES

	September 30, 2011			September 30, 2010		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	**$ 165,165**	**$ –**	**$ 165,165**	$ 130,816	$ –	$ 130,816
Buildings	**$ 305,185**	**$ 39,584**	**$ 265,601**	$ 255,932	$ 32,291	$ 223,641
Building improvements	**$ 66,493**	**$ 37,129**	**$ 29,364**	$ 58,701	$ 30,321	$ 28,380
Furniture and fixtures	**$ 3,592**	**$ 1,987**	**$ 1,605**	$ 3,118	$ 1,613	$ 1,505
	$ 540,435	**$ 78,700**	**$ 461,735**	$ 448,567	$ 64,225	$ 384,342

Acquisitions of apartment buildings

	2011	2010
Mortgages arranged	**$ 30,057**	$ 7,299
Cash paid	**$ 45,223**	$ 30,656
Total consideration	**$ 75,280**	$ 37,955
Allocation of total consideration		
Land	**$ 34,349**	$ 17,938
Buildings	**$ 46,193**	$ 27,378
Appliances	**–**	$ 100
Debt assumed at fair value	**$ (5,244)**	$ (7,461)
	$ 75,280	$ 37,955
Units acquired	**943**	427

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

3. OTHER ASSETS

		2011		2010
Accounts receivable	$	527	$	331
Other receivable	$	2,128	$	992
Deposits and prepayments	$	1,351	$	1,200
	$	4,006	$	2,523

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 4.55% (2010 – 4.73%) per annum, are payable in monthly principal and interest installments totaling $2,526,000 (2010 – $2,232,000), maturing from 2011 to 2022 and are secured by specific charges against specific properties, having a carrying value of $463,852,000 (2010 – $ 386,451,000) and several personal guarantees of a director to the extent of Nil (September 30, 2010 – $430,000).

		2011		2010
	$	477,530	$	400,678

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

Year		Amount
2012	$	32,028
2013	$	51,965
2014	$	79,419
2015	$	46,058
2016	$	52,927
Subsequent	$	215,133
	$	477,530

6. BANK INDEBTEDNESS

The Corporation had a revolving line of credit of $15 million and a revolving acquisition line of credit of $15 million with a financial institution. The revolving line of credit was secured by a first or second mortgage charge on specific real estate assets. The revolving acquisition line of credit was to be used for acquisition of real estate assets up to the lesser of 65 % of the acquisition price or the appraised value and was secured by a first charge against the acquired real estate assets. As at September 30, 2011, the Corporation has drawn $5.2 million against the facilities.

The Corporation's credit facility contains financial covenant to maintain a fixed charge coverage ratio of 1.20. As at September 30, 2011, the Corporation's fixed charge coverage ratio was 1.31 which was in compliance with the covenant.

7. INCOME TAXES

		2011		2010
Income tax recovery	$	(550)	$	(1,278)

The income tax recovery 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:

		2011		2010
Loss before income tax	$	(3,598)	$	(5,141)
Statutory tax rate		27.34%		29.34%
Computed expected tax	$	(984)	$	(1,509)
Large corporation tax		–	$	46
Reduction in future tax asset for change in future tax rate	$	627	$	105
Others	$	(193)	$	80
Income tax recovery	$	(550)	$	(1,278)

The future income tax asset is as follows:

		Sep. 30, 2011		Sep. 30, 2010
Tax assets related to differences in tax and book bases	$	7,989	$	7,439

8. SHARE CAPITAL

Authorized:

Unlimited number of common voting shares
Unlimited number of preferred shares
Issued and outstanding:

	Year ended September 30, 2011			Year ended September 30, 2010		
	Number of common shares		Amount	Number of common shares		Amount
Issued and outstanding, beginning of the year	10,377,615	$	26,214	10,355,827	$	25,422
Shares purchase loan (Note 14)	–	$	322	–	$	406
Purchase and cancellation of shares	(1,334)	$	(3)	(28,212)	$	(71)
Exercise of stock options	25,000	$	138	50,000	$	275
Transfer from contributed surplus	–	$	91	–	$	182
Issued and outstanding, end of the year	10,401,281	$	26,762	10,377,615	$	26,214

The Corporation has obtained approval from the TSX to continue the repurchase of common shares of the Corporation under a Normal Course Issuer Bid commencing in December 12010. During the fiscal year ended September 30, 2011, a total of 1,334 common shares have been repurchased at an average price of $11.33 per common share.

9. STOCK OPTION PLAN

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

	September 30, 2011		September 30, 2010		
Stock option	Number of shares	Weighted Average Exercise price	Number of shares	Weighted Average Exercise price	
Outstanding and exercisable, beginning of year	1,193,700	8.05	1,243,700	$	7.95
Exercised	25,000	5.51	50,000	$	5.51
Outstanding and exercisable, end of year	1,168,700	8.11	1,193,700	$	8.05

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, 2011, 75,000 of the stock options were exercised.

10. LOSS PER SHARE

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

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

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

	2011	2010
Numerator		
Net loss	$ (3,048)	$ (3,863)
Denominator		
For basic loss per share		
Weighted average shares	10,391,024	10,362,881
Dilutive effect	–	–
For diluted loss per share	10,391,024	10,362,881
Basic and diluted loss per share	$ (0.29)	$ (0.37)

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.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial assets and liabilities

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

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

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

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

	Fair Value Hierarchy Level	September 30, 2011 Carrying amount	September 30, 2011 Fair value	September 30, 2010 Carrying amount	September 30, 2010 Fair value
Financial assets:					
Restricted cash	level 1	$ 1,818	$ 1,818	$ 1,608	$ 1,608
Cash and cash equivalents	level 1	–	–	$ 1,419	$ 1,419
Accounts receivable		$ 627	$ 627	$ 331	$ 331
Other receivable and deposits		$ 3,482	$ 3,482	$ 2,196	$ 2,196
Financial liabilities:					
Bank indebtedness		$ 4,011	$ 4,011	–	–
Mortgages payable		$ 477,530	$ 504,850	$ 400,678	$ 411,568
Accounts payable		$ 4,646	$ 4,646	$ 5,022	$ 5,022
Refundable security deposits		$ 2,604	$ 2,604	$ 2,263	$ 2,263

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.

Interest risk

The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totaling $32 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 $203,000 in interest expense for the year ended September 30, 2011.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss for the Corporation. The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting in-depth credit assessments of all tenants and collecting security deposits from tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk. As tenants' rent is due at the beginning of the month, all amounts in accounts receivable are considered overdue by the Corporation. As of September 30, 2011, the possibility of not receiving payment of rent due from current tenants was covered by security deposits and provisions for bad debts.

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

Liquidity Risk

Liquidity risk is the risk 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	$ 40,350	$ 60,063	$ 82,630	$ 49,341	$ 245,146	$ 477,530
Bank indebtedness	$ 4,011	$ –	$ –	$ –	$ –	$ 4,011
Accounts payable	$ 4,646	$ –	$ –	$ –	$ –	$ 4,646
Refundable security deposits	$ 2,604	$ –	$ –	$ –	$ –	$ 2,604

12. GUARANTEES

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

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

13. COMMITMENTS AND CONTINGENCIES

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

14. RELATED PARTY TRANSACTIONS

a) The President and Chief Executive Officer receives commissions at commercial rates in his capacity as a licensed broker for the property transactions conducted by the Corporation in its normal course of business. Commissions are determined on an exchange value basis. These commissions are not incurred or paid by the Corporation but rather by the other selling party or parties to the transaction. The commissions received during the year amounted to $346,000 (2010 – $27,000).

b) The Corporation paid legal and professional fees and reimbursements amounting to $ 307,000 (2010 – $196,000) to a law firm of which a director and officer of the Corporation is a partner. Professional fees and reimbursements are determined on an exchange value basis. As of September 30, 2011 and September 30, 2010, the amounts payable to the law firm were $5,000 and $13,600 respectively.

c) The Corporation has established a plan to assist its directors, officers and employees in purchasing common shares of the Corporation. Total loans – $245,632 as at September 30, 2011 (September 30, 2010 – $567,650) – were advanced on October 31, 2005. The loans are determined on an exchange value basis and are interest-free and secured against 100,000 (September 30, 2010 – 192,200) common shares of the Corporation purchased by the participants. The market value of the common shares at September 30, 2011 was $17.15 per share. The original payment term of the loan was on October 31, 2009. The payment terms have been revised to 20 quarterly payments effective January 1, 2010. As such, the loan amounts have been treated as a reduction of share capital in the financial statements.

15. SEGMENTED INFORMATION

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

Rental operations

		2011		2010
British Columbia				
Rental revenue	$	16,595	$	13,290
Operating expenses	$	5,857	$	4,805
Alberta				
Rental revenue	$	33,198	$	26,772
Operating expenses	$	11,602	$	9,758
Saskatchewan				
Rental revenue	$	7,115	$	6,591
Operating expenses	$	2,106	$	1,841
Ontario				
Rental revenue	$	7,324	$	6,464
Operating expenses	$	3,880	$	3,524
Total				
Rental revenue	$	64,232	$	53,117
Operating expenses	$	23,445	$	19,928
Unallocated revenue*	$	152	$	422
Unallocated expenses**	$	43,987	$	37,474
Net loss for the year	$	(3,048)	$	(3,863)

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

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

Identifiable assets and liabilities

	Sep. 30, 2011	Sep. 30, 2010
British Columbia		
Real estate properties	$ 151,577	$ 120,895
Mortgages payable	$ 120,657	$ 98,227
Security deposit	$ 834	$ 655
Alberta		
Real estate properties	$ 223,417	$ 176,713
Mortgages payable	$ 288,489	$ 238,450
Security deposit	$ 1,454	$ 1,279
Saskatchewan		
Real estate properties	$ 40,275	$ 40,369
Mortgages payable	$ 32,586	$ 28,625
Security deposit	$ 316	$ 329
Ontario		
Real estate properties	$ 46,466	$ 46,365
Mortgages payable	$ 35,798	$ 35,376
Security deposit	$ –	$ –
Total		
Real estate properties	$ 461,735	$ 384,342
Mortgages payable	$ 477,530	$ 400,678
Security deposit	$ 2,604	$ 2,263
Properties held for resale – Alberta	$ 2,117	$ 2,109

Identifiable capital expenditures

(000s of dollars)

	2011	2010
British Columbia	$ 34,355	$ 35,527
Alberta	$ 54,333	$ 16,272
Saskatchewan	$ 1,559	$ 679
Ontario	$ 1,724	$ 2,776
Identifiable capital expenditures	$ 91,971	$ 55,254

16. CAPITAL MANAGEMENT

The Corporation defines capital that it manages as the aggregate of its shareholders' equity (deficit) and mortgages payable and on occasion, bank loan or lines of credit when drawn on. The Corporation's total capital resources amounted to $471 million as at September 30, 2011.

The Corporation aims to manage its capital resources to maintain financial strength and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity and mortgages.

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

The total managed capital for the Corporation as at September 30, 2011, and September 30, 2010, is summarized below:

	Sep. 30, 2011	Sep. 30, 2010
Mortgage payable	$ 477,530	$ 400,678
Bank indebtedness	$ 4,011	$ –
Shareholders' equity (deficit)	$ (11,126)	$ (8,523)
Total capital	$ 470,415	$ 392,155

The Corporation's policy for capital risk management is to maintain a debt to market value of properties ratio of no greater than 70%. The ratio as at September 30, 2011 is approximately 52%. Market value was determined by independent qualified real estate appraisers. Direct capitalization method was used to convert an estimate of a single year's income expectancy into an indication of value in one direct step by dividing the income estimate by an appropriate capitalization rate. The actual selling value of these properties may be substantially different and depends on market conditions at the time of sale.

The debt to market value ratios at September 30, 2011 and September 30, 2010, were as follows:

	Sep. 30, 2011	Sep. 30, 2010
Debt	$ 477,530	$ 400,678
Market value of properties	$ 911,000	$ 752,000
Debt to market value ratio	52%	53%

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. The management believes that the existing liquid resources, funds generating from operations, and funds to be raised through the refinancing are sufficient to support the Corporation's operations on the going concern basis.

17. SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2011, the Corporation acquired 18 properties consisting of 435 units of residential apartments in Edmonton, Alberta, Calgary, Alberta, and Saskatoon, Saskatchewan for a total consideration of $42 million.

Subsequent to the year ended September 30, 2011, Mainstreet has decided not to sell the 22 units property and re-classified it from property held for resale to real estate properties.

Subsequent to the year ended September 30, 2011, Mainstreet has refinanced $5.9 million of mature debt into long term (5-10 year) mortgages for $16.2 million at an average interest rate of 2.85%. This refinancing raised an addtional fund of $10.3 million.

CORPORATE INFORMATION

OFFICERS

President & CEO
Bob Dhillon
Calgary, AB

Chief Financial Officer &
Chief Operating Officer
Johnny Lam
Calgary, AB

Secretary
Joe Amantea
Calgary, AB

BOARD OF DIRECTORS

Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

Bob Dhillon
Calgary, AB

Karanveer Dhillon
San Francisco, CA

Rich Grimaldi
Westport, CT

John Irwin
London, ON

DIRECTORS' COMMITTEES

Executive Committee

Bob Dhillon
Calgary, AB

Joe Amantea
Calgary, AB

Audit Committee

Chair
John Irwin
London, ON

Rich Grimaldi
Westport, CT

Ron B. Anderson
Vancouver, BC

Human Resource Committee

Chair
Joe Amantea
Calgary, AB

Ron B. Anderson
Vancouver, BC

REGISTRAR & TRANSFER AGENT

REGISTRAR & TRANSFER AGENT

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

AUDITORS

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

SOLICITORS

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

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

BANKERS

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Calgary, AB

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E-mail:
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Web site: www.mainst.biz

STOCK EXCHANGE

Toronto Stock Exchange
(trading symbol: MEQ)

WHY APARTMENTS?

BELOW REPLACEMENT COST

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

NEED

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

LOW INTEREST RATES

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

POSITIVE DEMOGRAPHICS

People who prefer rental housing – including singles, the 50–65 age group and the 20–29 year old "echo boomers" – are increasing in numbers. The number of echo boomers alone is projected to rise by about 200,000 (Stats Canada). As well, strong rental demand across Canada's metropolitan centres is expected to continue in 2012, 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 2011 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 36% 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

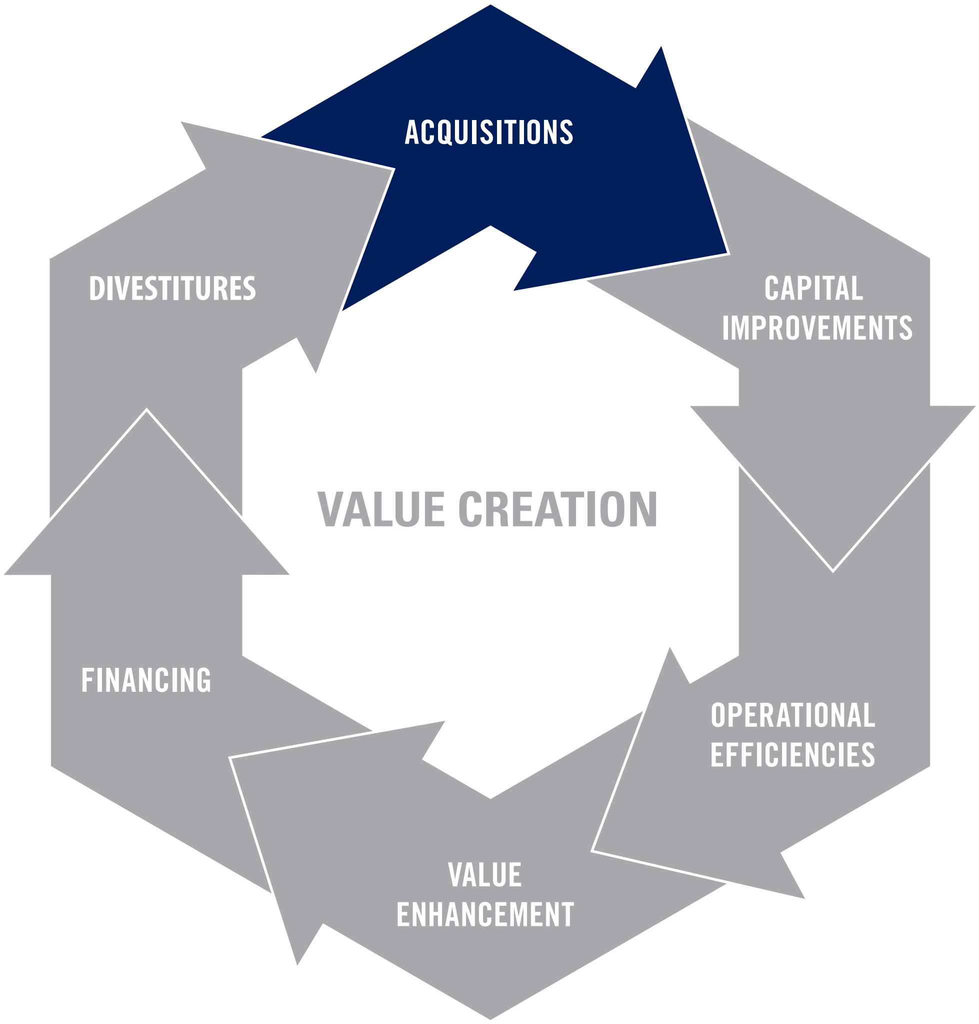
The CEO is highly vested in the success of the company.

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.

The Mainstreet

VALUE CHAIN



How do we create value? By relying on the business model that Mainstreet pioneered in the mid-market rental apartment space, the "Mainstreet Value Chain". It focuses on value creation by acquiring underperforming assets, renovating them to our higher standard and repositioning them in the market at a higher rent. As a result, the value of the property increases substantially due to the improved conditions of buildings and the higher rents that they can attract. This enables Mainstreet to unlock the value created by financing the stabilized property using long-term, low-interest CMHC insured mortgages. The capital that is unlocked by that process can then be used to fund additional growth. **Since the day of incorporation in May 1997, we have grown our portfolio from 272 units with appraised values of $17 million to 7,797 units with appraised values of over $950 million with minimal equity dilution.**