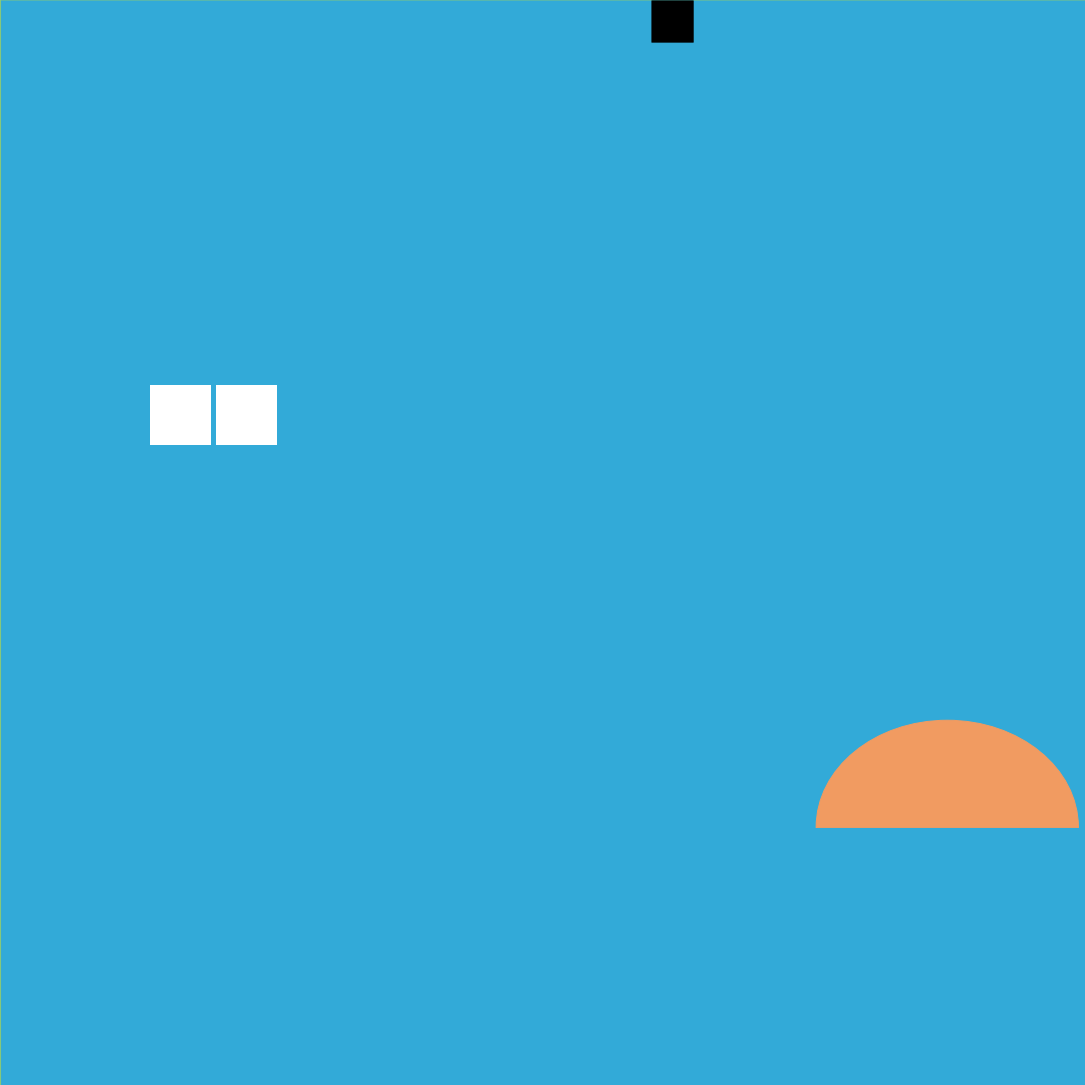


Mainstreet Equity Corp. 2000 Annual Report



Build value. See results.

corporate profile

Mainstreet Equity Corp. is a real estate company involved in the acquisition, divestiture and management of multi-family residential rental properties. Formed in 1997, our operations are based in Western Canada. Our formula for success is based on the principle of acquiring undervalued properties and making enhancements to build on their inherent value. We own 100 per cent interest in all the properties in our portfolio, and manage all operations and maintenance functions. Mainstreet is listed on the Toronto Stock Exchange and traded under the stock symbol MEQ.

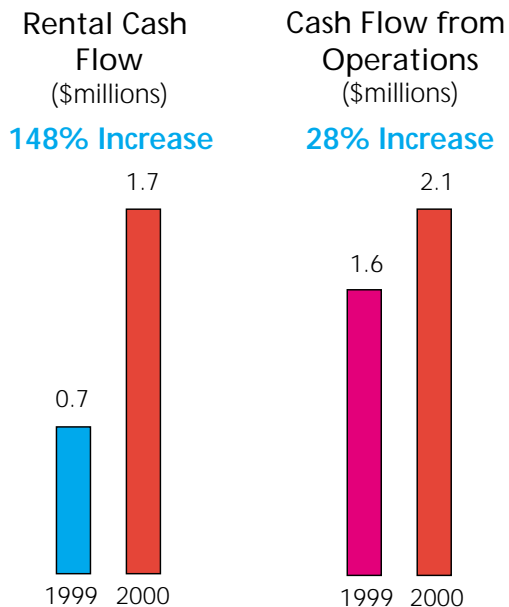
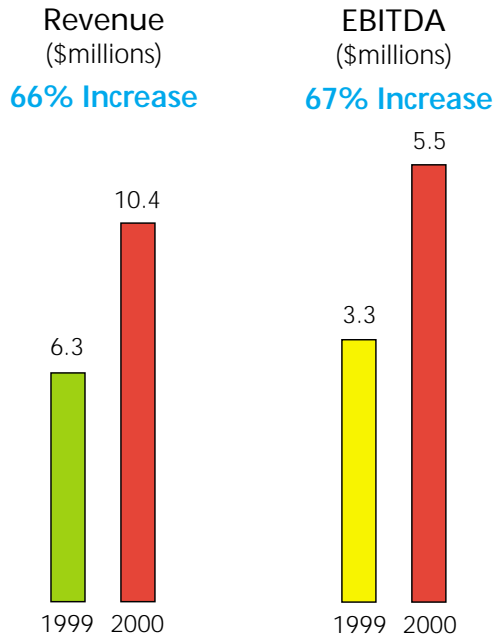
We take undervalued apartments and unlock their potential through strategic capital investment, superior management and intelligent financing.

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**Mainstreet's ultimate goal is to create
shareholder value regardless of real estate
or equity market conditions.**

financial highlights



FISCAL 2000

Interest Coverage Ratio

1.61

Return on Equity

24%

Per share results

	2000	1999	% Change
Cash flow from rental revenue	\$ 0.18	\$ 0.08	125
Cash flow from real estate sales	\$ 0.05	\$ 0.10	(50)
EBITDA	\$ 0.60	\$ 0.36	67

MEQ Stock Performance vs. TSE Real Estate Index



Per cent change calculations in this annual report are based on results comparing nine months in fiscal 1999 to 12 months in fiscal 2000.

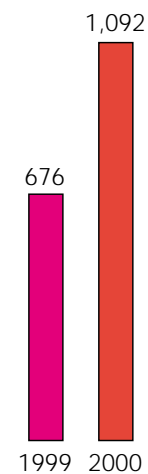
operational highlights

Acquisitions	Calgary	Edmonton	Total
No. of suites	267	262	529
Square footage	244,000	211,000	455,000
Purchase prices	\$ 17,274,000	\$ 12,354,000	\$ 29,628,000
Price per suite	\$ 65,000	\$ 47,000	\$ 56,000
Price per square foot	\$ 71	\$ 58	\$ 65
Operational costs		2000	1999
Operational costs per unit per month		\$ 149	\$ 170
Operational costs per square foot per month		\$ 0.19	\$ 0.24
Rental revenues by geographic location			
Calgary		2000	1999
Gross rental revenues		\$ 4,892,000	\$ 2,043,000
Rental revenues per unit per month		\$ 612	\$ 641
Rental revenues per square foot per month		\$ 0.75	\$ 0.87
Weighted average no. of units		666	354
Weighted average square footage		545,000	261,000
Edmonton		2000	1999
Gross rental revenues		\$ 2,848,000	\$ 928,000
Rental revenues per unit per month		\$ 482	\$ 435
Rental revenues per square foot per month		\$ 0.67	\$ 0.66
Weighted average no. of units		492	237
Weighted average square footage		352,000	157,000
Total square footage		1,092,269	675,520

NOI margin			
<i>(Thousands of dollars)</i>		2000	1999
NOI (rental revenue/expenses)	\$	5,663	\$ 2,067
Net operating margin from rental operations		73%	70%

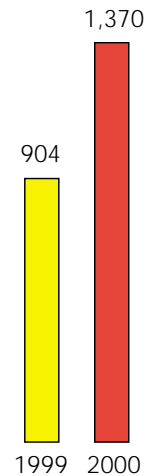
Total Square Feet
(000s)

62% Increase



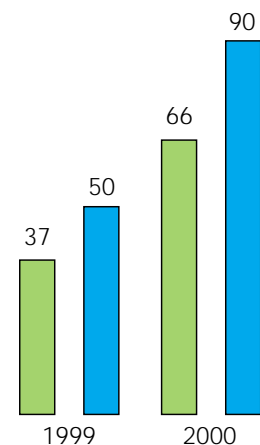
Total Number
of Units

52% Increase



Value of Real Estate Properties
(\$millions)

79% Increase



■ Book Value of Real Estate Properties
■ Market Value of Real Estate Properties

Turning Expertise Into Profits

Many would say Mainstreet Equity Corp. is in the real estate business. The truth is we're in the business of making money. And the real estate sector happens to be our vehicle for doing that. We use our depth of real estate experience and business savvy to identify undervalued properties in the real estate rental market and then build on that value to maximize profits.

message to shareholders

Year 2000 Achievements

In 2000, we proved once again that we know how to make money. That has translated into increased value for our shareholders.

Our gross revenues grew by 66 per cent – from \$6.2 million in 1999 to almost \$10.4 million in 2000. At the same time, rental revenues rose by 161 per cent in 2000 compared to 1999. Total cash flow from operations climbed from \$1.6 million in 1999 to \$2.1 million in 2000, an increase of 28 per cent, while cash flow from rental operations

jumped 148 per cent. It is important to note that our financial results compare nine months in fiscal 1999 to 12 months in fiscal 2000, due to the change in year-end from December 31 to September 30 beginning year ending September 30, 1999.

Our asset base continues to grow at a phenomenal pace. In less than two years, we grew the value of our assets by more than 450 per cent. At the beginning of 1999, we had 271 rental units in our asset base, valued at \$17 million. As of January 1, 2001, our total assets of 1,544 rental units had a market value of close to \$100 million.

In terms that are meaningful to shareholders, we achieved a 553 per cent increase in share price – from our major transaction of \$0.75 per share in April 1998 to a close of \$4.90 per share on September 30, 2000. This demonstrates the strength of our strategy during what has been regarded as a period of depressed valuations for the real estate market as a whole. It is notable that we were able to accomplish this growth without diluting shareholders' equity through external financing and internal resources.

Acquisitions continued to play a large role in Mainstreet's growth strategy. In 2000, we acquired 529 units – 267 in Calgary and 262 in Edmonton. Considering the strong real estate market in both cities, it is noteworthy that we continue to be able to acquire undervalued properties that have significant revenue potential. Our average purchase price per rental unit in fiscal 2000 was \$65 per square foot or \$56,000 per unit. For example, we have succeeded in acquiring rental property for as low as \$27,000 per unit – in a strong economy. This was for a 116-unit complex in Edmonton, acquired in November 2000. These acquisitions fit with our corporate strategy to acquire undervalued properties and build on their value through a combination of capital investment, revenue increases and improved operations.

A major milestone achieved in May of 2000 was the listing of Mainstreet's shares on the Toronto Stock Exchange (TSE). Only two years earlier our company was created as a Junior Capital Pool on the Alberta Stock Exchange with assets of approximately \$450,000. It is significant that our company became listed on the TSE in such a short period of time as a result of our rapid asset growth and financial performance. In terms of market value, our assets as of January 1, 2001 represent approximately \$100 million. In 2000 Mainstreet was named Canada's top ranking company, in terms of year over year profit gains, by the Globe and Mail's *Report on Business* magazine. For fiscal 1999, Mainstreet had reported an increase in net income of **15,791** per cent.

Another achievement in 2000 was the investment in, and installation of, a new information technology system. In 2001 and beyond, we will continue to invest in new systems to enable us to manage our business effectively and accommodate further growth.

Future Growth

Mainstreet's future growth plans will continue to be based on our corporate strategy to create and capture value regardless of capital and market conditions. As our financial results show, that strategy is paying off.

We will also pursue a plan to diversify our portfolio by acquiring properties outside our traditional operating areas in Alberta. We are currently exploring opportunities in Ontario and British Columbia.

We are often asked why we are so successful despite the fact that real estate generally is undervalued by the capital markets. It has to do with our approach. You might say we are working to set a standard for a new age in real estate – an age where there is more entrepreneurial thinking and fresh ideas in an industry that is often regarded as a “dinosaur.” Our management team epitomizes the entrepreneurial spirit. It's a team that is not afraid to be bold and innovative in acquiring and unlocking the potential value of rental properties. In short, we do things differently.

The real strength of our company lies in its management. Both our management and Board possess a wealth of knowledge and experience in the real estate and financial industries. Our management team alone has more than 100 years of combined experience. As we continue to build on our intellectual capital, I would like to acknowledge two relatively new additions to the Board. Mr. Rowland Fleming is the former president of the Toronto Stock Exchange. His 30 years of experience in the financial services industry includes responsibilities as president and CEO of National Trust Company, and president and CEO of The Dominion of Canada General Insurance Company, as well as vice president with the Bank of Nova Scotia. We are also pleased to welcome Mr. Larry Tapp, Dean of the Richard Ivey School of Business at the University of Western Ontario. Among his many accomplishments, in 1985 Mr. Tapp initiated the world's largest leveraged buy-out outside the U.S. in a deal that created Lawson Marden Limited.

To add further depth to the Mainstreet team, Professor Murray Bryant of the University of Western Ontario is the head of our Advisory Board. Professor Bryant is responsible for the risk management of Mainstreet, and advises the company regarding these issues on a continuing basis.

As CEO of Mainstreet, I am tremendously proud of what we achieved in 2000, and I am proud of the talent and determination of our people. I hope our investors share this pride. I would like to thank our loyal shareholders for their unwavering support of our company. You have invested your faith, not to mention your finances, in us and we intend to see that your support is rewarded. I would also like to extend a sincere thank you to the Board of Directors for your commitment and contributions. I look forward to reporting on yet another successful year in 2001.

On behalf of the Board of Directors,

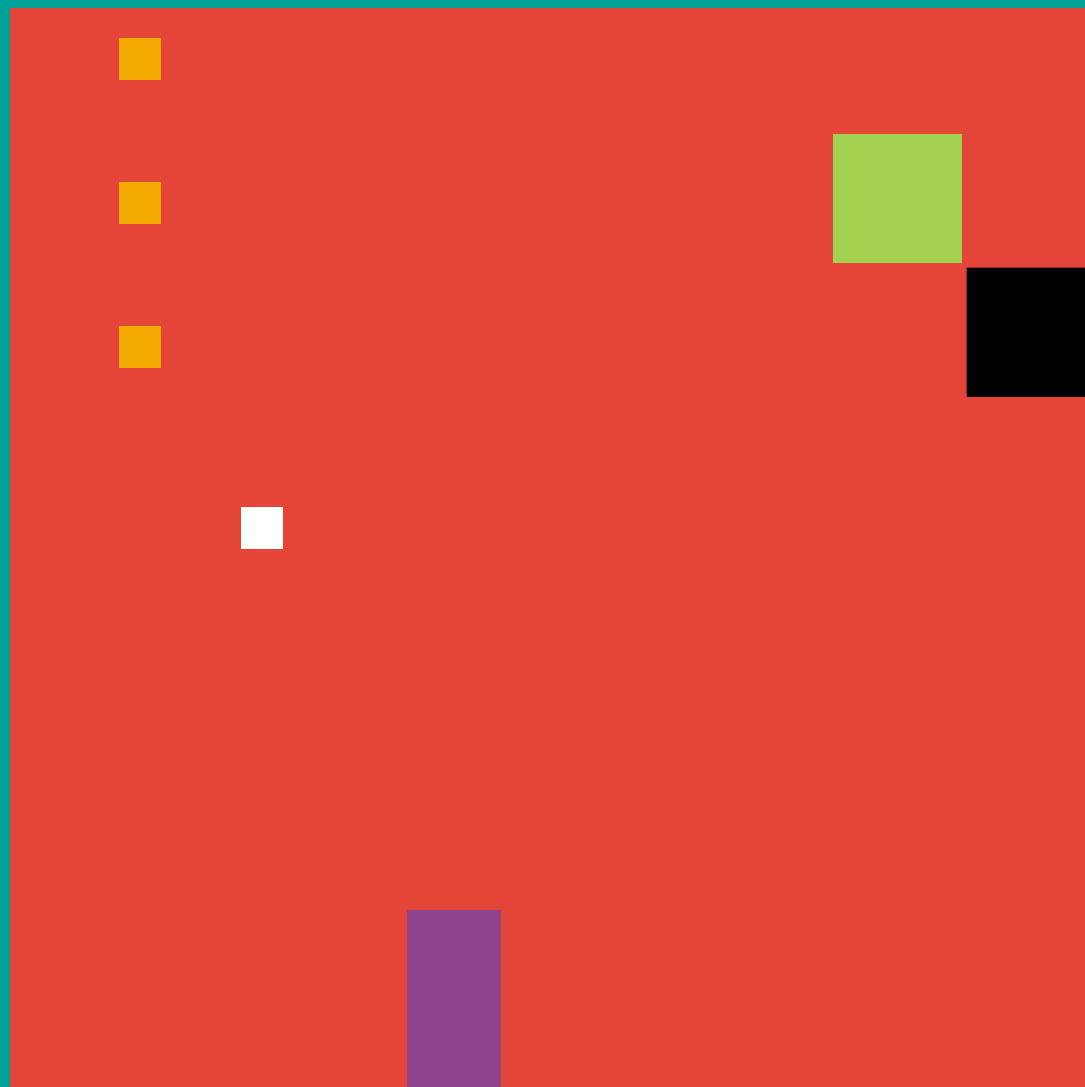


Bob Dhillon, MBA
President & Chief Executive Officer

January 29, 2001



*Bob Dhillon, MBA
President &
Chief Executive Officer*



Manage right. Create cash flow.

our business philosophy

stresses that investments should deliver above-average returns for the

company and its shareholders. Furthermore, those returns should be sustained through fluctuating economic conditions in the real estate market. Based on this view, we developed Mainstreet's business model to support our strategy of capturing and building on the value inherent in multi-family properties and then maximizing their profit potential.

To achieve our investment goals, and to take advantage of the structural changes shaping the multi-family sector of the real estate industry, we developed the Mainstreet Value Chain as our business model to execute the corporate strategy.

The key drivers behind our strategy include:

Acquisitions

- Recognize high-potential properties.
- Take advantage of price inefficiencies in the market.
- Utilize market intelligence.
- Identify inherent value.

Capital Improvements

- Renovate under-performing rental units.
- Match upgrades to the market's need.
- Increase property's value.
- Implement quickly and efficiently.
- Experience minimal interruption to revenue stream.

Operational Efficiency

- Hire skilled, service-oriented maintenance staff.
- Lower costs through energy efficiency devices and other means.
- Embrace new technology such as leading operational software, automated rent collection and state-of-the-art accounting systems.

Value Enhancement

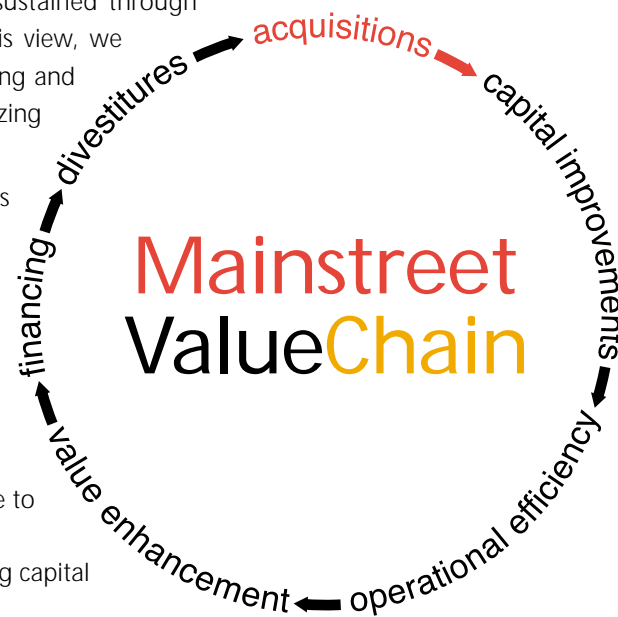
- Provide a competitive product that is attractive to the market.
- Maximize rents following capital improvements.

Financing

- Obtain long-term, CMHC insured mortgages on properties whose values have been increased and rental revenues are enhanced.
- Use new capital to purchase and renovate undervalued properties.
- Continue this cycle to grow the asset base.

Divestitures

- Divest mature properties.
- Redirect capital into high-potential properties.
- Increase shareholder value.



Mainstreet business model

Rotating Capital

To maximize the value of our portfolio, we rotate capital. That means we strategically, and selectively, divest mature assets and use the proceeds to acquire undervalued assets with the potential for increased revenue streams and enhanced value. Every time we do this, we build on the value of our asset base, strengthen our balance sheet and achieve significant growth using internal resources. In the early years of our company, the establishment and expansion of our asset base will be the main strategic focus with divestitures occurring on a selective basis.

Approach to Property Management

Efficient operations are essential in order to maximize the underlying value of a multi-family property and make a positive impact on profitability. In an unforgiving industry, there simply is no room for inefficiency.

This is what we had in mind when we created a dedicated in-house property management function as opposed to outsourcing the management and maintenance functions to a third party. Our experience as individual private investors in the past has shown us there are a number of inefficiencies associated with third party management. Unfortunately, many properties are owned by small private investors who lack the means to justify in-house operations functions. Our property management team is staffed with people who have expertise and experience in all aspects of property management and maintenance of multi-family properties.

Decentralized Business Units

In addition to skilled people, we also have a highly efficient structure that facilitates excellent performance. Our operations function is based on a decentralized model where Strategic Business Units (SBUs) operate as profit centres and manage the portfolios in each geographic location. They are all linked to a central data system based in the Calgary head office. Each SBU is empowered to make decisions at their local level. By taking responsibility and accountability for daily operational decisions that affect their income statements, the SBUs take a personal stake in continually improving cost management and enhancing revenue generation.

Integrated Accounting Software Applications

The ability to collect and analyze data on a real-time basis is key to managing portfolios in diverse geographical locations. For this reason, Mainstreet implemented a new software application in 2000 that integrates the property management and accounting functions. The software system has successfully improved the work processes involved in traditional property management, as well as operational and financial reporting.

A benefit of the system is that it allows data such as tenant move in/move out information and vacancy rates to be input at several locations, which immediately is updated in the central database. This approach supports our culture of local accountability, yet maintains the necessary management controls. The ability to extract either high-level or finely detailed information allows us to proactively identify emerging trends or potential issues in our various markets. That, in turn, improves the overall profitability of our company.

“Just in Time” Maintenance

The maintenance function is staffed with skilled repair and maintenance professionals who are on-call 24 hours a day. To create cost savings associated with maintenance materials, Mainstreet has introduced a “just in time” inventory supply system and uses the resulting economies of scale to obtain bulk pricing from suppliers.

Ongoing Operational Efficiencies

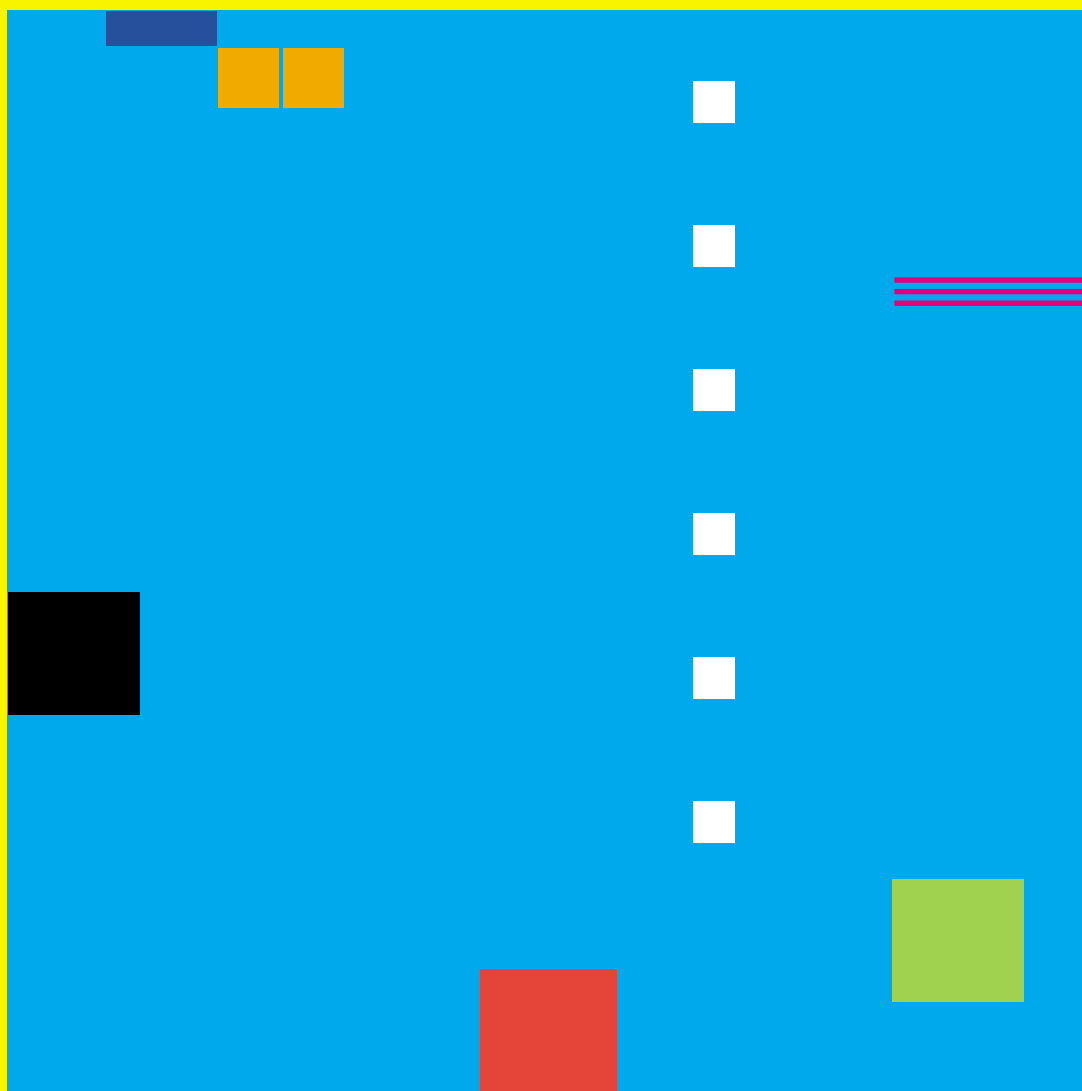
Examples of the operational efficiencies we’ve implemented include the introduction of automatic debit for revenue collection, work processes that reduce administrative and supply requirements, and energy efficient devices designed to save water consumption and reduce electrical expenses on a permanent basis. We are always looking for innovative ways to reduce costs and function efficiently.

Leveraging New Technology

The quality of the relationship we have with our tenants is directly proportional to our ability to earn revenues. One of the ways we support that relationship is by providing more choices. For example, rather than providing just the rental unit and some utilities, we are taking an integrated approach and delivering a much wider array of services that meet the tenant’s lifestyle needs. Many of these services are related to technology, such as Internet service. It’s a classic win-win situation. Through strategic alliances with service providers, we are able to acquire services at competitive rates, and those savings are passed on to the tenant who would have to pay more to acquire the services independently. Because Mainstreet does not incur any capital expenditures or operational costs in providing enhanced services, shareholder value is enhanced.

Results

The Mainstreet Business Model has resulted in efficiencies and revenue enhancements that have been a catalyst for the 450 per cent increase in the value of our assets in less than two years and the 553 per cent increase in share price between April 1998 and September 2000. After acquiring an undervalued property and introducing revenue enhancements through this business model, the property is refinanced, with the conventional mortgages and capital improvements converted into long-term, fixed-rate mortgages insured by the Canadian Mortgage and Housing Corporation. The result of refinancing is that we are able to rotate the capital used in the acquisition and capital improvement processes. Shareholder value is created through increased tangible equity in our asset base, and through the per share measurement of cash flow from rental operations. To date, the growth of our portfolio, and the associated increase in asset values, have been achieved without issuing equity. Acquisitions and capital improvements have been funded through external financing and internal financial resources.



Buy right. Build value.

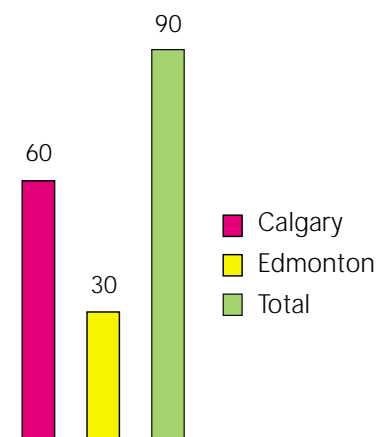
List of Properties as of September 30, 2000

Calgary	Address	# of units	Apartment type
Chinook Winds Apts.	707 – 57th Ave. SW	24	Garden style apartment
Bankview Place	1715 – 24th Ave. SW	24	Garden style apartment
Westbrook Manor	937 – 37th St. SW	18	Garden style apartment
North Hill Manor	305 – 13th Ave. NE	23	Garden style apartment
Spring Garden Terrace	1723 – 26th Ave. SW	21	Garden style apartment
The Westwinds	211 – 14TH Ave. SW	32	Garden style apartment
Mainstreet Place	1122 – 8th Ave. SW	50	Garden style apartment
White Plains	2620 – 16th St. SW	34	Garden style apartment
Westview Terrace	1611 – 23rd Ave. SW	24	Garden style apartment
The Wilmax	1212 – 13th Ave. SW	30	Garden style apartment
1702	1702 – 23rd Ave. SW	27	Garden style apartment
1612	1612 – 24th Ave. SW	24	Garden style apartment
Trevella Park	1300 – 41st St. SE	218	Townhouse complex
Lincoln*	2111 & 2107 – 54th Ave. SW	23	Garden style apartment
2501*	2501 – 16TH St. SW	10	Garden style apartment
Delburn House*	1419 – 17th Ave. NW	46	Garden style apartment
Queens Park Village*	501 – 40th Ave. NW	188	Townhouse complex
Total		816	

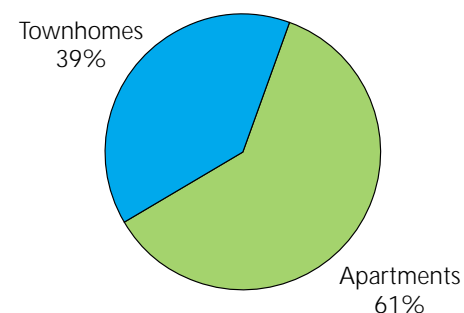
Edmonton	Address	# of units	Apartment type
Edmn 2	14224 McQueen Road	27	Garden style apartment
Edmn 5	11416 – 124 St.	33	Garden style apartment
Edmn 7	11906 – 104 St.	21	Garden style apartment
Edmn 8	11937 – 105 St.	21	Garden style apartment
Edmn 9	11919 – 105 St.	21	Garden style apartment
Edmn 10	10416 – 119 Ave.	15	Garden style apartment
Edmn 13	7107 – 79 Ave.	24	Garden style apartment
Edmn 14	7108 – 78 Ave.	24	Garden style apartment
Edmn 15	10325 – 117 St.	22	Garden style apartment
Edmn 16	10316 – 119 St.	22	Garden style apartment
Edmn 17	10835 – 115 St.	26	Garden style apartment
McCam 3	10320 – 123 St.	22	Garden style apartment
McCam 1*	10330 – 123 St.	33	Garden style apartment
McCam 2*	10325 – 123 St.	66	Garden style apartment
McCam 4*	10235 – 123 St.	33	Garden style apartment
Wedgewood Homes*	12267 – 129 A St.	130	Townhouse complex
Cedar Wood Arms	10614 – 122 St.	14	Garden style apartment
Total		554	

* Acquired after September 30, 1999

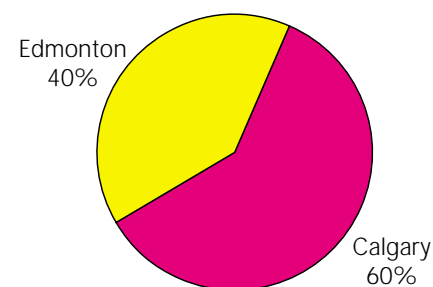
Market Value of Assets
as of September 30, 2000
(\$millions)



Asset Portfolio



Geographic Location



management's discussion & analysis

Results from Real Estate Operations

Fiscal 2000 was a strong financial year for Mainstreet as revenues, cash flow from operations and cash flow from rental operations all recorded increases compared to fiscal 1999 results.

It should be noted that results from fiscal 1999 do not reflect a full 12-month fiscal year as the year-end was changed from December 31 to September 30, resulting in a nine-month fiscal year.

Increases in cash flow and revenues were due to acquisitions and internal revenue growth combined with a reduction in annual operating expenses on an individual unit basis.

Results from operations <i>(Thousands of dollars)</i>	2000 12 months	1999 9 months	% increase
Revenue	\$ 10,390	\$ 6,278	66
Cash flow from operations	\$ 2,094	\$ 1,633	28
Cash flow from rental operations	\$ 1,667	\$ 671	148

Revenue

Gross revenues in fiscal 2000 were \$10.39 million compared to fiscal 1999 gross revenues of \$6.27 million and consisted of rental revenues, proceeds from divestitures and interest income from cash and short-term investments. Revenues from rental operations totaled \$7.74 million in fiscal 2000 compared to \$2.97 in fiscal 1999, for an increase of 161 per cent. Proceeds from divestitures declined 19 per cent in fiscal 2000 to \$2.60 million from \$3.22 million in fiscal 1999. Interest income also declined as cash and short-term investments declined in fiscal 2000. Interest income in fiscal 2000 was \$41,000 compared to \$84,000 in fiscal 1999.

Revenue <i>(Thousands of dollars)</i>	2000 12 months	1999 9 months	% change
Gross revenue	\$ 10,390	\$ 6,278	66
Rental revenue	\$ 7,740	\$ 2,971	161
Properties held for resale	\$ 2,609	\$ 3,223	(19)
Interest income	\$ 41	\$ 84	(51)

Rental Income

Rental income totaled \$7.74 million in fiscal 2000 compared to \$2.97 million in fiscal 1999 for an increase of 161 per cent. The weighted average number of units in the portfolio was 1,158 in fiscal 2000, and 591 in 1999. Rental rates per unit per month remained virtually the same in fiscal 2000 and fiscal 1999. Fiscal 2000 saw rental rates per unit per month of \$557 compared to \$559 in fiscal 1999. Rental rates per square foot per month saw a nine per cent decline in fiscal 2000 compared to fiscal 1999 due to acquisitions of townhouse complexes that have larger units. The

average unit size in fiscal 1999 was 747 square feet and in fiscal 2000 was 797 square feet – an increase of 50 square feet.

The continued acquisition of undervalued properties with below-market rents lowered the average monthly rental rates of the portfolio when mixed with rental rates of stabilized properties. (Stabilized properties are properties that have had their revenues maximized after capital improvements have been completed.) The addition of properties with below-market rents to stabilized properties is consistent with our business model and provides the opportunity for internal revenue growth when the entire portfolio is stabilized. The magnitude of this internal revenue growth is demonstrated by the revenues from the rent roll of the properties as of September 30, 2000. This rent roll shows an average monthly rent of \$612 per unit per month, which is an increase of \$55 or 10 per cent.

Combined rental income	2000	1999	% change
	12 months	9 months	
Gross rental revenue	\$ 7,740,000	\$ 2,971,000	161
Weighted avg. no. of units	1,158	591	96
Rental rates per unit per month	\$ 557	\$ 559	0
Rental rates per square foot per month	\$ 0.72	\$ 0.79	(9)

Rental revenue from the Calgary portfolio totaled \$4.89 million in fiscal 2000 compared to \$2.04 million in fiscal 1999 for an increase of 139 per cent. Rental revenues increased due to acquisitions as the weighted average number of units rose in fiscal 2000 to 666 from 354 in fiscal 1999. Rental rates per unit per month dropped from \$641 in fiscal 1999 to \$612 in fiscal 2000. This five per cent decrease is due to the acquisition of undervalued properties with below-market rents. Rental rates per square foot per month declined from \$0.87 in fiscal 1999 to \$0.75 in fiscal 2000. This decline was caused by the drop in average monthly rental rates and the fact that acquisitions of townhouse complexes which have larger unit sizes increased the average unit size from 737 square feet in fiscal 1999 to 818 square feet in fiscal 2000, an increase of 81 square feet or 11 per cent.

Calgary	2000	1999	% change
	12 months	9 months	
Gross rental revenue	4,892,000	2,043,000	139
Weighted avg. no. of units	666	354	88
Rental rates per unit per month	\$ 612	\$ 641	(5)
Weighted avg. square footage	545,000	261,000	(109)
Rental rates per square foot per month	\$ 0.75	\$ 0.87	(14)

Rental revenue from the Edmonton portfolio totaled \$2.84 million in fiscal 2000 compared to \$928,000 in fiscal 1999 for an increase of 207 per cent. Rental revenues increased due to acquisitions and increased rental rates per unit per month. The weighted average number of units rose in fiscal 2000 to 492 from 237 in fiscal 1999. Rental rates per unit per month increased from \$435 in

fiscal 1999 to \$482 in fiscal 2000. This 11 per cent gain is due to an increase in rental rates resulting from capital improvements and a strengthening rental market. Rental rates per square foot per month rose from \$0.66 in fiscal 1999 to \$0.67 in fiscal 2000. The rise in rental rates on a square foot basis was tempered by the acquisition of larger units. The acquisitions of town-house complexes, which have larger unit sizes, increased the average unit size from 663 square feet in 1999 to 716 square feet in 2000, an increase of 53 square feet or eight per cent.

Edmonton	2000	1999	% increase
	12 months	9 months	
Gross rental revenue	\$ 2,848,000	\$ 928,000	207
Weighted avg. no. of units	492	237	108
Rental rates per unit per month	\$ 482	\$ 435	11
Weighted avg. square footage	352,000	157,000	124
Rental rates per square foot per month	\$ 0.67	\$ 0.66	3

Cash Flow from Operations

Cash flow from operations was \$2.09 million in fiscal 2000 compared to \$1.63 million in fiscal 1999, an increase of 28 per cent. Cash flow from rental operations in fiscal 2000 was \$1.66 million in comparison to \$671,000 in fiscal 1999, a rise of 148 per cent. The increase in cash flow from rental operations is due to acquisitions, increased rental rates in the Edmonton portfolio and a reduction in operating expenses for the entire portfolio.

The difference in computing cash flow from real estate operations and cash flow from rental operations is that the gain on proceeds from divesting mature properties is included in the cash flow from real estate operations. This gain amounted to \$427,000 in fiscal 2000 compared to \$962,000 in fiscal 1999. Divestitures will continue to be a part of our operating strategy in the future, although Mainstreet will focus on cash flow from rental operations as an important indicator of progress towards creating shareholder value.

Cash flow from operations (Thousands of dollars)	2000	1999	% increase
	12 months	9 months	
Cash flow from operations	\$ 2,094	\$ 1,633	28
Cash flow from rental operations	\$ 1,667	\$ 671	148

Operating Expenses

Operating expenses were \$2.07 million in fiscal 2000 compared to \$904,000 in fiscal 1999, increasing by 130 per cent. Management measures operating expenses either on a cost per unit per month basis or with the preferred method of cost per square foot per month. Either metric shows that the operational efficiency measures and efforts of the in-house operations and maintenance functions achieved results in fiscal 2000. Operational expenses measured on a unit per month basis dropped 12 per cent from \$170 in fiscal 1999 to \$149 in fiscal 2000. If measured on a square footage basis, operational expenses recorded a reduction of 21 per cent, moving from \$0.24 in fiscal 1999 to \$0.19 in fiscal 2000.

Management has been able to reduce operating expenses through economies of scale in the purchase of materials and services, the installation of energy efficiency devices, the use of “just in time” inventory control systems and employment of skilled and dedicated people to manage and maintain the properties. These people and management techniques are supported by leading edge technology that reduces redundancy in work processes and allows for the efficient gathering and dissemination of information. These cost reductions have been completed in an environment of rising operating costs for the multi-family industry as a whole. Energy costs, utility expenses and property taxes have risen in the past 12 months, but due to the energy efficiencies implemented during the capital improvement program on each acquisition, Mainstreet has been able to mitigate the effects of rising operating costs on the portfolio.

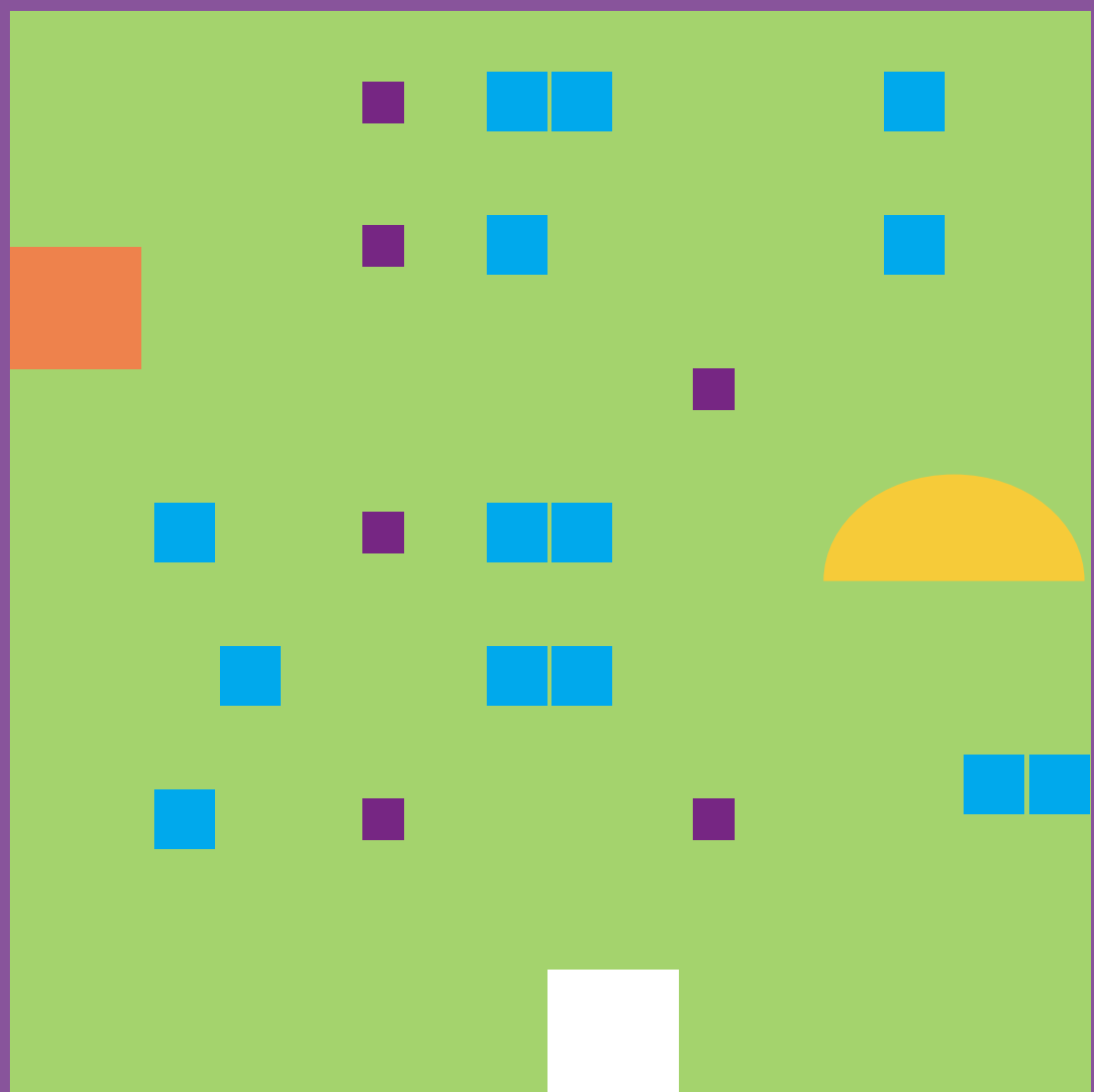
Operating expenses <i>(Thousands of dollars)</i>	2000 12 months	1999 9 months	% change
Operating costs	\$ 2,077,000	\$ 904,000	130
Cost per unit per month	\$ 149	\$ 170	(12)
Cost per square foot per month	\$ 0.19	\$ 0.24	(21)

General and Administrative Expenses

General and administrative (G&A) expenses include all corporate and administrative expenses not allocated to the individual properties. Corporate and administrative expenses cover reporting costs, management compensation and corporate governance expenses. G&A costs in fiscal 2000 were \$858,000 or 8.26 per cent of gross revenues in comparison to \$327,000 or 5.2 per cent of gross revenues in fiscal 1999. One of the administrative costs included in fiscal 2000 was that incurred in the application for a listing on the Toronto Stock Exchange, which amounted to \$167,000. Without this non-recurring cost, general & administrative expenses would have been \$692,000 or 6.7 per cent of gross revenues. These expenses are marginally higher when expressed as a percentage of gross revenues compared to fiscal 1999. The reason for this slight increase is that management added systems, people and work processes to expand its property management and maintenance capabilities to 4,000 units in Alberta. It is expected that general and administrative costs will decline as a percentage of gross revenues in the future as acquisitions increase the revenue base.

Mortgage Interest Expenses

Interest expense on the Corporation's debt totaled \$3.38 million in fiscal 2000 compared to \$1.21 million in fiscal 1999. The rise in interest expense corresponds directly to the increase of the long-term debt held by the Corporation as of September 30, 2000. Long-term debt increased from \$35.12 million as of September 30, 1999 to \$63.12 million as of September 30, 2000. The weighted average interest rate on the Corporation's debt is 7.05 per cent in fiscal 2000 compared to 6.94 per cent in fiscal 1999. During the year, the Corporation converted six conventional mortgages to Canadian Mortgage and Housing Corporation (CMHC) insured mortgages with fixed interest rates. The average interest rate on these six CMHC insured mortgages is 6.70 per cent.



Finance right. Generate growth.

Depreciation & Amortization

Depreciation and amortization in fiscal 2000 was \$711,000 compared to \$273,000 in fiscal 1999.

Amortization of legal and financing fees totaled \$82,000, and depreciation of buildings and other assets comprised the remaining \$629,000 in fiscal 2000. The rise in the depreciation of buildings and other assets is the result of the strong growth in acquisitions. Mainstreet uses the sinking fund method of depreciation to fully depreciate the buildings and improvements over their estimated useful lives of 30-50 years.

Depreciation & amortization	2000	1999
<i>(Thousands of dollars)</i>	12 months	9 months
Buildings & other assets	\$ 629	\$ 207
Legal & financing fees	\$ 82	\$ 66
Total	\$ 711	\$ 273

Acquisitions

Acquisitions continue to be the prominent driver behind the growth in cash flow from rental operations with the purchase of 529 units in the Calgary and Edmonton real estate markets. These acquisitions diversified the portfolio with the addition of 318 townhouse units to raise the townhouse component of the portfolio to 536 units or 39 per cent of the total portfolio. The 529 acquired properties had an aggregate price of \$29.62 million, averaging \$56,000 per unit or \$65 per square foot.

Edmonton acquisitions totaled 262 units, which translates to 211,000 square feet for a purchase price of \$47,000 per unit or \$58 per square foot. These acquisitions included a 130-unit townhouse complex and three garden style apartments containing 132 units. The 132 garden style apartment units are located within a few blocks of our existing portfolio creating management synergies in the operations and maintenance functions for the Edmonton portfolio.

Calgary acquisitions totaled 267 units, or 244,000 square feet, for a purchase price of \$65,000 per unit or \$71 per square foot. These acquisitions included a 188-unit townhouse complex and two garden style apartments containing 79 units.

Subsequent to the fiscal year-end of September 30, 2000 Mainstreet acquired 116 units in Edmonton containing 68,000 square feet for a purchase price of \$3.17 million. The acquisition price was \$27,000 per unit or \$46 per square foot.

Acquisitions	Calgary	Edmonton	Total
No. of units	267	262	529
Square footage	244,000	211,000	455,000
Price per unit	\$ 65,000	\$ 47,000	56,000
Price per square foot	\$ 71	\$ 58	65

Divestitures

Divestitures form an important component of the Mainstreet business model and are focused on mature properties that are considered non-core assets. To be considered candidates for divestiture these mature buildings either no longer fit within the operating strategy due to their size, location or type of construction, or they have reached their peak economic value. The proceeds from the divestiture of mature properties are used in the acquisition program to fuel our cash flow from rental operations as these acquired properties offer more potential for revenue increases and value enhancement than the mature properties.

Four properties were divested from the Edmonton portfolio for an aggregate price of \$2.60 million or \$41,000 per unit (\$66 per square foot) in fiscal 2000. The gain on the proceeds from the disposal of these units amounted to \$607,000 (\$427,000 after tax).

Capital Expenditures

The key component of Mainstreet's business model is the repositioning of acquired properties in the market after planned capital expenditures. Many of the acquisitions have deferred maintenance, or are in need of renovations ranging from paint, carpet and kitchen upgrades in the suites to extensive improvements to the external face of the property. As part of our operational efficiency measures, each acquisition is fitted with permanent efficiency devices designed to save electrical, water and sewer costs providing lower operating expenses on a permanent basis. The capital expenditures are based on the condition of the building, future rental revenues, the location of the property and the tenant target market.

To unlock the inherent value in the present portfolio and provide for increased future revenue streams Mainstreet implemented an aggressive capital expenditure program in fiscal 2000. Eight buildings including two of the three townhouse properties were slated for extensive capital expenditures in addition to the continued upgrades at other properties within the portfolio. To implement the capital improvement program \$1.64 million was spent in fiscal 2000 compared to \$400,000 in fiscal 1999.

The results of these upgrades are higher levels of tenant satisfaction, increased revenues, lower operating costs and higher market values for each individual property.

Capital Structure and Liquidity

Mainstreet has developed a capital strategy that uses prudent levels of leverage in addition to equity to finance our asset base. Leverage is optimized in the portfolio through the use of National Housing Association (NHA) insurance, a program administered by CMHC and conventional lenders. The NHA insurance program allows the borrower to leverage up to 85 per cent of the property's value – limited to existing mortgages and capital expenditures – at interest rates determined by the credit profile of the borrower. The loan is insured by CMHC, which reduces the risk of default to the lenders. This reduced risk profile is passed on to borrowers in the form of lower interest rates. As well, since more lenders are willing to fund CMHC mortgages because they are government guaranteed, Mainstreet achieves greater liquidity.

Long-Term Debt

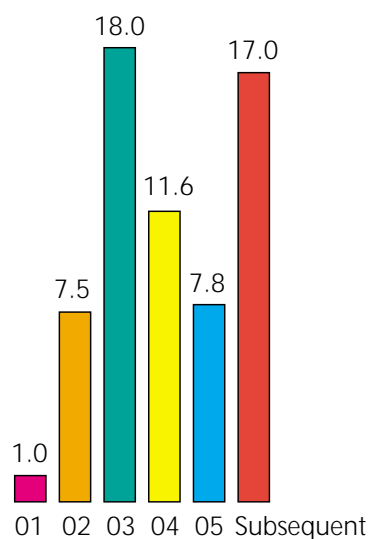
Long-term debt at September 30, 2000 was \$63.12 million compared to \$35.12 million at September 30, 1999. These long-term mortgages are in the form of first, second or Vendor Take Back (VTB) mortgages secured against the assets of the Corporation. Long-term debt increased primarily as the result of property acquisitions net of divestitures.

Due to the business model of acquiring undervalued properties, increasing their revenue streams and refinancing the conventional mortgages with CMHC insured mortgages, a certain portion of the Corporation's debt is on a floating rate basis. The length of time a conventional mortgage carries floating rate debt depends on the time it takes to complete capital improvements and maximize revenue streams on an individual property. Once these improvements are completed and revenues are maximized the conventional mortgages are converted to CMHC insured mortgages with terms of five to 10 years fixed interest rates. Currently the Corporation has seven per cent of its debt (\$4.31 million) carrying floating interest rates in the amount of Prime plus 1.25 per cent. The table below contains the detailed mortgage schedule of the Corporation's mortgages.

Mortgage schedule			
<i>(Thousands of dollars)</i>	Floating rate debt	Fixed rate debt	Total mortgages
1st Mortgage	\$ 4,223	\$ 45,611	\$ 49,834
2nd Mortgage	\$ 88	\$ 3,137	\$ 3,225
Vendor take back (VTB)		\$ 10,063	\$ 10,063
Total	\$ 4,311	\$ 58,811	\$ 63,122

Management is actively pursuing a policy of staggering the maturity schedule of mortgages through the conversion of conventional mortgages to CMHC insured mortgages and in the normal course of replacing current maturing debt obligations. In fiscal 2000 six conventional mortgages totaling \$6.99 million were refinanced with CMHC insured mortgages at terms of five and 10 years, helping to stagger the Corporation's long-term debt maturity schedule. The conversion of six conventional mortgages to CMHC insured mortgages in fiscal 2000, combined with four existing CMHC insured mortgages, brings the total number of CMHC insured mortgages to 10 with a principal value of \$13.28 million. As detailed in the following table, the Corporation's CMHC insured mortgages have an average interest rate of 6.7 per cent with terms of five to 10 years (only one CMHC mortgage has a term of five years). Conventional mortgages have average interest rates of seven to 8.4 per cent with terms of one to eight years. The potential to reduce the Corporation's average interest rate by refinancing conventional mortgages to CMHC insured mortgages after these properties have been stabilized is significant. As shown in the following table, the average interest rate of the conventional first and second mortgages is seven to 8.4 per cent compared to the interest rate of 6.7 per cent on the first mortgages under the CMHC insured program.

Mortgage Maturity Schedule 2000 – 2005 (\$millions)



Fixed rate debt (Thousands of dollars)						
	CMHC mortgages	Term	Average int. rate	Conventional mortgages	Term	Average int. rate
1st Mortgage	\$ 13,287	5 – 10 yrs	6.70%	\$ 32,324	1 – 8 yrs.	7.00%
2nd Mortgage	–	–	–	\$ 3,137	1 – 5 yrs.	8.40%
Vendor take back (VTB)	–	–	–	\$ 10,063	1 – 4 yrs.	6.72%
Total	\$ 13,287	5 – 10 yrs	6.70%	\$ 45,524	1 – 8 yrs.	6.97%

Approximately 1.7 per cent of the Corporation's long-term debt matures in 2001, and 12 per cent of the long-term debt matures in 2002. The subsequent three years will see maturities of \$37.16 million or 59 per cent of the total long-term debt, as described in the table below. The staggering of long-term debt will continue in 2001 with the conversion of conventional mortgages to CMHC insured mortgages and as the Corporation replaces maturing debt with new financing.

Mortgage maturity schedule 2000 – 2005

(Thousands of dollars)	Value	Percentage maturing
2001	\$ 1,044	1.7%
2002	\$ 7,547	12.0%
2003	\$ 18,063	28.6%
2004	\$ 11,555	18.3%
2005	\$ 7,843	12.4%
Subsequent	\$ 17,070	27.0%
Total	\$ 63,122	100%

Liquidity

As of September 30, 2000 Mainstreet Equity Corp. had \$898,000 in cash and short-term investments including \$532,000 in tenant security deposits. The Corporation also has \$300,000 in undrawn operating lines of credit.

Risk Management

Mainstreet is affected by business and financial risk in the daily business affairs of the Corporation. The business risk of the Corporation is divided between risk of revenue default, operating risk and general risk of the supply demand fundamentals affecting multi-family residential real estate. Economic conditions drive the demand for multi-family rental accommodations with strong economic health pushing up occupancy rates and a slow economy weakening demand for rental accommodations. The risk of new affordable supply coming into the market is nominal due to industry economics that do not support new construction.

Revenue risk is mitigated due to the diversity of the tenant base in the portfolio. Each unit has a separate tenant. With a unit count of 1,370, an individual tenant contributes only 0.0007 per cent of the total revenue stream. With this diverse base of revenue streams the possibility of a tenant default causing severe financial hardship to the company is minimal. To further ensure the credit worthiness of a tenant, an application for residency undergoes a credit check, verification of employment and reference checks on the person's character.

Operating risk is a part of the overall business risk component, and Mainstreet is addressing the issue of rising energy and utility costs experienced over the past 12 months. Energy and utility costs have risen dramatically in recent months with forecasts of continued high costs into fiscal 2001 and potentially longer. Management has mitigated the full impact of these price increases on our operating cost structure by continuing to implement the energy efficiency program on all buildings within the portfolio. Management realized the cost savings these actions could achieve early in 1999, and since that time has fitted every building in our portfolio with these devices. Since this program was in effect before the energy and utility price increases, Mainstreet has been able to actually reduce the overall operating cost expressed on a per unit or per square foot basis. In the future these efficiency initiatives will continue to mitigate the full impact of these price increases, although rising energy and utility expenses will increase the overall operating cost structure in fiscal 2001.

Mainstreet also minimizes the impact of gas price increases by structuring its portfolio to include approximately 40 per cent townhomes, where each unit is separately metered for gas, has its own furnace, and tenants are responsible for paying their own gas bills. This arrangement differs from apartments where there is only one furnace for the entire building and Mainstreet covers the heating and water costs.

Financial risk is a function of rising interest rates or excessive levels of leverage on the balance sheet. As discussed, prudent levels of debt are maintained, with a policy of converting mortgages to CMHC insured mortgages at the appropriate time. Management locks in interest rates on mortgages for terms ranging from five to 10 years. Maintaining strong coverage ratios and structuring fixed-rate, long-term mortgages are tools that management uses to mitigate financial risks.

Corporate Governance

Mainstreet recognizes that sound corporate governance practices promote and protect the interests of its shareholders. Governance of the Corporation is the responsibility of Mainstreet's Board of Directors and its associated committees. The guidelines adopted by the Toronto Stock Exchange for effective corporate governance in Canada were used as a benchmark to formulate the policies and conduct of the Board. Mainstreet is committed to following those guidelines and will continue to modify and improve its corporate governance structure in order to meet that objective.

The Board oversees management of Mainstreet's business. It also supervises management's activities and monitors the company's performance, approving all major business decisions. The main functions of the Board are to:

1. Monitor the Corporation's governance practices and implement necessary changes.
2. Ensure the business risks of the Corporation are properly identified and managed.
3. Assure that an adequate system of internal controls exists to safeguard the assets of the Corporation and support comprehensive financial reporting.

Board Composition

The Board currently consists of six directors including: Joe Amantea, Frank Boyd, Darrell Cook, Bob Dhillon, Rowland Fleming (Chair) and Lawrence Tapp. There are three inside directors, including the President and Chief Executive Officer, and three outside directors as defined by the Toronto Stock Exchange guidelines. An "outside" director is one who is free from any interest and any business or other relationships, other than interests and relationships arising from shareholdings, which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of a Corporation.

Board Committees

The Corporation has created four committees including the Advisory Committee, Audit Committee, Compensation Committee and Executive Committee. With respect to certain issues, the Board has decided to make decisions and policies as a whole rather than through the above committees, except in the case of the Audit Committee.

Outlook

Macro economic factors and the laws of supply and demand affect the multi-family market in Canada. Occupancy levels in 1999 were at a 12-year high with an average rate of 97.4 per cent across the country. Factors supporting the demand for housing include rising employment and changing demographics, with growth in the young adult segment of the population. These macro economic factors contributed to near-zero vacancy levels in five metropolitan centres and seven other centres, with occupancy levels higher than 1998. As a result of these occupancy levels, rental rates have risen correspondingly.

Mainstreet's portfolio is based in the two major metropolitan centres of Alberta (Calgary & Edmonton). The economic factors in this region of the country continue to point to high growth, increased immigration and extremely high occupancy levels. Occupancy rates in the Calgary region are projected to be stable at the levels of 97 to 98 per cent for the remainder of 2000 and into 2001. Edmonton is expected to lead the country in economic growth (4.1 per cent) and will experience a significant amount of net in-migration. Occupancy rates for 1999 were 97.8 per cent with the strong job growth expected to push occupancy rates to 98.6 per cent in 2000 and 2001. In conjunction with these stable or increased occupancy rates, rental revenues are forecasted to be marginally higher in 2000 and 2001.

Signs of an economic slowdown in the U.S. economy were evident in the fourth quarter of 2000. Due to the reliance of Canadian exports to the U.S. market, and the importance it has to Canadian gross domestic product growth, management has begun to assess how an economic slowdown would affect the Corporation's profitability in fiscal 2001. Generally the effects of an economic slowdown are accompanied by slower job growth, an increase in the unemployment rate and an eroding consumer confidence level. To counteract these forces, interest rates may fall to stimulate demand. Strong energy prices are forecast for Alberta that moderate in 2001 but still remain at levels which sustain economic growth. The downside to an economic slowdown would be reduced rental revenues and a slight rise in the vacancy rate. The upside to an economic

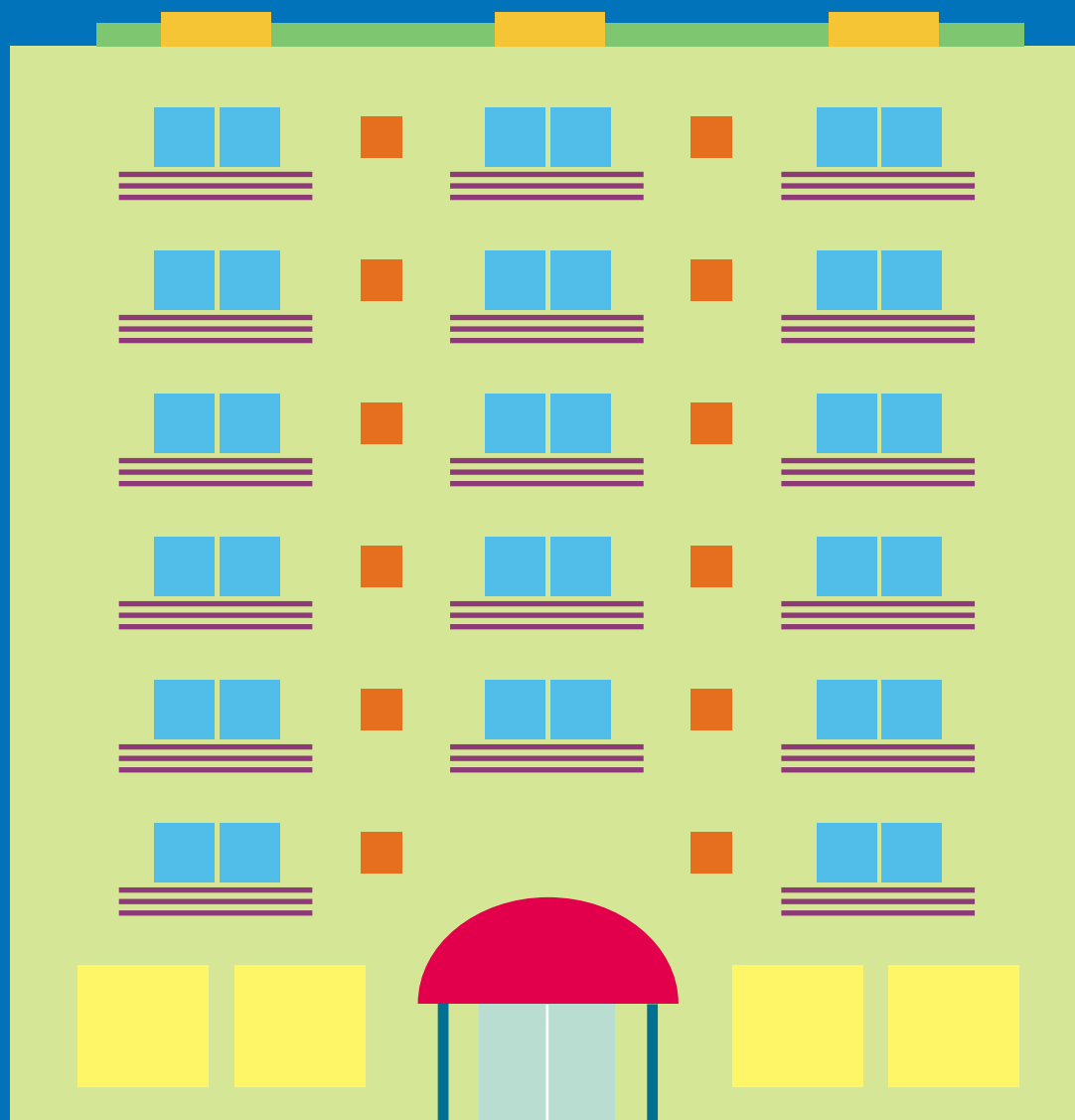
slowdown would be reduced interest rates and a reduction in construction costs and certain operating expenses. Overall, management feels the profitability of the company will continue to grow in fiscal 2001 although this could be affected by the severity of the economic slowdown.

The development of new supply in the multi-family residential market aimed at the rental segment has been nearly non-existent in the Canadian and Alberta markets. Calgary has experienced strong demand for condominiums, and builders have met this opportunity with an increased supply of units over the last 12 months. These condominium units are not competing for tenants in our target market as the target market for owner occupied condominiums and affordable rental units are fundamentally different segments of the real estate industry.

The multi-family market has seen some consolidation in the past 12 months, but ample opportunity still exists for Mainstreet to continue as one of the leading consolidators in this market. Our business model has continued to position the Corporation at the forefront of the consolidation process with this trend continuing into 2000 and 2001. The structural changes affecting the multi-family industry are regulatory changes in certain regions of the country and the implementation of technology to property management systems and work processes. Mainstreet recognized early that these changes would be the drivers behind the consolidation phase and we built our business model with these critical elements in mind.

For Mainstreet, 2000 was a year of significant progress towards realizing superior financial performance for its shareholders. Maximizing the value of its portfolio and investing in properties where value can be unlocked were the main drivers behind achieving our corporate milestones. Operational excellence was also a focus as we continued to build our capability to handle an expanded portfolio in the future. The ability to decrease operating expenses will be a focus in 2001, as the strength of any multi-family company is its ability to efficiently operate properties. We made strides to be considered one of the leaders in property operations within the industry and will continue to strive towards this goal in 2001.

Mainstreet's challenges in 2001 will be to acquire properties that offer compelling rates of return and build our in-house management capabilities. Given our past financial results and our solid business model, the future promises continued profitable growth and increased shareholder value.



Team effort. Great results.

Management's Responsibility for Financial Reporting

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

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

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



Darrell Cook
Director



Joe Amantea
Director

Auditors' Report

To the Shareholders of

Mainstreet Equity Corp.:

We have audited the consolidated balance sheets of **Mainstreet Equity Corp.** as at September 30, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the year ended September 30, 2000 and the nine months ended September 30, 1999. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 2000 and 1999 and the results of its operations and its cash flows for the year ended September 30, 2000 and the nine months ended September 30, 1999 in accordance with Canadian generally accepted accounting principles.



Calgary, Alberta
November 17, 2000

Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets

(Thousands of dollars)

As at	September 30 2000	September 30 1999
ASSETS		
Real estate properties (Note 3)	\$ 66,034	\$ 37,152
Cash	898	1,415
Other current assets	569	526
Deferred charges	1,178	359
	\$ 68,679	\$ 39,452
LIABILITIES		
Mortgages payable (Note 4)	\$ 63,122	\$ 35,127
Accounts payable	396	287
Refundable security deposits	532	366
Income taxes payable (Note 6)	–	426
Deferred income taxes	931	264
	64,981	36,470
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	1,869	1,869
Retained earnings	1,829	1,113
	3,698	2,982
	\$ 68,679	\$ 39,452

Approved on behalf of the Board,



Darrell Cook
Director



Joe Amantea
Director

See accompanying notes to the consolidated financial statements

Consolidated Statements of Income and Retained Earnings

For the year ended September 30, 2000 and
the nine months ended September 30, 1999
(Thousands of dollars, except per share amounts)

	September 30 2000 (12 months)	September 30 1999 (9 months)
Revenue		
Rental income	\$ 7,740	\$ 2,971
Sale of real estate properties	2,609	3,223
Interest income	41	84
	<u>10,390</u>	<u>6,278</u>
Expenses		
Property operating expenses	2,077	904
Cost of sales, real estate properties	2,002	1,778
General and administrative expenses	858	327
Financing cost	3,382	1,210
Depreciation and amortization	711	273
	<u>9,030</u>	<u>4,492</u>
Income before income taxes	1,360	1,786
Income taxes		
– Current	(23)	426
– Deferred	667	256
Net income	716	1,104
Retained earnings, beginning of year	1,113	9
Retained earnings, end of year	<u>\$ 1,829</u>	<u>\$ 1,113</u>
Earnings per share		
– Basic	\$ 0.08	\$ 0.12
– Fully diluted	<u>\$ 0.08</u>	<u>\$ 0.12</u>

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flow from Operations

For the year ended September 30, 2000 and
the nine months ended September 30, 1999
(Thousands of dollars, except per share amounts)

	September 30 2000 (12 months)	September 30 1999 (9 months)
Net income	\$ 716	\$ 1,104
Items not affecting cash		
Depreciation and amortization	711	273
Deferred taxes	667	256
Cash flow from operations prior to changes in non-cash working capital	\$ 2,094	\$ 1,633
Per share		
– Basic	\$ 0.23	\$ 0.18
– Fully diluted	\$ 0.23	\$ 0.18

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flow

For the year ended September 30, 2000 and
the nine months ended September 30, 1999
(Thousands of dollars, except per share amounts)

	September 30 2000 (12 months)	September 30 1999 (9 months)
Cash obtained from (used in):		
Operating activities		
Cash flow from operations	\$ 2,094	\$ 1,633
Net change in non-cash working capital	(194)	(102)
Decrease in properties held for resale	2,002	1,777
	3,902	3,308
Financing activities		
Issue of common shares, net of offering costs	–	10
Financing of revenue producing properties	30,904	5,726
Repayment of secured debts on revenue producing properties, and other debts	(11,693)	(3,486)
Reduction of secured debts on properties sold	(1,942)	(1,573)
Deferred charges	(911)	(80)
	16,358	597
Investing activities		
Purchase of revenue producing properties net of liabilities assumed of \$10,726 (1999–\$10,989)	(19,438)	(3,577)
Project improvements to revenue producing properties	(1,339)	(512)
Cash received on acquisition of 396249 Alberta Ltd.	–	93
	(20,777)	(3,996)
Decrease of cash and cash equivalents	(517)	(91)
Cash and cash equivalents, beginning of year	1,415	1,506
Cash and cash equivalents, end of year	\$ 898	\$ 1,415
Cash and cash equivalents comprise of:		
Cash (cash indebtedness)	\$ 111	\$ (3)
Short-term deposits	787	1,418
	\$ 898	\$ 1,415

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

For the year ended September 30, 2000 and the nine months ended September 30, 1999
(Tabular amounts in thousands of dollars)

1. Significant Accounting Policies

General

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

Basis of presentation

The Corporation's accounting policies and its standards of financial disclosure conform to the recommendations of the Canadian Institute of Public Real Estate Companies and are in accordance with Canadian generally accepted accounting principles.

Effective December 8, 1998, the Corporation acquired all of the issued and outstanding common shares of 620118 Alberta Ltd. ("620118"). The acquisition was accounted for as a reverse take-over with 620118 deemed to have acquired the Corporation.

On March 31, 1999, the Corporation amalgamated with 620118.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, 396249 Alberta Ltd. ("396249").

Revenue recognition

Revenue from a rental property is recognized when a tenant commences occupancy of a rental suite and rent is due. 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 per cent 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, interest and other specific debt charges, and related general and administrative expenses. 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 expected to be received from the ongoing use of the property plus its residual value. To arrive at this amount, the Corporation projects the cash flows over a maximum of 10 years and includes the proceeds from the estimated residual sale at the end of that period. The projections 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.

Properties held for resale

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

Amortization

Revenue producing real estate properties are amortized over their estimated useful lives, using the sinking fund method over 40 years, applying a discount rate of five per cent. Furniture, equipment, and other assets are amortized on a declining-balance method at rates varying from 10 per cent to 30 per cent per annum.

Deferred charges

Deferred charges include mortgage refinancing costs and associated legal and appraisal fees, and prepaid interest. These costs are amortized over the terms of the respective mortgages.

Stock option plan

The Corporation has a stock option plan which is described in Note 8. No compensation expense is recognized for the plan when the stock options are issued. Any consideration paid on exercise of stock options is credited to share capital.

Risk management and fair value

- a) Interest rate risk
The Corporation is exposed to interest rate risk to the extent of any upward revision in prime lending rates. Mortgages totalling \$1,044,000 are subject to renewal in the next year. All increases in the prime rate may adversely affect the profitability of the Corporation. However, the Corporation attempts to mitigate this risk by staggering the maturity dates for its mortgages.
- b) Credit risk
The Corporation is exposed to credit risk as some tenants may experience financial difficulty and may default in payment of rent. However, the Corporation attempts to minimize possible risks by conducting an in-depth credit assessment of all tenants. The Corporation's tenants are numerous which also reduces the concentration of credit risk.
- c) Fair value
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of the Corporation and their carrying values as of September 30, 2000 are as follows:

	Carrying Value	Fair Market Value
Mortgages payable	\$ 63,122	\$ 62,699

Earnings per share

Basic net earnings and cash flow from real estate operations per share are 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.

Measurement uncertainty

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

2. Acquisitions

a) 396249 Alberta Ltd.

Effective April 1, 1999, the Corporation acquired all of the issued and outstanding common shares of 396249. The principle business activity of 396249 is the rental of multiple unit residential buildings. The acquisition has been accounted for using the purchase method. The acquisition is a related party transaction, as at the time of acquisition the Corporation and 396249 had shareholders and directors in common.

The fair value of the net assets acquired has been allocated as follows:

Non cash working capital	\$	(381)
Deferred charges		192
Real estate properties		13,269
Mortgages payable		(13,173)
		(93)
Cash acquired		95
Net assets acquired	\$	2
Consideration:		
Cash		1
Acquisition cost incurred		1
	\$	2

b) 620118 Alberta Ltd.

Effective December 8, 1998, the Corporation acquired all of the issued and outstanding common shares of 620118. The 5,333,333 common shares given as consideration gave the shareholders of 620118 67 per cent ownership of the Corporation and as such, the acquisition has been accounted for as a reverse takeover with 620118 deemed to have acquired the Corporation.

The fair value of the assets of the Corporation at the time of the reverse takeover were:

Cash	\$	404
Non-cash working capital		12
Capital assets		13
	\$	429

3. Real Estate Properties

	Cost	Accumulated Depreciation	Net Book Value	
			2000	1999
Land	\$ 15,116	–	\$ 15,116	\$ 7,375
Building	49,777	\$ 525	49,252	29,003
Building improvements	1,944	381	1,563	716
Office furniture, fixtures and other	137	34	103	58
	\$ 66,974	\$ 940	\$ 66,034	\$ 37,152

During the year, properties totalling \$2,002,000 were transferred to properties held for sale. These properties were sold in May and September of 2000. There were no properties in this category at September 30, 2000, nor at September 30, 1999.

4. Mortgages Payable

Mortgages payable bearing interest at a weighted average rate of 7.05 per cent (1999 - 6.94 per cent) per annum, are payable in monthly principal and interest installments totalling \$418,000 (1999 - \$240,000), maturing from 2001 to 2010 and are secured by specific charges against specific properties, having a carrying value of \$65,931,000 (1999 - \$37,094,000).

September 30, 2000	September 30, 1999
\$ 63,122	\$ 35,127

In conjunction with the refinancing of one of its properties, the mortgager has provided the Corporation an additional advance up to a maximum of \$850,000 for improvements to the specified property. As at September 30, 2000, \$566,000 was drawn on this advance. This work is scheduled for completion by December 2000.

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

Year	Amount
2001	\$ 1,879
2002	930
2003	2,771
2004	3,597
2005	6,304
Subsequent	47,641
	<u>\$ 63,122</u>

5. Bank Indebtedness

The Corporation has an operating line of credit of \$300,000, carrying interest at prime plus one per cent. As at September 30, 2000, no amount has been drawn on this line of credit (1999 - \$Nil). General assignment of book debts, general security agreement with real property addendum, assignment of rentals and leases and joint and several personal guarantees of certain directors are given as collateral for this line of credit.

6. Income Taxes

The Corporation follows the tax deferral method in providing for income taxes. The income tax provision is based on the income reported in the financial statements. Deferred income taxes arise because of differences between when revenue and expenses are reported in the accounts and when these amounts are reported for income tax purposes.

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

	September 30, 2000	September 30, 1999
Effective rate	44.6%	44.6%
Computed expected tax	\$ 606	\$ 797
Non-taxable portion of capital gain	(91)	(158)
Others	(2)	1
Large corporation tax	131	42
Provision for income tax	<u>\$ 644</u>	<u>\$ 682</u>

7. Share Capital

Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

Issued and fully paid:

Common voting shares

	Number of shares	Amount
Balance December 31, 1998	8,983,333	\$ 1,859
Issued and outstanding, January 1, 1999	8,983,333	\$ 1,859
Issued pursuant to exercise of stock options	50,000	10
Issued and outstanding, September 30, 1999	9,033,333	\$ 1,869
Balance September 30, 2000	9,033,333	\$ 1,869

- a) As of September 30, 2000, there are a total of 4,710,000 (6,065,000) common shares held under escrow agreements dated March 1, 1998, April 28, 1998 and December 7, 1998. The above escrow agreements cover 2,710,000 common shares which are eligible for release as to one half thereof upon the second and third anniversaries of the completion date of the major transaction, which occurred on December 7, 1998. The balance of the 2,000,000 (2,000,000) common shares are held under a performance escrow agreement dated December 7, 1998, with one common share of the Corporation to be released for every \$0.75 of cash flow generated on an annual basis by the Corporation.

8. Stock Option Plan

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

A summary of the status of the Corporation's stock option plan as of September 30, 2000 and 1999, and changes during the years ended on those dates is presented below:

	2000		1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock option				
Outstanding, beginning of year	155,000	\$ 0.20	205,000	\$ 0.20
Granted	100,000	\$ 3.58	–	–
Exercised	–	–	(50,000)	\$ 0.20
Outstanding, end of year	255,000	\$ 1.52	155,000	\$ 0.20
Options exercisable, end of year	255,000		155,000	

The following table summarizes information about stock options outstanding at September 30, 2000:

Exercise Prices	2000		1999	
	Number of Shares Outstanding at September 30, 2000	Weighted Average Remaining Contractual Life	Number of Shares Outstanding at September 30, 1999	Weighted Average Remaining Contractual Life
\$0.20	155,000	2.58 years	155,000	3.58 years
\$3.00	50,000	4.17 years	–	–
\$4.15	50,000	4.83 years	–	–
	255,000	3.44 years	155,000	3.58 years

9. Related Party Transactions

- The Corporation acquired 396249 effective April 1, 1999, which was a related party transaction (Note 2).
- Management fees paid to the Corporation by 396249 in 1999 prior to its acquisition were \$41,000 (2000 - \$Nil).
- The President and Chief Executive Officer (CEO) receives no compensation for his services, rather, pursuant to an agreement between the Corporation and a company owned by the CEO, he receives commission at commercial rates in his capacity as licensed broker for property transactions conducted by the Corporation. The commission paid during the year amounted to \$80,000 (1999 - \$Nil).

10. Comparative Figures

Certain of the 1999 figures have been reclassified to conform with the 2000 presentation.

11. Subsequent Events

- Property acquisition
On November 23, 2000, the Corporation acquired 116 residential apartment units for total consideration of \$3,170,000. The acquisition was financed through a combination of cash of \$595,000, and a combination of a mortgage and a vendor take-back mortgage, with a blended rate of 8.67 per cent.
- Stock options
Subsequent to September 30, 2000, the Corporation issued 20,000 share options at \$5.00 per share to a consultant of the Company. These options expire on November 1, 2005.

Corporate Information

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Warren Tettensor
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Armstrong, Perkins, Hudson
1600 Canada Place
407– 2 Street SW
Calgary, Alberta

McMillan Binch
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Royal Bank Plaza
Toronto, Ontario

Banker

Bank of Nova Scotia
240 – 8 Avenue SW
Calgary, Alberta

Stock Exchange

Toronto Stock Exchange
(Trading Symbol: MEQ)

Officers

Bob Dhillon, *CEO and President*
Calgary, Alberta
Darrell Cook, *Secretary & Treasurer*
Calgary, Alberta
Johnny Lam, *CFO*
Calgary, Alberta

Directors' Committees

Advisory Committee:
Murray Bryant
London, Ontario

Executive Committee

Bob Dhillon, Calgary, Alberta
Joe Amantea, Calgary, Alberta
Darrell Cook, Calgary, Alberta

Audit Committee

Rowland Fleming
Mississauga, Ontario
Lawrence Tapp
London, Ontario
Frank Boyd
Calgary, Alberta

Board of Directors

Joe Amantea, Senior Partner, Warren Tettensor law firm,
Calgary, Alberta

Mr. Amantea concentrates his legal practice in the areas of real estate, construction law, foreclosures and corporate and commercial law dealing mainly with small and medium-sized private companies. He acts as corporate counsel on behalf of Mainstreet.

Frank Boyd, Chairman, Apex Land Corp., Calgary, Alberta

Mr. Boyd brings a wealth of practical knowledge in the land development and condominium industries. He is chairman of one of the most successful TSE-listed land development companies in Canada, which consistently delivers strong earnings each fiscal year.

Darrell Cook, President, Gibraltar Mortgage Ltd., Calgary, Alberta

Mr. Cook has been involved in real estate acquisition and development for more than 25 years. He is a Fellow of the Certified General Accountants' Association of Canada and holds an MBA degree from the University of Calgary.

Bob Dhillon, President & CEO, Mainstreet Equity Corp., Calgary, Alberta

With more than 20 years of experience in the real estate industry, Mr. Dhillon has purchased and sold in excess of \$150 million of real estate on his personal account. He earned an MBA degree from the Richard Ivey School of Business at the University of Western Ontario.

Rowland Fleming, Retired Business Executive, Mississauga, Ontario

Born and educated in Ireland, Mr. Fleming is a seasoned business executive with more than 30 years experience in the financial services industry. His distinguished career includes positions as president and CEO of the Toronto Stock Exchange (1994-99), president and CEO of National Trust Company and of the Dominion of Canada General Insurance Company, as well as vice president with the Bank of Nova Scotia.

Lawrence Tapp, Dean of the Richard Ivey School of Business, University of Western Ontario, London, Ontario

In 1985 Dean Tapp initiated the world's largest leveraged buy-out outside of the U.S. in a \$552 million deal that created Lawson Mardon Group Limited. As CEO, he took Lawson Mardon public in one of the largest internationally listed share offerings by a Canadian company, and transformed it from a disparate group of stand-alone companies into a single, highly successful entity.



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