


# Mainstreet

EQUITY CORP.

AR 2001

Mainstreet Equity Corp. is a real estate company dedicated to the acquisition, management, and divestiture of multi-family residential rental properties. Founded in 1997, Mainstreet owns, operates and maintains its entire portfolio of properties.

Our formula for success—the Mainstreet Value Chain—is based on acquiring and enhancing undervalued properties to reveal their true worth as investments. Mainstreet is traded under the stock symbol MEQ on the Toronto Stock Exchange.

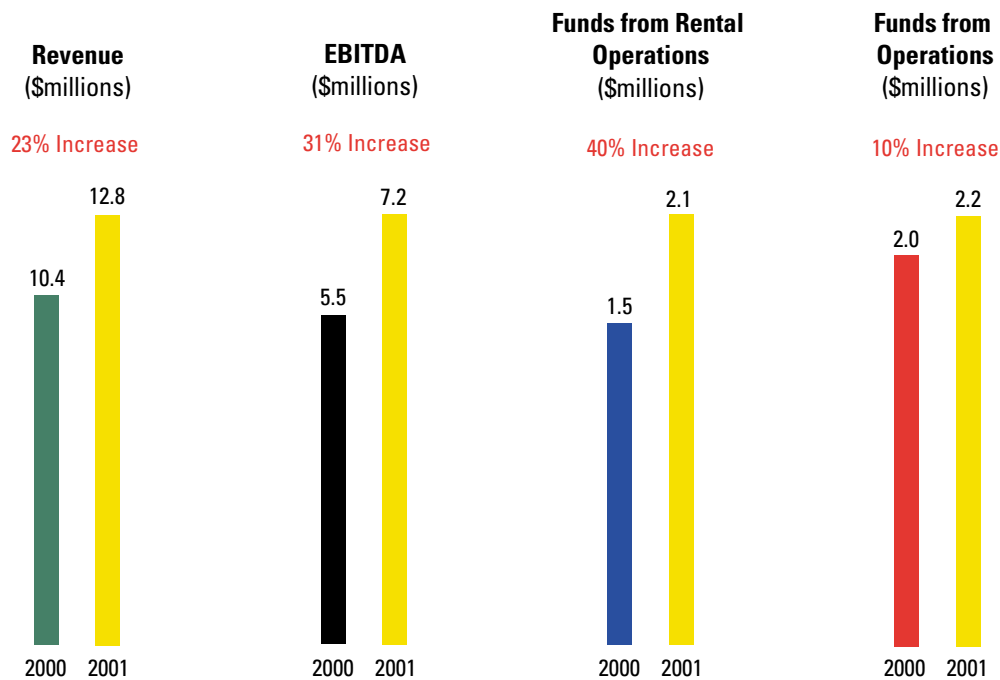


**Mainstreet's goal is to create  
shareholder value regardless  
of real estate or equity  
market conditions.**

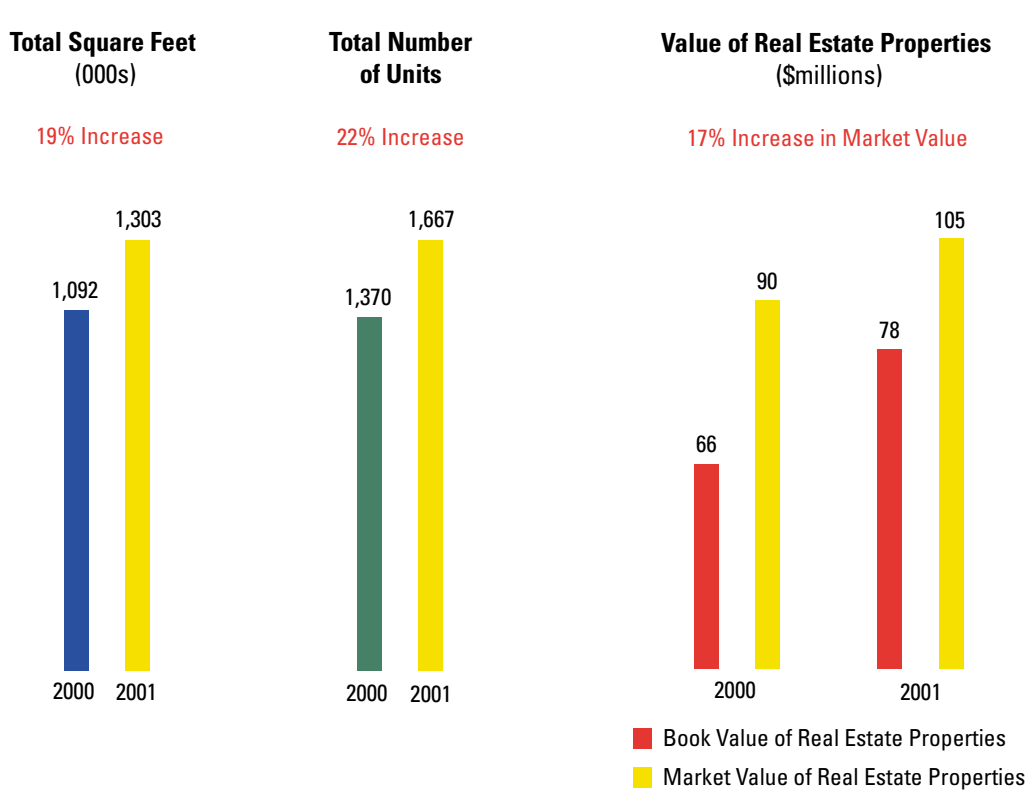
### **In 2001, a year of great uncertainty, Mainstreet Equity Corp.:**

- demonstrated the value of a diversified, well-managed real estate portfolio in providing low risk, high growth returns;
- refined our systems and procedures to capitalize on the fixed-cost advantages of our business; and
- reaffirmed the benefits of the Mainstreet Value Chain business model that has guided our corporate performance since 1997.

[financial highlights]



[operational highlights]



# Fiscal 2001

INTEREST  
COVERAGE  
RATIO

1.48

RETURN  
ON  
EQUITY

21%

## NOI MARGIN

(Thousands of dollars)

	2001	2000
NOI (rental revenue/expenses)	\$ 7,923	\$ 5,663
Net operating margin from rental operations	72%	73%

## PER SHARE RESULTS – Basic

	2001	2000	% Change
Funds from rental revenue	\$ 0.23	\$ 0.17	35
Funds from real estate sales	\$ 0.02	\$ 0.05	(60)
EBITDA	\$ 0.80	\$ 0.60	33

## ACQUISITIONS

	Calgary	Edmonton	Total
No. of suites	57	264	321
Square footage	42,000	186,000	228,000
Purchase prices	\$ 3,135,000	\$ 8,353,000	\$ 11,488,000
Price per suite	\$ 55,000	\$ 32,000	\$ 36,000
Price per square foot	\$ 74	\$ 45	\$ 50

## OPERATIONAL COSTS

	2001	2000
Operational costs per unit per month	\$ 170	\$ 149
Operational costs per square foot per month	\$ 0.22	\$ 0.19

## RENTAL REVENUES BY GEOGRAPHIC LOCATION

### Calgary

	2001	2000
Gross rental revenues	\$ 6,802,000	\$ 4,892,000
Rental revenues per unit per month	\$ 671	\$ 612
Rental revenues per square foot per month	\$ 0.80	\$ 0.75
Weighted average no. of units	845	666
Weighted average square footage	706,000	545,000

### Edmonton


	2001	2000
Gross rental revenues	\$ 4,263,000	\$ 2,848,000
Rental revenues per unit per month	\$ 510	\$ 482
Rental revenues per square foot per month	\$ 0.71	\$ 0.67
Weighted average no. of units	697	492
Weighted average square footage	504,000	352,000

### Total square footage

1,303,000	1,092,269
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## A year of achievement

Tough economic conditions test even the best business models, and so it is with great pride that I am once again able to report that Mainstreet Equity Corp. experienced substantial growth during the uncertain economic climate of the past year.



By focusing on operational efficiencies, Mainstreet held its overall operating margin constant at 72 per cent of gross revenue.

**We significantly enhanced our portfolio of properties in our core markets, maintained our focus on cost-effective operation, and produced a solid 21 per cent return on equity.** Increasing our asset base and our ROE in a time of significant market uncertainty confirms the fundamental soundness of the Mainstreet Value Chain model for building lasting shareholder value through shrewd property acquisition, effective management, and operational economies of scale.

### **Sharp Focus, Sustained Growth**

At Mainstreet, we deal exclusively in mid-market residential rental real estate, a secured asset class offering consistent cash flow. Demand for such accommodation remains high in our core markets, supply is tight, and little new construction is anticipated. We continue to purchase properties below replacement cost and finance them at record low interest rates. Thus, we believe our company is positioned as a high growth, low risk venture.

Led by a team of experienced real estate professionals, Mainstreet's goal is nothing less than to create and sustain growth regardless of market conditions. In 2001, a difficult year by any measure, we achieved that goal with solid performance.

### **The Revenue Stream**

In our 2001 fiscal year (October 1, 2000 to September 30, 2001), Mainstreet's gross revenues rose from \$10.39 million to \$12.82 million, an increase of 23 per cent. Income from rents grew by 43 per cent, averaging 7.4 per cent growth in revenue per suite per month. Total cash flow continued to grow, increasing from \$2.0 million in FY2000 to \$2.2 million in this fiscal year. This resulted in growth of 10 per cent in funds from operations.

Our revenue stream benefited from record-low borrowing rates in the past year, and we took full advantage of that trend to refinance our portfolio as far as possible. The weighted average cost of borrowing for outstanding term debt was down 20 basis points to 6.85 per cent. Since the end of our fiscal year, we have also refinanced \$10 million of Canadian Mortgage and Housing Corporation (CMHC) debt at a weighted average rate of 5.3 per cent and are currently renegotiating an additional \$8.9 million in financing to lower our interest costs even further. These benefits go straight to our bottom line.

### **The Asset Base**

Mainstreet has 2,010 units with a market value of approximately \$127 million in its portfolio of properties as of January 31, 2002.

At the end of the fiscal year, Mainstreet owned 1,667 rental units, which was an increase of 22 per cent over the previous year. Apartments made up about two-thirds of our portfolio, with the rest being townhouse units. The portfolio was evenly split between the healthy rental economies of Calgary (51 per cent) and Edmonton (49 per cent). During the year, we sold one Calgary property for an annualized return on equity of 142 per cent.

We improved the quality of our holdings through a capital investment of \$2.1 million over 11 properties (\$4,900 per suite on average). **As a result, we were able to increase occupancy rates (portfolio average of 96.6 per cent) and rental rates (year-on-year growth in average annual rents of 7.4 per cent), resulting in a gross revenue growth of 43 per cent.** In a fixed-cost business like this, every cent of every extra dollar shows up in Mainstreet's bottom line.

Operational efficiency enabled us to hold our overall operating margin constant at 72 per cent. This occurred despite substantial increases in the cost of energy in the first and second quarters.

Our operations team implemented purpose-built management software across the entire portfolio. This greatly enhances our ability to manage individual properties while keeping the larger investment picture clearly in sight. Electronic delivery of key financial data from our properties to headquarters further streamlines our operational routines. Because the system is designed to accommodate as many as 5,000 property units, we will be able to manage a greatly expanded portfolio without incurring additional software costs.

Mainstreet's portfolio has now reached a size that permits us to negotiate favourable, long-term contracts for energy, renovation materials, fixtures and other capital expenditures to the benefit of our shareholders.

### **Share Performance**

During the year under review, Mainstreet's share prices ranged from a low of \$3 per share to a high of \$5.40 per share at the end of the fiscal year. Earnings per share stood at \$0.09 for the year, representing a gain over the \$0.08 achieved in FY2000.

### **Building on Our Success**

Since the end of the fiscal year, Mainstreet has continued to make progress in areas that are important to our continued growth:

- we increased the number of units in our property portfolio from 1,667 to 2,010, for a total value of \$127 million; and
- we secured \$10 million in additional CMHC-insured debt at a weighted average rate of 5.3 per cent and are currently refinancing another \$8.9 million at record low rates.

In the coming year, we intend to develop and implement strategies to maintain our growth, capital efficiency, and profitability. Our plans include:

- devoting additional resources to the identification of acquisition opportunities throughout the country. We will continue to acquire in our core markets of Calgary and Edmonton, are researching the Ontario and British Columbia markets, and are monitoring investment opportunities throughout the country;
- conducting a thorough examination of the debt markets for additional cost-of-capital leverage opportunities;
- working with the University of Western Ontario's Richard Ivey School of Business to develop and test creative new business strategies; and
- educating the public markets about the Mainstreet success story.

As President and Chief Executive Officer, I am proud of our accomplishments in 2001. I look forward to ensuring that Mainstreet does even better in 2002 as our proven Value Chain business model continues to deliver significant shareholder value.

On behalf of the Board of Directors,



**Bob Dhillon**

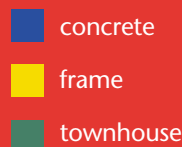
President and CEO

February 1, 2002





# Mainstreet PROPERTIES



## List of Properties as of January 31, 2002

Calgary	Address	# of units	Apartment type
Trevela Park	1300 – 41st St. SE	218	Townhouse complex
Queens Park Village	501 – 40th Ave. NW	188	Townhouse complex
Falconcrest Village	360 Falshire Drive NE	176	Garden style apartment
Heritage	331/333 – Heritage Dr. SE	57	Mid-rise apartment
Mainstreet Place	1122 – 8th Ave. SW	50	Hi-rise apartment
Delburn House	1419 – 17th Ave. NW	47	Garden style apartment
White Plains	2620 – 16th St. SW	34	Mid-rise apartment
The Westwinds	211 – 14TH Ave. SW	32	Hi-rise apartment
The Wilmax	1212 – 13th Ave. SW	30	Hi-rise apartment
1612	1612 – 24th Ave. SW	24	Hi-rise apartment
Bankview Place	1715 – 24th Ave. SW	24	Garden style apartment
Chinook Winds Apts.	707 – 57th Ave. SW	24	Garden style apartment
Westview Terrace	1611 – 23rd Ave. SW	24	Hi-rise apartment
Lincoln	2111 & 2107 – 54th Ave. SW	23	Garden style apartment
North Hill Manor	305 – 13th Ave. NE	23	Mid-rise apartment
Spring Garden Terrace	1723 – 26th Ave. SW	21	Garden style apartment
Westbrook Manor	937 – 37th St. SW	18	Mid-rise apartment
2501	2501 – 16TH St. SW	10	Garden style apartment
<b>Total</b>		<b>1,023</b>	
Red Deer	Address	# of units	Apartment type
Highland Terrace	3916/20/24 – 50 Ave.	66	Garden style apartment
<b>Total</b>		<b>66</b>	
Edmonton	Address	# of units	Apartment type
Wedgewood Homes	12267 – 129 A St.	132	Townhouse complex
Clareview Court	3830 – 134 Ave.	86	Townhouse complex
McCam 2	10325 – 123 St.	66	Garden style apartment
Thunderbird	10720 – 104 St.	62	Garden style lofts
Lauderdale Manor	10504 Lauder Ave.	39	Townhouse complex
Edmn 5	11416 – 124 St.	33	Garden style apartment
Edmn 18	10730 – 111 St.	33	Garden style apartment
McCam 1	10330 – 123 St.	33	Garden style apartment
McCam 4	10235 – 123 St.	33	Garden style apartment
Edmn 2	14224 McQueen Road	27	Garden style apartment
Edmn 17	10835 – 115 St.	26	Garden style apartment
Elizabeth Manor	11334 – 124 St.	25	Mid-rise apartment
Edmn 13	7107 – 79 Ave.	24	Garden style apartment
Edmn 14	7108 – 78 Ave.	24	Garden style apartment
Edmn 11	10710 – 111 St.	22	Garden style apartment
Edmn 12	10720 – 111 St.	22	Garden style apartment
Edmn 15	10325 – 117 St.	22	Garden style apartment
Edmn 16	10316 – 119 St.	22	Garden style apartment
Edmn 20	10610 – 106 St.	22	Garden style apartment
McCam 3	10320 – 123 St.	22	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 21	10730 – 109 St.	20	Garden style apartment
Edmn 19	10634 – 113 St.	17	Garden style apartment
Pride	13608 – 109A Ave.	17	Garden style apartment
Edmn 10	10416 – 119 Ave.	15	Garden style apartment
Cedar Wood Arms	10614 – 122 St.	14	Garden style apartment
<b>Total</b>		<b>921</b>	
<b>TOTAL PROPERTY UNITS</b>		<b>2,010</b>	

## [strategy and success]

*Certain statements in this report may constitute forward-looking statements. Such statements involve risks, uncertainties and other factors that may cause actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.*

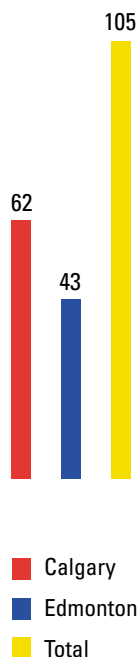
# Striving for constant success

Mainstreet Equity Corp. seeks investment opportunities that will yield above-average returns for our shareholders. Underpinning everything we do is a tightly integrated and very successful model that we call the Mainstreet Value Chain.



The Mainstreet Value Chain  
is a simple strategy that  
provides consistent rewards  
to our shareholders.

**Market Value of Assets**  
as of September 30, 2001  
(\$millions)



The Mainstreet Value Chain model is simple. Based on our in-depth knowledge of the Canadian real estate market, we look beyond the obvious to identify and acquire rental properties with an intrinsic worth that is not being realized. We then upgrade these under-performing units in accordance with market expectations, which raises the rate of occupancy and lowers tenant turnover. Because our management team is highly experienced, we are able to make property improvements quickly, cost-effectively, and with minimal disruption to the revenue stream. As far as possible, we finance our improved properties through advantageous, long-term, fixed-rate mortgages insured by the Canadian Mortgage and Housing Corporation (CMHC). This provides us with a significant advantage over many of our competitors. Our use of centralized, state-of-the-art accounting and management systems further enhances profitability by carefully controlling rental arrears. In the short term, we realize higher rents; over the longer term, we increase potential capital gains.

Mainstreet regularly rebalances its portfolio to ensure the greatest potential for gain. Once a property in our portfolio has been upgraded to maximize rental income, we will either hold it for continuous revenue generation and capital appreciation or, on a very selective basis, dispose of certain properties to redirect that capital into new properties with a potential for higher returns to our shareholders. To date, we have deliberately focused on the vibrant economies of Calgary and Edmonton, but we are now actively considering acquisitions elsewhere in the country. Regardless of geographic market, our objective is maximization of shareholder value through prudent investment in rental properties that offer capital growth appreciation and enhanced revenue opportunities year after year.

### The Right Portfolio for the Times

The Value Chain business model has proven remarkably adept at producing low risk, high growth performance year after year. Its worth was never clearer than in the past fiscal year when market intelligence, adaptability and agility meant the difference between mediocre and above average performance.

Increasing uncertainty in the capital marketplace not only weakened the economy overall, it also directed additional private investment into traditional, well-performing assets such as real estate. This caused apartment building prices to rise. At the same time, significant declines in the cost of borrowing occurred. Rather than retreat or maintain the status quo, we seized the opportunity to refinance a significant portion of our portfolio to offset higher borrowing costs with greater returns on equity. In combination with timely divestiture and enhanced operational capabilities, this approach meant that Mainstreet could not only weather economic uncertainty but prosper from it.

The Mainstreet portfolio now consists of 2,010 units in Calgary and Edmonton with a total market value of approximately \$127 million. At the end of our fiscal year, we owned 1,667 units, representing growth of 22 per cent over the previous year. Our holdings in those core markets are now almost evenly split, thus reducing our level of risk even further. We acquired 57 units in Calgary and 264 units in Edmonton at an average cost of \$36,000 per unit, which is below the existing average unit cost of our portfolio. In the same period, we sold a 27-unit project in Calgary for an annualized return of equity of 142 per cent.

## Enhancing Our Assets

The value of our portfolio depends on maintaining high levels of occupancy. By matching our residential quality standards to the expectations of the marketplace, we attract and retain low risk tenants.

We are committed to maintaining the quality of our rental units through ongoing capital investment. In FY2001, we spent an average of \$4,900 per unit on improvements to 428 units. This investment of \$2.1 million was spread over the properties that we acquired during the year, and represented an increase of 28 per cent from the previous year.

Now that this investment is complete, Mainstreet will enjoy the benefit of increased cash flow from these units with minimal need for additional capital expenditures. Increases in rents or declines in borrowing costs will flow directly and positively to our bottom line.

## Controlling Costs

### Cost control is a measure of effective property management.

At Mainstreet, we achieve this through strategic capital investment in property improvements (for example, our FY2000 energy efficiency retrofit), the use of “just-in-time” inventory control systems, the recruitment and retention of skilled and dedicated operational team members, and thoughtful, long-term borrowing policies.

As a result, we held general and administrative costs to a modest \$0.95 million (only 10 per cent higher than in FY2000) and showed a 72 per cent net operating margin despite significant asset growth. We also took advantage of our growing reputation for effective management and declining interest rates to refinance our portfolio to achieve a weighted average cost-of-borrowing reduction of 20 basis points to 6.85 per cent.

Since fiscal year end, Mainstreet has secured \$10 million in additional CMHC-insured debt at a weighted average rate of 5.3 per cent and we are currently refinancing another \$8.9 million at record low rates.

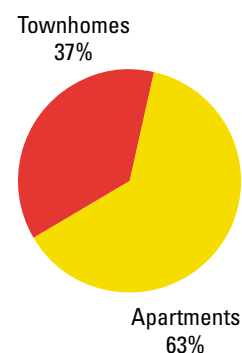
## The Bottom Line

### Mainstreet’s Value Chain business model has stood the test of time.

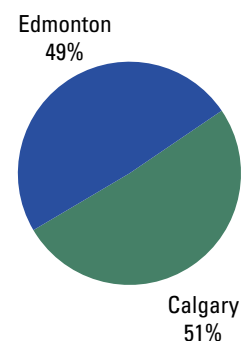
The past year is a fine example of the model’s ability to generate growth even in times of significant economic stress. Our focus on the fundamentals and attention to operating detail yielded a 43 per cent increase in rental income, 40 per cent growth in net operating income, and a return on equity of 21 per cent. Every dollar earned enhances our bottom line performance.

We remain committed to this commonsense model for making money in rental real estate. To provide even better performance in the years ahead, we are currently considering refinements to the model with assistance from the renowned Richard Ivey School of Business at the University of Western Ontario.

### Asset Portfolio



### Geographic Location



### 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

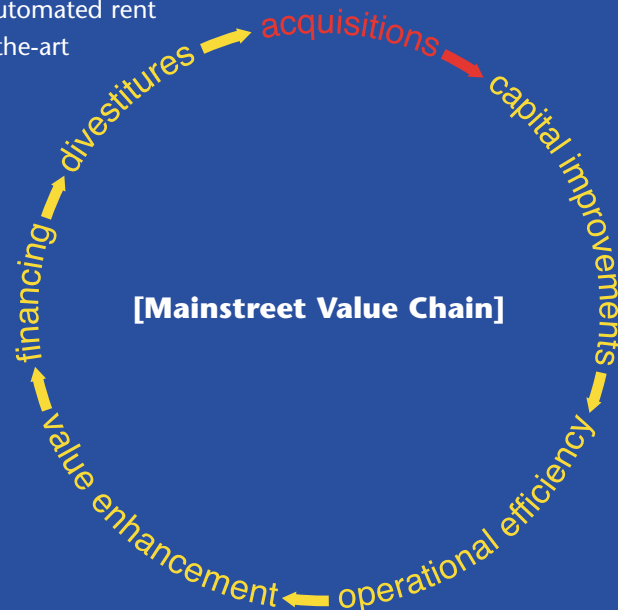
- Provide a competitive product that is attractive to the market.
- Maximize rents following capital improvements.

#### 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.



## Solid performance

Mainstreet Equity Corp. (MEQ: TSE) acquires undervalued residential rental units, enhances them through strategic investment and effective management, and sells them when market conditions permit a significant profit.



Mainstreet's portfolio  
has reached critical mass,  
enabling us to obtain  
significant economies  
of scale that benefit all  
shareholders.

Management's Discussion and Analysis (MD&A) provides a review of Mainstreet Equity Corp.'s operations and financial condition for the fiscal year that ended on September 30th, 2001. The results from FY2001 are directly comparable to those from FY2000.

## Financial highlights

**Rental Income of \$11.1 million**



**43 per cent growth from \$7.7 million FY2000**

**Net Operating Income of \$7.9 million**



**40 per cent growth from \$5.7 million FY2000**

**Owned & Operated Assets of 1,667 units**



**22 per cent growth from 1,370 units FY2000**

**Funds from Operations (FFO) of \$2.2 million**



**10 per cent growth from \$2.0 million FY2000**

**FFO per Share of \$0.24**



**10 per cent growth from \$0.22 FY2000**

**Funds from Rental Operations (FFRO) of \$2.1 million**



**34 per cent growth from \$1.5 million FY2000**

**Net Earnings of \$0.8 million**



**8 per cent growth compared with \$0.7 million FY2000**

**Earnings per Share of \$0.09**



**12 per cent growth from \$0.08 FY2000**

## Revenue

Mainstreet Equity Corp.'s revenue gains were strong again for the 2001 fiscal year. Gross revenues from rentals, divestitures and earned interest rose from \$10.39 million in FY2000 to \$12.82 million in FY2001.

The proceeds from divestitures were \$1.69 million, a decrease of 35 per cent from last year. Interest income of \$66,000 reflected an increase of 61 per cent from \$41,000 in FY2000. Our year-end retained earnings grew 50 per cent from \$1.8 million to \$2.7 million.

### Revenue

(Thousands of dollars)

	2001	2000	% change
Gross revenue	\$ 12,818	\$ 10,390	<b>23</b>
Rental revenue	\$ 11,065	\$ 7,740	<b>43</b>
Properties held for resale	\$ 1,687	\$ 2,609	(35)
Interest income	\$ 66	\$ 41	<b>61</b>

## Rental Income

Rental income rose significantly to \$11.07 million, a 43 per cent increase over the \$7.74 million that Mainstreet earned in FY2000. The weighted average number of units in our portfolio grew 33 per cent, from 1,158 to 1,542. Effective management saw year-end monthly rental rates across the entire portfolio climb from \$592 to \$622, a five per cent gain.

Combined rental income	2001	2000	% increase
Gross rental revenue	\$11,065,000	\$ 7,740,000	<b>43</b>
Weighted average number of units	1,542	1,158	<b>33</b>
Rental rates per unit per month	\$ 598	\$ 557	<b>7</b>
Weighted average square footage	1,210,000	897,000	<b>35</b>
Rental rates per square foot per month	\$ 0.76	\$ 0.72	<b>6</b>

Within the Calgary market, we earned rental revenues of \$6.8 million, representing growth of 39 per cent over FY2000, and the year-end rental rate moved upward five per cent from \$662 in FY2000 to \$697 in FY2001.

Calgary	2001	2000	% increase
Gross rental revenue	6,802,000	4,892,000	<b>39</b>
Weighted average number of units	845	666	<b>27</b>
Rental rates per unit per month	\$ 671	\$ 612	<b>10</b>
Weighted average square footage	706,000	545,000	<b>30</b>
Rental rates per square foot per month	\$ 0.80	\$ 0.75	<b>7</b>

In Edmonton, rental revenues rose by nearly 50 per cent from \$2.848 million in FY2000 to \$4.263 million, while year-end rental rates showed an increase of 11.2 per cent (\$490 vs. \$545).



<b>Edmonton</b>	<b>2001</b>	<b>2000</b>	<b>% increase</b>
Gross rental revenue	\$ 4,263,000	\$ 2,848,000	<b>50</b>
Weighted average number of units	697	492	<b>42</b>
Rental rates per unit per month	\$ 510	\$ 482	<b>6</b>
Weighted average square footage	504,000	352,000	<b>43</b>
Rental rates per square foot per month	\$ 0.71	\$ 0.67	<b>6</b>

### **Cash Flow from Operations**

Mainstreet experienced a ten per cent increase in funds from operations, increasing to \$2.2 million from \$2.0 million in FY2000. Funds from rental operations rose from \$1.5 million in FY2000 to \$2.1 million in this fiscal year, or 34 per cent.

<b>Funds from operations</b> <i>(Thousands of dollars)</i>	<b>2001</b>	<b>2000</b>	<b>% increase</b>
Funds from operations	\$ 2,208	\$ 2,012	<b>10</b>
Funds from rental operations	\$ 2,066	\$ 1,540	<b>34</b>

### **Operating Costs**

Operating expenses were \$3.37 million, compared to \$2.08 million in FY2000. Effective management resulted in a 72 per cent overall net operating margin, within one per cent of last year's margin (73 per cent) despite cost inflation.

Energy cost management, which was the pressing issue in 2000, receded somewhat as a concern in 2001. Nonetheless, we continued to cushion ourselves against future energy pricing shocks through portfolio composition, operations control, and additional physical improvements.

<b>Operating expenses</b> <i>(Thousands of dollars)</i>	<b>2001</b>	<b>2000</b>	<b>% increase</b>
Operating costs	\$ 3,370,000	\$ 2,077,000	<b>62</b>
Cost per unit per month	\$ 170	\$ 149	<b>14</b>
Cost per square foot per month	\$ 0.22	\$ 0.19	<b>16</b>

### **General and Administrative Expenses**

Mainstreet's general and administrative expenses, or overhead costs, declined significantly from \$62 to \$51 per month on a per unit basis in this fiscal year.

These costs include all corporate and administrative charges not allocated to the individual properties within our portfolio. These are items such as reporting costs, management compensation, and corporate governance expenses. Effective control of overhead costs is vital, as the G&A line item dilutes FFO performance on a dollar-for-dollar basis.

There was an absolute increase in G&A expenses, but only because of the significant growth of our asset base. Compared to costs of \$0.86 million in FY2000, G&A rose a modest 10 per cent to \$0.95 million. This level reflects a gross revenue ratio of less than the industry standard of one per cent.

## Mortgage Interest Expenses

Mainstreet's ability to secure CMHC-insured mortgages on rental properties enables us to purchase properties with less equity and obtain financing at very favourable rates.

Interest charges increased to \$4.87 million, up 44 per cent over FY2000 (\$3.38 million). Long-term debt increased to \$71.6 million, a 13 per cent increase year-over-year. Mainstreet's interest expenses grew in proportion with NOI (40 per cent). The weighted average cost of borrowing for the term debt balances outstanding at year-end 2001 was 6.85 per cent, down 20 basis points, reflecting the record low borrowing rates in the last half of the year.

Although only \$1.06 million of term debt was refinanced during 2001 (at a rate of 6.77 per cent), \$10 million has been underwritten since fiscal year-end at a weighted average rate of 5.3 per cent and another \$8.9 million is currently being refinanced at competitive rates. All refinancing activities since year-end involve CMHC-insured term debt at record low costs of borrowing.

## Depreciation and Amortization

Because of portfolio growth and refinancing, our depreciation and amortization costs increased by 71 per cent. The FY2001 cost was \$1.22 million, compared to \$0.71 million in FY2000. Only nine per cent of the 2001 charge was attributable to soft costs (legal and financing fees), an increase of 33 per cent from 2000.

### Depreciation & amortization

(Thousands of dollars)

	2001	2000
Buildings & other assets	\$ 1,110	\$ 629
Legal & financing fees	\$ 109	\$ 82
Total	\$ 1,219	\$ 711

## Portfolio Composition

Mainstreet's portfolio grew 22 per cent in 2001 to a total of 1,667 units. Approximately one-third are townhouses, and the rest are apartments. Our portfolio is now almost evenly split between the Calgary and Edmonton markets.

## Acquisitions

Mainstreet acquired 235 apartment and 86 townhouse units in FY2001 for \$11.5 million, averaging \$36,000 per unit.

We acquired 57 units in a top-quality concrete project in Calgary at a cost of \$55,000 per unit. This is a well-located condo-quality project in one of the tightest occupancy residential markets in Canada.

The rest of our transactions were multiple property purchases in Edmonton at a base cost of \$32,000 per unit.

Acquisitions	Calgary	Edmonton	Total
Number of units	57	264	321
Square footage	42,000	186,000	228,000
Price per unit	\$ 55,000	\$ 32,000	36,000
Price per square foot	\$ 74	\$ 45	50

## Divestitures

We completed one sale in FY2001. This involved a 27-unit boutique garden apartment in Calgary, which traded at \$64,000 per unit, realizing an annualized return on equity of 142 per cent.

## Capital Investment

Mainstreet's 2001 capital investment program increased by 28 per cent over FY2000, demonstrating our commitment to adding value to the portfolio. We upgraded 11 properties at a cost of \$2.1 million, for an average investment of \$4,900 per unit.

## Long-Term Debt

The company's debt capital structure remained basically as it was in FY2000. The only changes were the capital structure of new acquisitions and reduction of some of the second mortgages. We now carry an outstanding balance of \$71.63 million, compared with \$63.12 million in FY2000.

Our long-term debt portfolio features balanced expiry dates with no single year having more than 30 per cent and none less than 10 per cent. The company will manage the debt portfolio further as non-CMHC debt is converted into CMHC-insured debt, which lowers our borrowing costs significantly.

### Mortgage schedule

(Thousands of dollars)

	Floating rate debt	Fixed rate debt	Total mortgages
CMHC Insured	\$ –	\$ 14,131	\$ 14,131
Non CMHC	\$ 6,892	\$ 50,610	\$ 57,502
Total	\$ 6,892	\$ 64,741	\$ 71,633

### Fixed rate debt

(Thousands of dollars)

	Amount	Term	Average interest rate
CMHC	\$ 14,131	5 – 10 yrs	6.71%
Non CMHC	50,610	1 – 4 yrs	6.93%
Total	\$ 64,741	1 – 10 yrs	6.88%

## Liquidity and Capital Resources

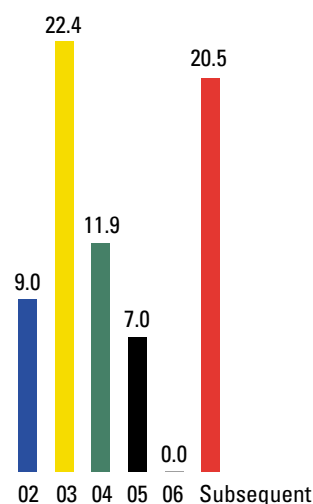
As at year end 2001, Mainstreet Equity Corp maintained \$760,000 in cash, short-term investments including \$648,000 in tenant security deposits. The company also maintains \$300,000 in unused operating lines of credit.

## Mortgage maturity schedule 2002 – 2006

(Thousands of dollars)

	Value	Percentage maturing
2002	\$ 8,978	12.5%
2003	\$ 22,387	31.3%
2004	\$ 11,899	16.6%
2005	\$ 7,865	10.9%
2006	\$ –	–
Subsequent	\$ 20,504	28.7%
Total	\$ 71,633	100%

**Mortgage Maturity  
Schedule  
2002 – 2006**  
(\$millions)



## Risk Management

Mainstreet is exposed to risk from changes in supply and in financing costs.

Demand for our rental properties is expected to remain strong, as industry economics do not support construction of new multi-family rental units. Mainstreet buys at below replacement cost in a marketplace where demand keeps vacancy rates low and rents stable to rising. Thus, we view the risk on the supply side to be low.

On the financing side, Mainstreet has been aggressive about reducing our fixed debt load by taking advantage of record low borrowing rates to obtain advantageous rates for mortgages on new units and by converting mortgages on existing properties to less costly CMHC-insured debt whenever possible.

## Corporate Governance

Sound corporate governance promotes and protects the interests of shareholders. Governance of the Corporation is the responsibility of Mainstreet's Board of Directors and its associated committees. The Board is structured and acts in accordance with the spirit of the guidelines proposed by the Toronto Stock Exchange in 1994 for the effective governance of Canadian corporations.

The Board of Directors provides strategic direction for management's activities, approves all major business decisions, and monitors the company's performance. More specifically, its main objectives are to:

1. monitor the Corporation's governance practices and implement necessary changes,
2. ensure that the business risks of the Corporation are properly identified and managed,
3. provide for responsible succession planning,
4. ensure that an adequate system of internal controls exists to safeguard the assets of the Corporation,
5. provide for comprehensive financial reporting, and
6. develop and institute a communications policy for the Corporation.

The Board monitors performance with respect to these objectives and strives to identify the most effective ways of achieving them. Mainstreet remains firmly committed to principled and responsible conduct on the part of all its officers.

## **Board Composition**

The Board now consists of six directors: Rowland Fleming (Chairman), Joe Amantea, Frank Boyd, Darrell Cook, Lawrence Tapp, and Bob Dhillon. 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 free of 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 the corporation.

## **Board Committees**

The Corporation has created four committees: the Advisory Committee, the Audit Committee, the Compensation Committee, and the Executive Committee. Except in the case of the Audit Committee, which the TSE guidelines recommend be composed only of outside directors, the Board of Directors has chosen to make decisions and policies as a whole.

## **Looking Ahead**

Despite the economic confusion that followed the events of September 11th and the recessionary trend underway in the Canadian economy, we believe that the 2002 fiscal year will offer significant opportunity for Mainstreet Equity Corp. and its shareholders. Our business foundations are strong and our strategy is sound.

Our asset portfolio is currently based in metropolitan centres where residential rental apartments are well priced, supply is limited, and tenancy risk is low. We believe the emerging economic climate will also create opportunities to diversify our portfolio strategically across new markets.

The apartment and condominium unit supply that was an emerging concern during the past twelve months is expected to ease. Although not in direct competition with Mainstreet's mid-market portfolio, a reduction of such supply risk will further support the strong mid-market rental fundamentals that underpin our portfolio.

As always, Mainstreet's management team remains the foundation of our success. This group offers experienced professionals with in-depth market and asset knowledge, broad and deep business relationships, and a level of commitment to strategic execution that fosters credibility and confidence. We will continue to develop and refine the management team and its practices to ensure continued delivery of Mainstreet's mandate as the company meets and addresses new challenges.

Mainstreet is aggressive about achieving profitable growth in 2002. We look forward to reporting our progress in realizing our Value Chain objectives to the benefit of our shareholders.

## [board of directors]

**Rowland Fleming**, Rowland Fleming, *Chairman*, 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. He currently serves on a number of Boards of Directors. 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, and Executive Vice President with the Bank of Nova Scotia.

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

Mr. Amantea concentrates on 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**, President and CEO, Apex Land Corporation, Calgary, Alberta

Mr. Boyd brings a wealth of practical knowledge in the land development and condominium industries. He is President, CEO and director of Apex Land Corporation, a leading Calgary-based real estate development company operating within select Canadian and American markets.

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

Mr. Cook has been involved in mortgage banking for more than 25 years. His role is critical in advising Mainstreet on the most advantageous strategies for refinancing our portfolio. 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.

**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.

## Financial Reports

## 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



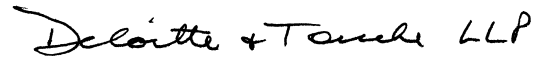
## Auditors' Report

To the Shareholders of Mainstreet Equity Corp.:

We have audited the consolidated balance sheets of Mainstreet Equity Corp. as at September 30, 2001 and 2000 and the consolidated statements of income and retained earnings and cash flows for the years ended September 30, 2001 and September 30, 2000. 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, 2001 and 2000 and the results of its operations and its cash flows for the years ended September 30, 2001 and September 30, 2000 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Calgary, Alberta

November 16, 2001

Deloitte & Touche LLP

Chartered Accountants

## Consolidated Balance Sheets

(Thousands of dollars)

As at	September 30 2001	September 30 2000
<b>ASSETS</b>		
Real estate properties (note 3)	\$ 78,490	\$ 66,034
Restricted cash	648	532
Cash	112	366
Other assets	851	569
Deferred charges	792	1,178
	<b>\$ 80,893</b>	<b>\$ 68,679</b>
<b>LIABILITIES</b>		
Mortgages payable (note 4)	\$ 71,633	\$ 63,122
Debentures (note 6)	2,000	2,000
Accounts payable	885	396
Refundable security deposits	648	532
Future income taxes (note 7)	1,117	931
	<b>76,283</b>	<b>64,981</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	1,869	1,869
Retained earnings	2,741	1,829
	<b>4,610</b>	<b>3,698</b>
	<b>\$ 80,893</b>	<b>\$ 68,679</b>

Approved on behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Income and Retained Earnings

(Thousands of dollars, except per share amounts)

For the years ended	September 30 2001	September 30 2000
Revenue		
Rental income	\$ 11,065	\$ 7,740
Sale of real estate properties	1,687	2,609
Interest income	66	41
	<u>12,818</u>	<u>10,390</u>
Expenses		
Property operating expenses	3,370	2,077
Utility rebate	(228)	–
Cost of sales, real estate properties	1,505	2,002
General and administrative expenses	948	858
Financing cost	4,870	3,382
Depreciation and amortization	1,219	711
	<u>11,684</u>	<u>9,030</u>
Income before income taxes	<u>1,134</u>	<u>1,360</u>
Income taxes		
– current (note 7)	36	(23)
– future (note 7)	327	667
Net income	<u>771</u>	<u>716</u>
Retained earnings, beginning of year	1,829	1,113
Prior period adjustment (note 2)	141	–
Retained earnings, beginning of year restated	1,970	1,113
Retained earnings, end of year	<u>\$ 2,741</u>	<u>\$ 1,829</u>
Earnings per share		
– Basic (note 10)	<u>\$ 0.09</u>	<u>\$ 0.08</u>
– Diluted (note 10)	<u>\$ 0.08</u>	<u>\$ 0.08</u>

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Cash Flows

(Thousands of dollars, except per share amounts)

For the years ended	September 30 2001	September 30 2000
Cash obtained from (used in):		
Operating activities		
Net income	\$ 771	\$ 716
Items not affecting cash		
Depreciation	1,110	629
Future income tax	327	667
Funds from operations	2,208	2,012
Net change in non-cash operating balances	207	(278)
Decrease in properties held for resale	1,505	2,002
Cash flow from operating activities	3,920	3,736
Financing activities		
Financing of revenue producing properties	7,168	30,904
Repayment of secured debts on revenue producing properties, and other debts	(3,427)	(13,635)
Issue of debentures	2,000	—
Deferred charges	386	(911)
	6,127	16,358
Investing activities		
Purchase of revenue producing properties	(10,301)	(20,777)
Decrease in cash and cash equivalents	(254)	(683)
Cash and cash equivalents, beginning of period	366	1,049
Cash and cash equivalents, end of period	\$ 112	\$ 366
Cash and cash equivalents comprise of:		
Cash (bank indebtedness)	\$ (428)	\$ 112
Short-term deposits	540	254
	\$ 112	\$ 366
Funds from operations		
Per share		
— Basic (note 10)	\$ 0.24	\$ 0.22
— Diluted (note 10)	\$ 0.24	\$ 0.22
Income taxes paid	\$ 577	\$ 409
Interest paid	\$ 4,520	\$ 3,216

See accompanying notes to the consolidated financial statements

## **Notes to Consolidated Financial Statements**

For the years ended September 30, 2001 and September 30, 2000

*(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**

These consolidated financial statements have been prepared by management in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies and in accordance with Canadian generally accepted accounting principles.

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% 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 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 5%. Furniture, equip-

ment, and other assets are amortized on a declining-balance method at rates varying from 10% to 40% 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 9. 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 \$8,978,000 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, 2001 are as follows:

	<u>Carrying Value</u>	<u>Fair Market Value</u>
Mortgages payable	\$ 71,633	\$ 72,678
Debentures	\$ 2,000	\$ 2,000

#### **Earnings per share**

Basic net earnings and funds from 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 ] CHANGES IN ACCOUNTING POLICIES

### a) Future income taxes

During the year ended September 30, 2001, the Corporation adopted the new CICA Handbook Section 3456, Income Taxes. Under this method, the liability method of accounting for income taxes is used, and future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets including unused tax losses are recognized to the extent that it is more likely than not such losses will be ultimately utilized. These new standards also require that future income tax assets and liabilities be measured using enacted tax rates and laws that are expected to apply when the tax assets or liabilities are expected to be settled or realized. The Corporation has applied this standard retroactively with no restatement of prior periods. The cumulative effect of the change in income taxes on prior periods is reflected as an adjustment of \$141,000 to the opening balance of retained earnings. Had the change in accounting policy not been effected, the net income for the year ended September 30, 2001 would have been \$707,000, and the earnings per share would have been \$0.08 and diluted earnings per share \$0.08.

### b) Earnings per share

The Corporation also adopted the new CICA Handbook Section 3500, earnings per share. Under this method, the treasury stock method of calculating diluted earnings per share is used. The exercise of options is assumed at the beginning of the period or at the time of issuance, if later. The proceeds from exercise are assumed to be used to purchase common shares at the average market price during the period. The incremental shares, being the difference between the number of shares assumed issued, and the number of shares assumed purchased, are included in the denominator of the diluted per share computation. The Corporation has applied this new standard retroactively and the diluted earnings per share and funds from operations per share of the prior year have been restated.

### c) Funds from operations

The Canadian Institute of Public and Private Real Estate Companies has set out a new standard which requires the use of a funds from operations calculation, versus the traditional cash flow from operations calculation. As a result of this change, the Corporation has disclosed on the consolidated statements of cash flows, funds from operations per share instead of cash flow per share. Prior year figures have been restated.

## [ 3 ] REAL ESTATE PROPERTIES

	Accumulated		Net Book Value	
	Cost	Depreciation	2001	2000
Land	\$ 18,752	–	\$ 18,752	\$ 15,116
Buildings	57,525	\$ 990	56,535	49,252
Building improvements	3,993	963	3,030	1,563
Office furniture, fixtures and other	245	72	173	103
	<u>\$ 80,515</u>	<u>\$ 2,025</u>	<u>\$ 78,490</u>	<u>\$ 66,034</u>

During the year, properties totalling \$1,505,000 (2000 – \$2,002,000) were transferred to properties held for sale. These properties were sold in March, 2001. There were no properties in this category at September 30, 2001, nor at September 30, 2000.

#### [ 4 ] MORTGAGES PAYABLE

Mortgages payable bearing interest at a weighted average rate of 6.85% (2000 – 7.05%) per annum, are payable in monthly principal and interest installments totalling \$464,000 (2000 – \$418,000), maturing from 2001 to 2010 and are secured by specific charges against specific properties, having a carrying value of \$78,317,000 (2000 – \$65,931,000).

September 30, 2001	September 30, 2000
\$ 71,633	\$ 63,122

In conjunction with the refinancing of its properties, the mortgager has provided the Corporation an additional advance up to a maximum of \$1,565,000 (2000 – \$850,000) for improvements to the specified properties. As at September 30, 2001, \$525,000 (2000 – \$566,000) was drawn on this advance. These works are scheduled for completion by December 2001.

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

Year	Amount
2002	\$ 2,612
2003	9,714
2004	1,348
2005	6,444
2006	1,373
Subsequent	50,142
	<u>\$ 71,633</u>

#### [ 5 ] BANK INDEBTEDNESS

The Corporation has an operating line of credit of \$300,000, carrying interest at prime plus 1%. As at September 30, 2001, no amount has been drawn on this line of credit (2000 – \$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 ] DEBENTURES

The debentures mature 61 months from the date of issuance and bear interest at a rate of 10% per annum, are secured by a floating charge on all assets, and are subordinate to all existing mortgage loans and banking facilities.

#### [ 7 ] INCOME TAXES

The Corporation has non-capital losses of \$551,000 available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The losses will expire in 2008.

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 2001	September 30 2000
Effective rate	42.87%	44.6%
Computed expected tax	\$ 486	\$ 606
Non-taxable portion of capital gain	(36)	(91)
Others	7	(2)
Adjustment for change in effective tax rate	(245)	–
Large corporation tax	151	131
Provision for income tax	<u>\$ 363</u>	<u>\$ 644</u>

The future income tax liability is calculated as follows:

	September 30 2001	September 30 2000
Tax assets related to operating losses	\$ (203)	\$ (73)
Tax liabilities related to differences in tax and book basis	1,320	1,004
	<u>\$ 1,117</u>	<u>\$ 931</u>

## [ 8 ] 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
Issued and outstanding, Sept. 30, 1999, 2000 and 2001	<u>9,033,333</u>	<u>\$ 1,869</u>

a) As of September 30, 2001, there are a total of 2,021,666 (2000 – 4,710,000) common shares held under escrow agreements dated March 1, 1998, April 28, 1998 and December 7, 1998. The above escrow agreements cover 1,355,000 common shares which are eligible for release upon the third anniversaries of the completion date of the major transaction, which occurred on December 7, 1998. The balance of the 666,666 (2000 – 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.

## [ 9 ] 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 Corporation's stock option plan as of September 30, 2001 and 2000, and changes during the years ended on those dates is presented below:

	2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock option Outstanding, beginning of year	255,000	\$ 1.52	155,000	\$ 0.20
Granted	20,000	\$ 5.00	100,000	\$ 3.58
Exercised	—	—	—	—
Outstanding, end of year	275,000	\$ 1.78	255,000	\$ 1.52
Options exercisable, end of year	275,000		255,000	

The following table summarizes information about stock options outstanding at September 30, 2001 and 2000:

	2001		2000	
	Number of Shares Outstanding at Sept. 30	Weighted Average Remaining Contractual Life	Number of Shares Outstanding at Sept. 30	Weighted Average Remaining Contractual Life
Exercise Prices	2001	Life	2000	Life
\$0.20	155,000	1.58 years	155,000	2.58 years
\$3.00	50,000	3.17 years	50,000	4.17 years
\$4.15	50,000	3.83 years	50,000	4.83 years
\$5.00	20,000	4.08 years	—	—
	275,000	2.46 years	255,000	3.44 years

All stock options are fully vested.

## [ 10 ] EARNINGS AND FUNDS FROM OPERATIONS PER SHARE

Basic earnings and funds from operations per share are calculated using the weighted average number of shares outstanding during the year.

As disclosed in note 2 to the consolidated financial statements, the treasury stock method of calculating the diluted earnings per share and funds from operations per shares is used.

The following table sets forth the computation of basic and diluted earnings per share and funds from operations per share:

	September 30 2001	September 30 2000
<b>Numerator</b>		
Net income	\$ 771	\$ 716
Funds from operations	\$ 2,208	\$ 2,012
<b>Denominator</b>		
Denominator for basic earnings and funds from operations per share		
Weighted average shares	9,033,333	9,033,333
Effect of diluted earnings and funds from operations per share	169,787	157,742
Denominator for diluted earnings and funds from operations per share	9, 203,120	9,191,075
Basic earnings per share	\$ 0.09	\$ 0.08
Basic funds from operations per share	\$ 0.24	\$ 0.22
Diluted earnings per share	\$ 0.08	\$ 0.08
Diluted funds from operations per share	\$ 0.24	\$ 0.22

#### [ 11 ] RELATED PARTY TRANSACTIONS

a) In the prior year, the President and Chief Executive Officer (CEO) of the Corporation received no compensation for his services, rather, pursuant to an agreement between the Corporation and a company owned by the CEO, he received commission at commercial rates in his capacity as a licensed broker for property transactions conducted by the Corporation. The commission paid during the year ended September 30, 2000 was \$80,000.

b) \$1,000,000 of the debenture (2000 – \$Nil) was issued to a company of which a director is an officer, a director and a shareholder. This transaction was completed with the same terms and conditions as those issued to third parties for the existing debenture.

#### [ 12 ] COMPARATIVE FIGURES

Certain of the 2000 figures have been reclassified to conform with the 2001 presentation.

#### [ 13 ] SUBSEQUENT EVENTS

Subsequent to the year end date, the Corporation has acquired 238 units of residential apartment units for an aggregate purchase price of \$11,959,000. The acquisitions were financed through cash of \$1,638,000 and a combination of mortgage, vendor take back mortgages and assumption of existing mortgages.

## **[corporate information]**

### **Head Office**

Mainstreet Equity Corp.  
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Fax: 403 266-8867  
E-mail: Mainstreet@mainstretequities.com

### **Investor Relations**

Bob Dhillon  
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### **Financial Inquiries**

Johnny Lam  
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Fax: 403 264-8870  
E-mail: jlam@mainstretequities.com

### **Registrar & Transfer Agent**

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

### **Auditors**

Deloitte & Touche LLP  
2400 Scotia Center  
700 – 2 Street SW  
Calgary, Alberta

### **Solicitors**

Warren Tettensor  
1413 – 2 Street SW  
Calgary, Alberta  
  
Armstrong, Perkins, Hudson  
1600 Canada Place  
407– 2 Street SW  
Calgary, Alberta  
  
McMillan Binch  
Suite 3800 South Tower  
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

### **Board of Directors**

Rowland Fleming, *Chairman*,  
Mississauga, Ontario  
  
Joe Amantea, Calgary, Alberta  
  
Frank Boyd, Calgary, Alberta  
  
Darrell Cook, Calgary, Alberta  
  
Bob Dhillon, Calgary, Alberta  
  
Lawrence Tapp, London, Ontario

### **Directors' Committees**

#### **Advisory Committee**

Murray Bryant, London, Ontario

#### **Executive Committee**

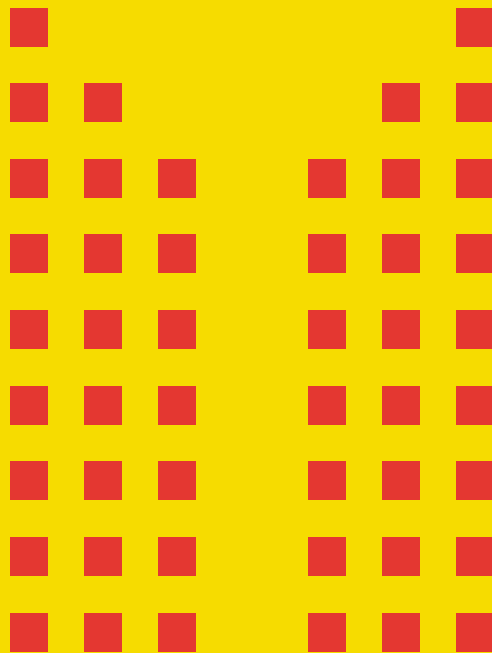
Bob Dhillon, Calgary, Alberta  
  
Joe Amantea, Calgary, Alberta  
  
Darrell Cook, Calgary, Alberta

#### **Audit Committee**

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

The Annual General Meeting of the shareholders of Mainstreet Equity Corp. will be held on March 25th, 2002 at 10:00 a.m., in the offices of Warren Tettensor law firm, 1413 – 2nd St. S.W., Calgary, Alberta, T2R 0W7

**[www.mainstreetequities.com](http://www.mainstreetequities.com)**



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