
AR
2002
The Amazing Successes of
Mainstreet
EQUITY CORP.
"EXPANDING HORIZONS"
403.215.6060
www.mainst.biz

HALLMARKS OF OUR PERFORMANCE

Operational efficiency

Professional management equals operational efficiency. Mainstreet's stabilized properties are marked by high occupancy rates and low operating costs that produce enhanced returns for our shareholders.

Centralized technology

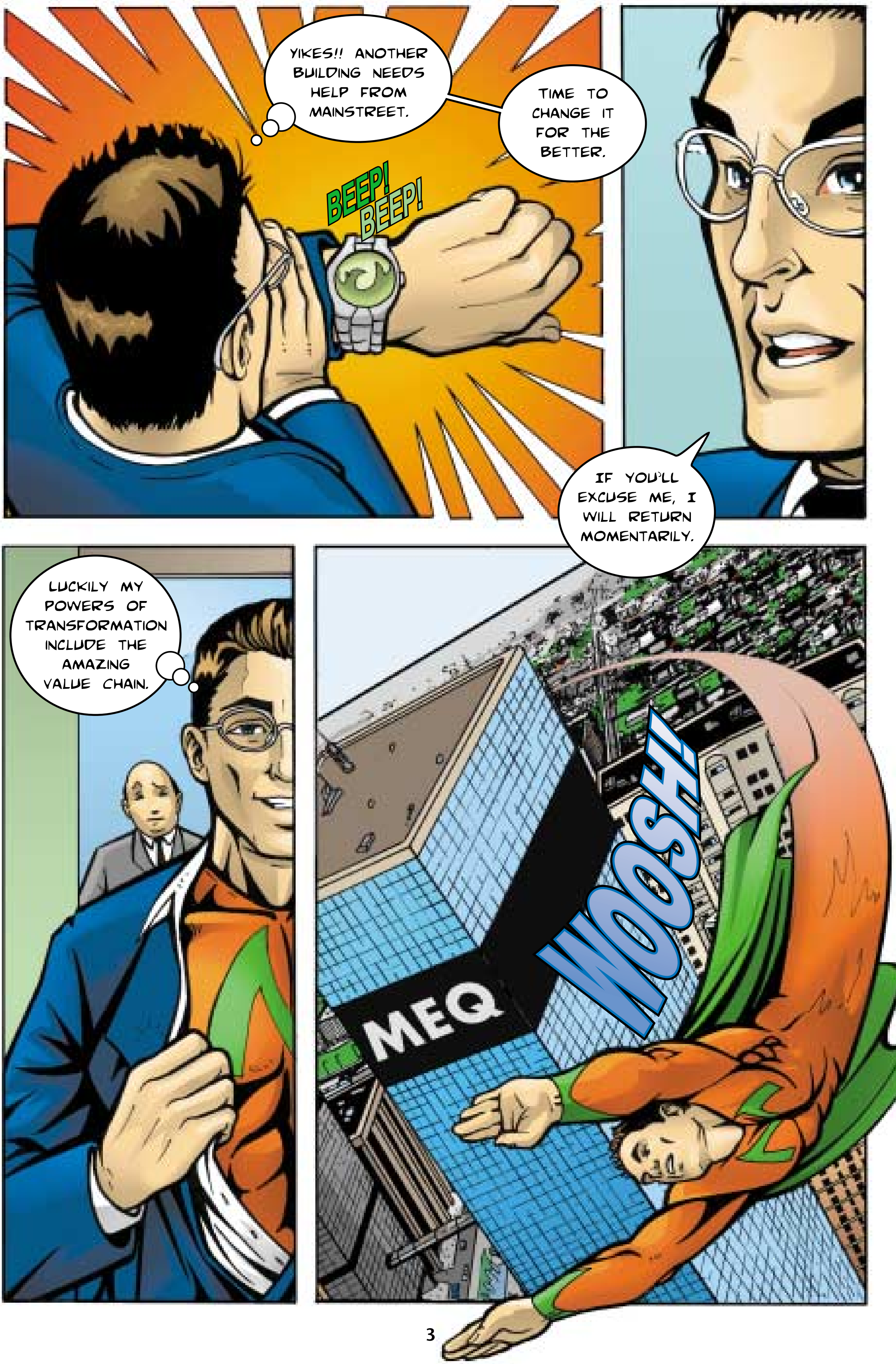
Smart deployment of custom-built management software across all properties permits efficient rent collection through pre-authorized payments.

Strategic expansion

Timing is everything in a business that depends on purchasing below replacement cost. Mainstreet's strategic intelligence gathering and analysis delivers perfect timing for all acquisitions.

Optimized cash flow

At Mainstreet, we believe in acquiring solid assets, enhancing their value through good management, and selling them only to redirect capital into properties with even higher potential.

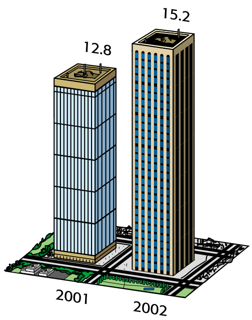

YIKES!! ANOTHER BUILDING NEEDS HELP FROM MAINSTREET.
TIME TO CHANGE IT FOR THE BETTER.
BEEP! BEEP!
IF YOU'LL EXCUSE ME, I WILL RETURN MOMENTARILY.
LUCKILY MY POWERS OF TRANSFORMATION INCLUDE THE AMAZING VALUE CHAIN.
MEQ
WOOSH!

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Financial Highlights

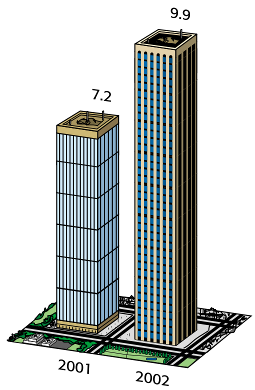
Revenue
($millions)

19% Increase



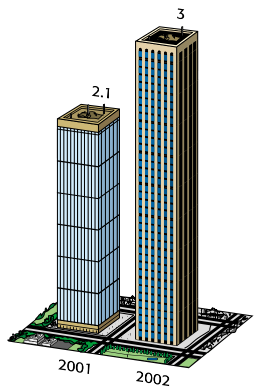
EBITDA
($millions)

38% Increase



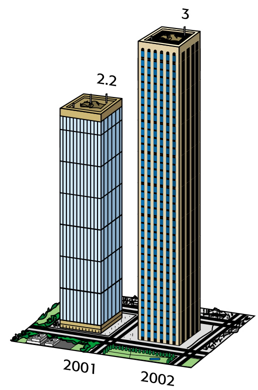
Funds from Rental Operations
($millions)

43% Increase



Funds from Operations
($millions)

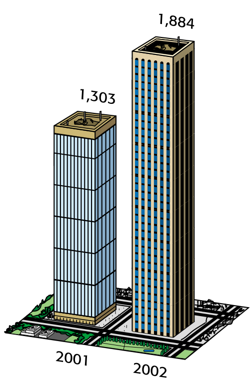
36% Increase



Operational Highlights

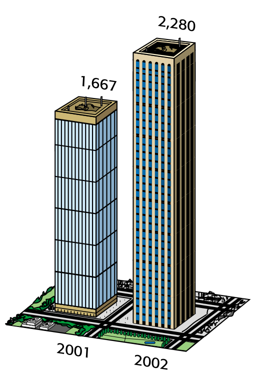
Total Square Feet
(000s)

45% Increase



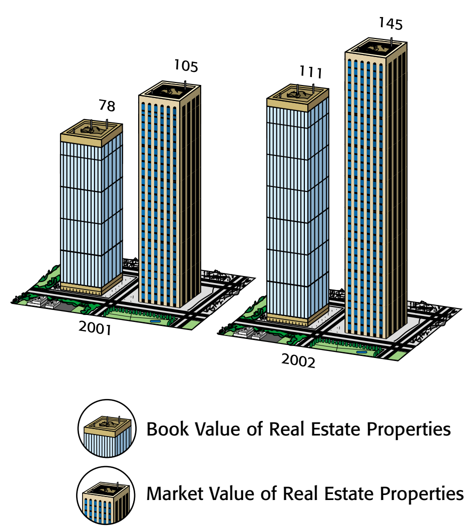
Total Number of Units

37% Increase



Value of Real Estate Properties

38% Increase in Market Value



FISCAL 2002

INTEREST COVERAGE RATIO
1.51

RETURN ON EQUITY
15%

NOI MARGIN

(Thousands of dollars)		2002		2001
NOI (rental revenue/expenses)	$	11,083	$	7,923
Net operating margin from rental operations		73%		72%

PER SHARE RESULTS – Basic

		2002		2001	% Change
Funds from rental revenue	$	0.33	$	0.23	43
Funds from real estate sales		–	$	0.02	–
EBITDA	$	1.09	$	0.80	36

ACQUISITIONS		Calgary		Edmonton		Red Deer		Surrey		Total/Average
No. of suites		176		167		66		204		613
Square footage		143,000		135,000		57,000		245,000		580,000
Purchase prices	$	9,975,000	$	6,135,000	$	2,228,000		11,650,000		29,988,000
Price per suite	$	57,000	$	37,000	$	34,000		57,000		49,000
Price per square foot	$	70	$	45	$	39	$	48	$	52

OPERATIONAL COSTS		2002		2001
Operational costs per unit per month	$	179	$	182
Operational costs per square foot per month	$	0.22	$	0.23

RENTAL REVENUES BY GEOGRAPHIC LOCATION

Calgary		2002		2001
Rental revenue		8,210,000		6,802,000
Weighted average number of units		986		845
Rental rates per unit per month		694	$	671
Weighted average square footage		820,000		706,000
Rental rates per square foot per month		0.83	$	0.80
Edmonton		**2002**		**2001**
Rental revenue	$	6,123,000	$	4,263,000
Weighted average number of units		925		697
Rental rates per unit per month	$	552	$	510
Weighted average square footage		687,000		504,000
Rental rates per square foot per month	$	0.74	$	0.71
Surrey		**2002**		
Rental revenue	$	550,000		
Weighted average number of units		77		
Rental rates per unit per month	$	595		
Weighted average square footage		92,000		
Rental rates per square foot per month	$	0.5		
Red Deer		**2002**		
Rental revenue	$	305,000		
Weighted average number of units		52		
Rental rates per unit per month		489		
Weighted average square footage		45,000		
Rental rates per square foot per month		0.56		
Total square footage		**1,884,000**		1,303,000

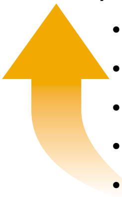
MESSAGE TO SHAREHOLDERS

Expanding our Horizons

Year after year, Mainstreet Equity Corp. adds value to its property portfolio, makes money for its shareholders, and finds new opportunities for growth and profit.

I am pleased to report that our company performed strongly once again in 2002. By sticking to our proven Value Chain business model, which builds lasting value through timely property acquisition and cost-effective management, we controlled expenses, improved our operating margin, and showed a competitive return on equity of 15 per cent.

Financially, the highlights of our year included:



- 40 per cent growth in our net operating income
- 36 per cent growth in our Funds from Operations (FFO)[1]
- 38 per cent growth in FFO per share
- 37 per cent growth in our property portfolio, and
- 37 per cent growth in our rental income

Throughout 2002, we continued to take advantage of record low borrowing rates. By consolidating much of our mortgage funding into longer term debt on highly favourable terms, we provided the company with improved cash flow and increased stability. In FY2002, Mainstreet converted nearly $32 million in mortgages into attractive, long-term Canada Mortgage and Housing Corporation (CMHC) loans at 5.66 per cent. This compares to a previous average rate of 6.57 per cent. Subsequent to year-end, we received CMHC approval of the consolidation of another $10.4 million at an average rate of 4.97 per cent, which compares to the previous rate of 8.45%.

We also met a key corporate objective by expanding beyond Alberta. In the spring of 2002, we purchased a property in British Columbia's Lower Mainland and once again applied our Value Chain model with success. As is the case with all our Strategic Business Units (SBUs), our new British Columbia SBU continuously monitors local market conditions, engages top-flight construction, operations and maintenance people, and is linked to our efficient, corporate-wide computer system that provides important advantages such as auto debit of rents.

Since year end, we also committed to acquire our first property in the Greater Toronto Area (Mississauga). As a result, we now own and manage 2,293 units. Our existing operating structure and systems have the capacity to accommodate additional growth, and we are now considering further expansion in eastern Canada.

In short, this past year has confirmed the value of paying close attention to the fundamentals of the multi-family residential rental market. Many solid opportunities are available to us across the country, and I look forward to telling you more about our progress in seizing those opportunities throughout 2003.

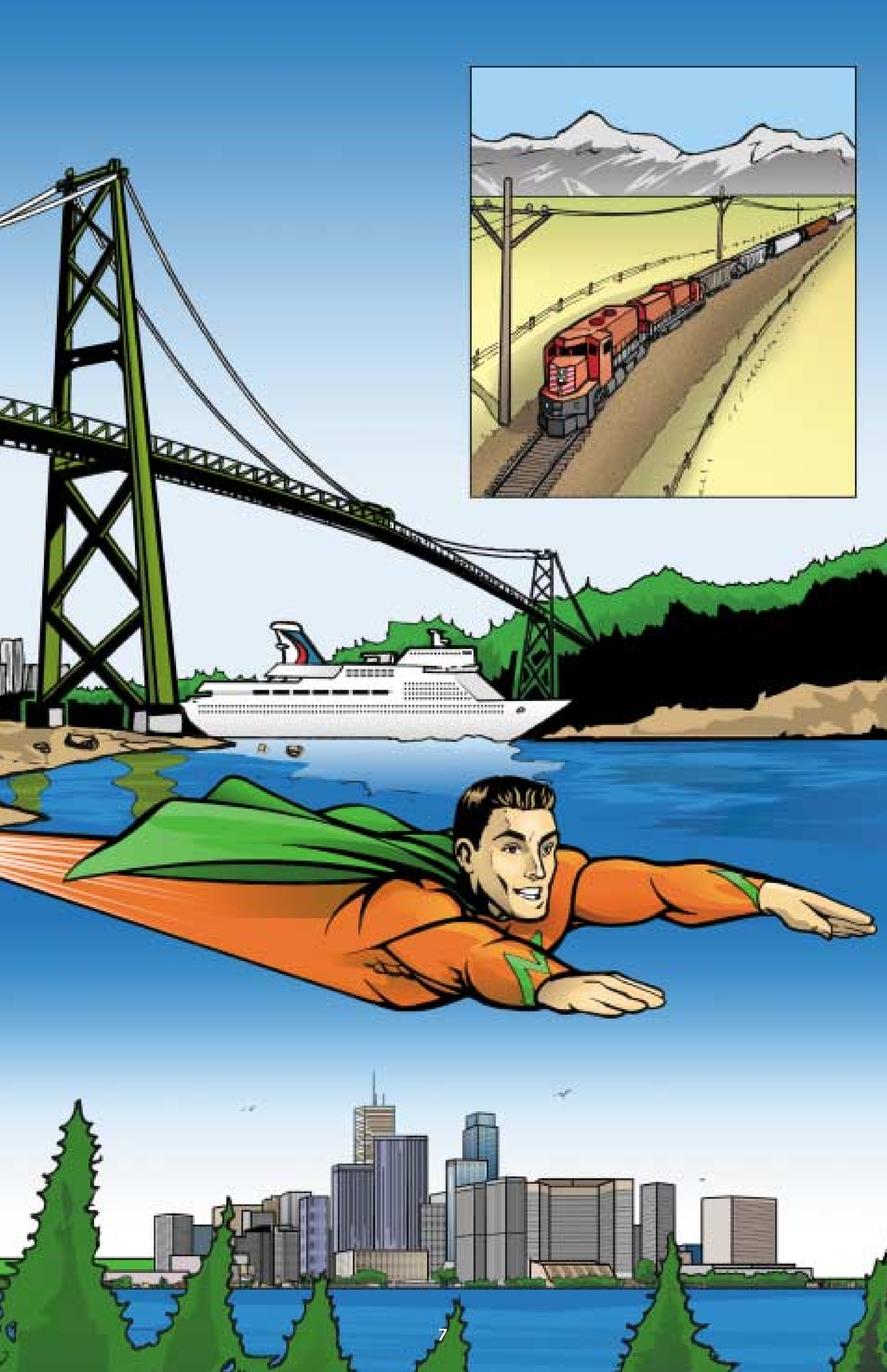
On behalf of the Board of Directors,

(Signed)

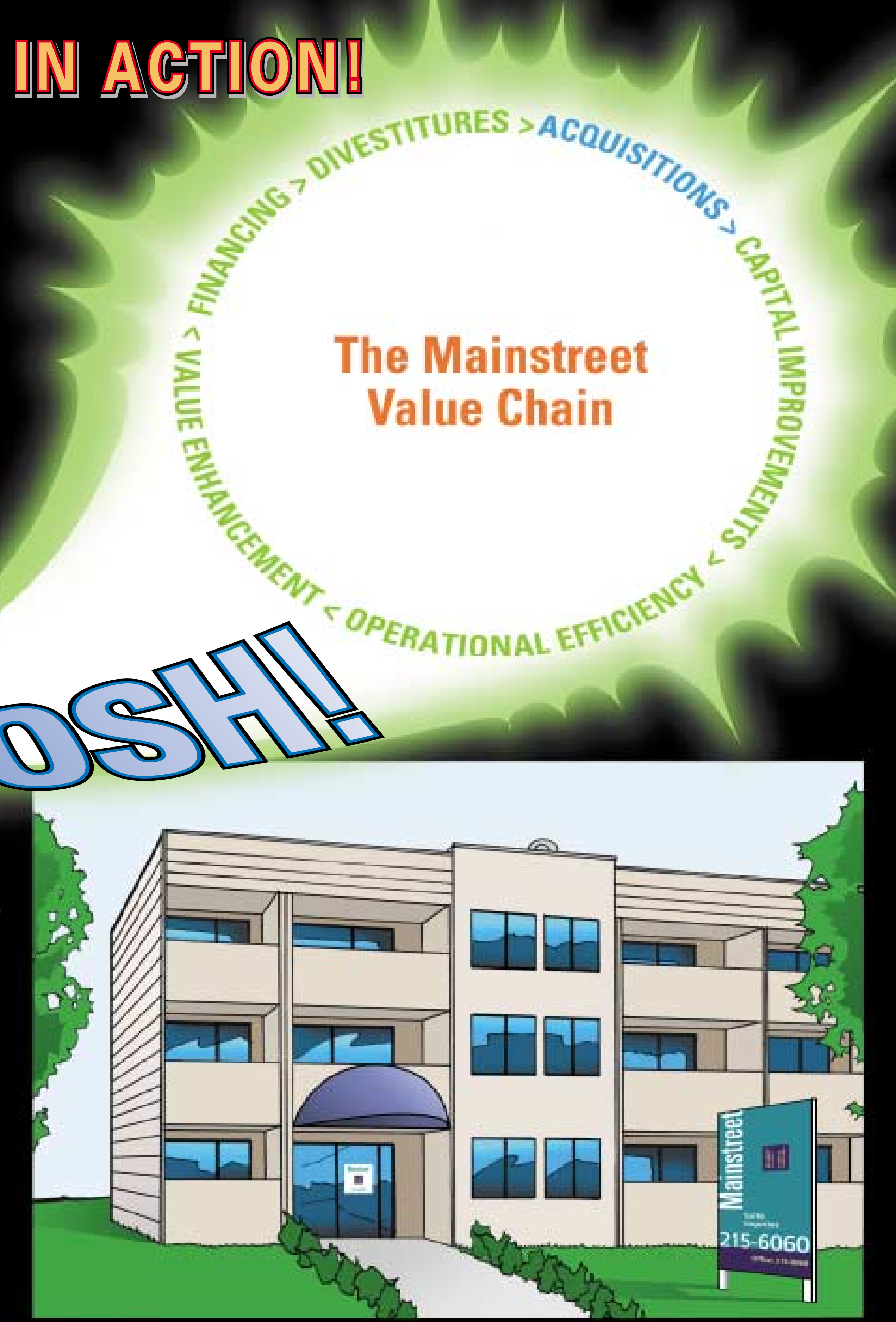
Bob Dhillon, President and CEO
February 3, 2003

[1] Funds from operations (FFO) is calculated as net earnings before depreciation of real estate properties and future income taxes. Readers are cautioned that funds from operations may be different from similar calculations used by other comparable entities.

Please note that certain statements and references 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.

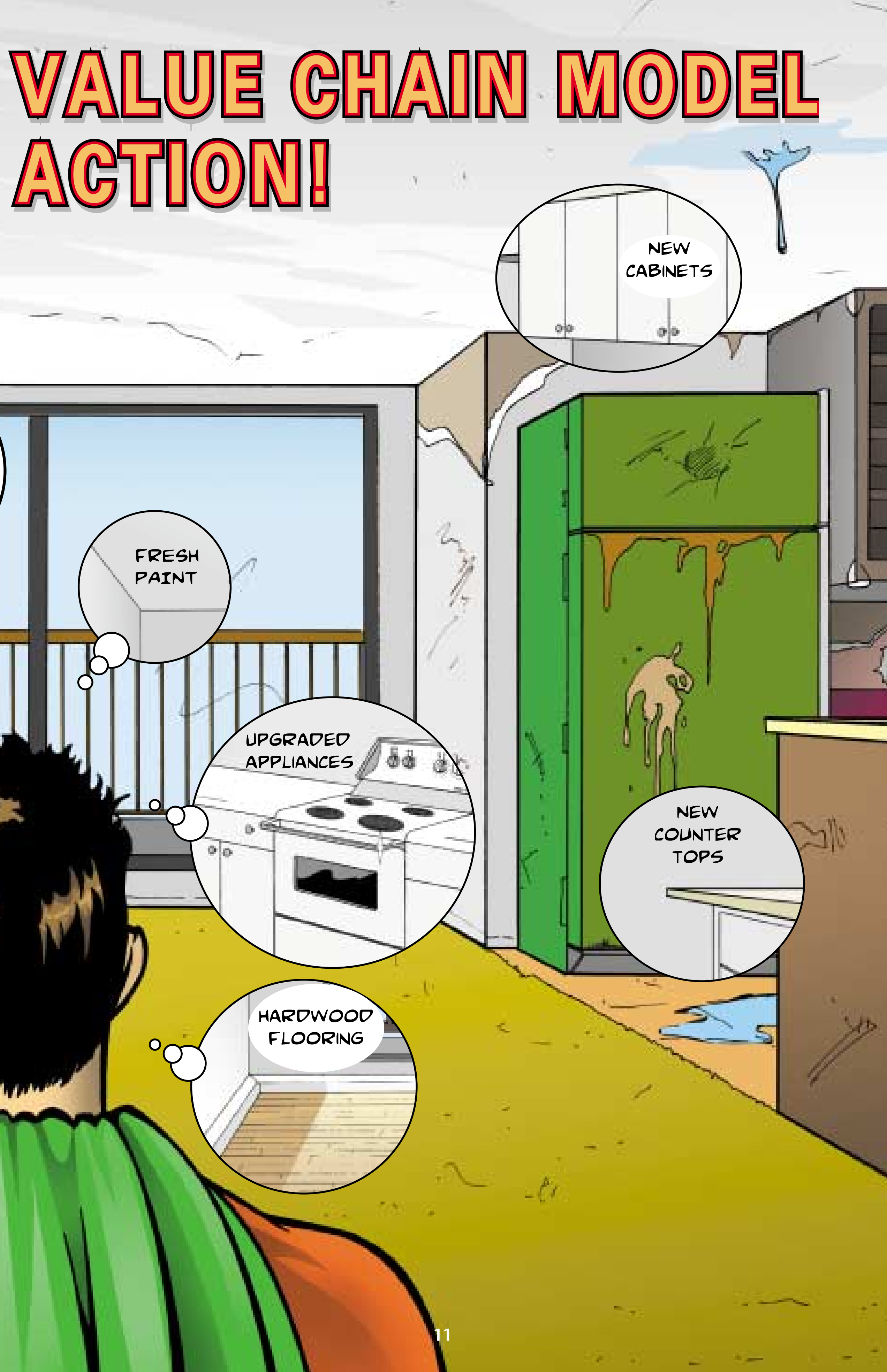


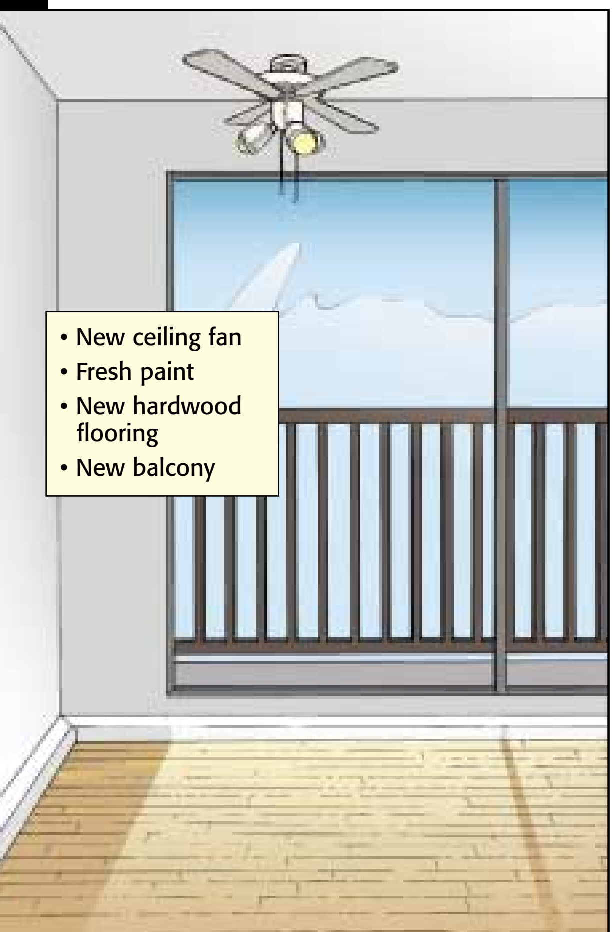
THE VALUE CHAIN MODEL


IN ACTION!
FINANCING > DIVESTITURES > ACQUISITIONS > CAPITAL IMPROVEMENTS
< OPERATIONAL EFFICIENCY < VALUE ENHANCEMENT <
The Mainstreet Value Chain
OSH!
Mainstreet
215-6060


THE
IN
NOW THAT THE SIDING, INSULATION AND ROOFING HAS BEEN REPLACED, IT'S TIME FOR THE INSIDE.
LET'S SEE, WHAT WILL IT TAKE TO FIX THIS MESS?
WATER-SAVING FIXTURES
ENERGY-SAVING LIGHTS

VALUE CHAIN MODEL ACTION!





The Mainstreet Value Chain model is simple and consistently produces significant returns to our shareholders.

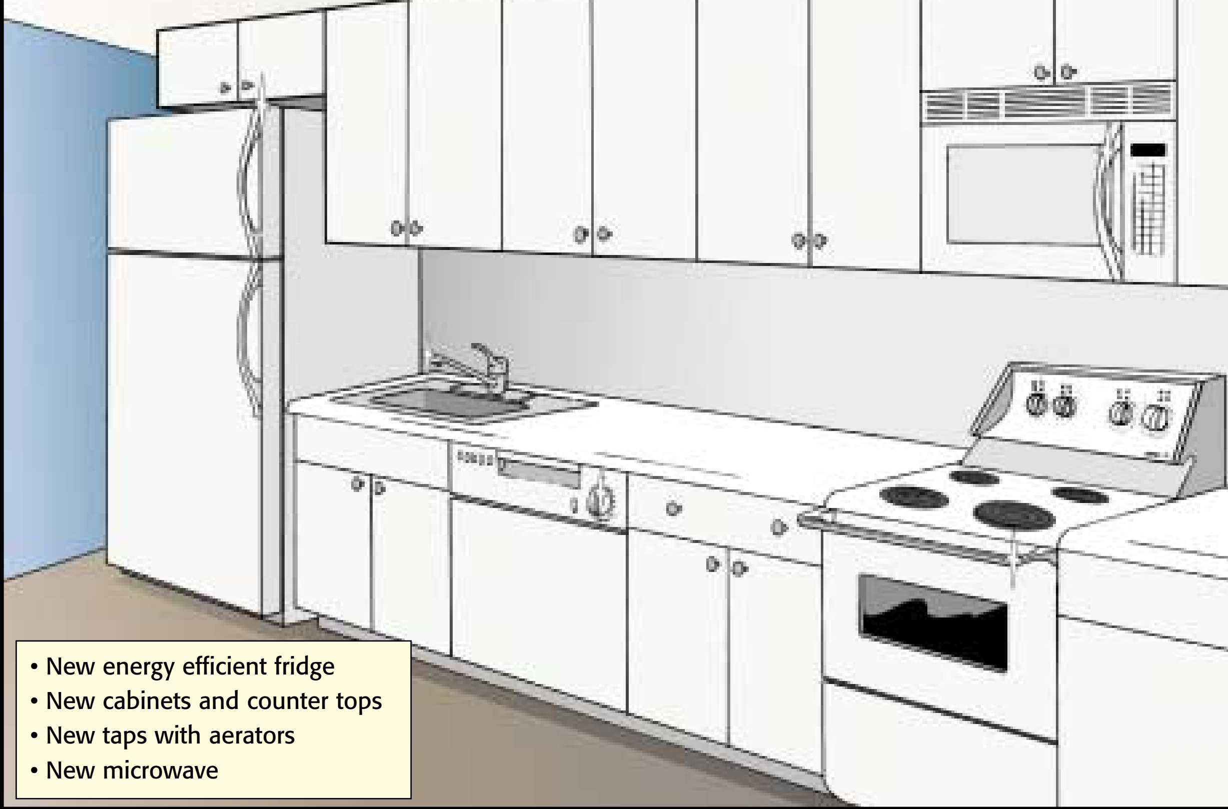
Based on our in-depth knowledge of the Canadian real estate market, we look beyond the obvious to identify and acquire rental properties with an intrinsic worth that is not being realized. We then stabilize, or upgrade, these under-performing units so that we stay ahead of the curve in terms of market expectations. This 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.

Mainstreet regularly rebalances its portfolio to ensure the greatest potential for gain. Once a property in our portfolio reaches maturity, 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, higher potential properties. In every case, our goal is to maximize shareholder value through prudent investment and management.

As far as possible, we finance our improved properties through advantageous, long-term, fixed-rate mortgages insured by the Canada Mortgage and Housing Corporation (CMHC).

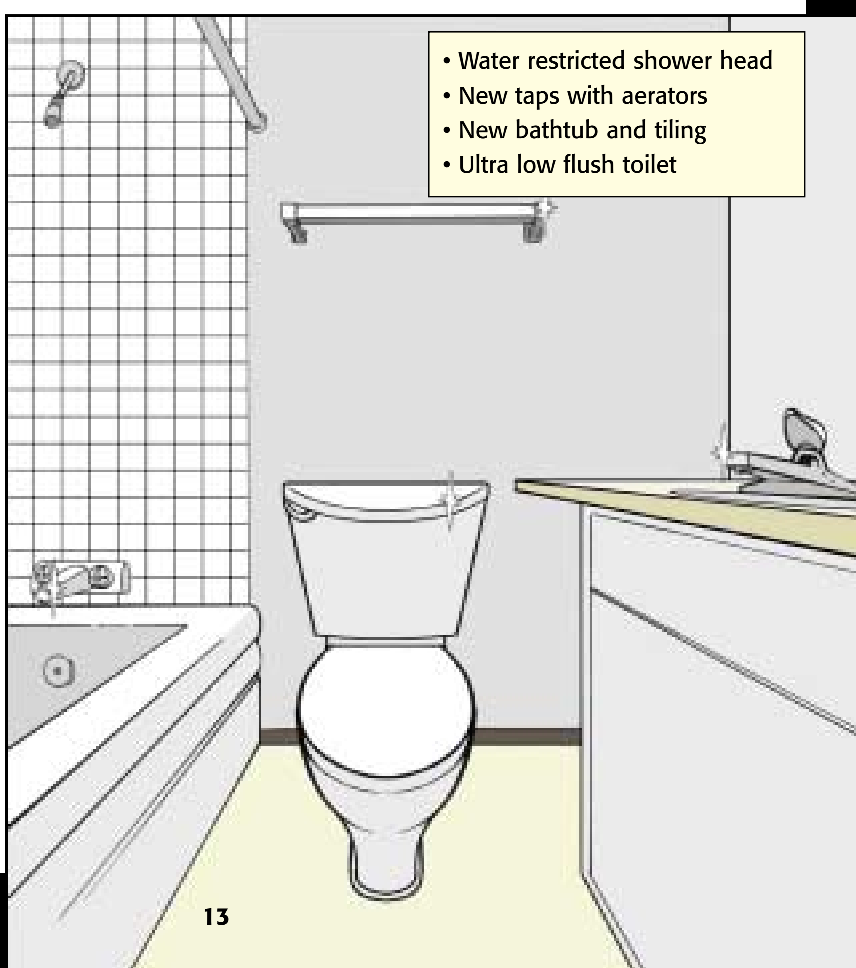
Our use of centralized, state-of-the-art accounting and management systems further enhances profitability by reducing revenues in arrears. For example, some 40 per cent of Mainstreet's tenants pay their rent through pre-authorized electronic payment, which improves our cash flow and allows us to collect rents on time and save significant interest charges on our payables. In the short term, we realize higher rents; over the longer term, we increase potential capital gains. Our existing system has the capacity to accommodate nearly double our existing number of units.

What is true in theory also works very effectively in practice. Consider the capital improvements that we made to some of our Edmonton properties in 2002. In 2002, we stabilized 264 suites (12 per cent of our portfolio) in nine properties acquired between November 2000 and September 2001. Completed at a cost of $2.5 million, the stabilization work consisted mainly of interior upgrades such as new appliances, carpet and paint. In all cases, new exterior siding with new insulation was installed to enhance the curb appeal of the properties and produce significant energy savings. These improvements were done by our own work crews and select private contractors. Before we undertook this work, the nine properties were appraised at $8.4 million. After, their appraised value (based on independent appraisals) rose a dramatic 59 per cent to $13.4 million. Similarly, pre-stabilization net operating income (NOI) from these properties was approximately $780,000 per year. After stabilization, they generated a NOI of $1.2 million, a gain of 54 per cent.



We also make improvements to bring operating costs down and keep them there. We like to say that we work both sides of the balance sheet; that is, we simultaneously raise revenues and lower costs. For example, we outfit properties with new appliances and lighting that are energy-efficient. Water-conserving bath, shower and kitchen fixtures are installed. A better quality insulation is added to reduce heating costs. And, increasingly, we add hardwood flooring that not only meets tenant expectations but is more durable than carpet.

Value added improvements like this, which are completed quickly by our experienced crews, increase the value of a property without significantly interrupting our revenue stream. They allow us to optimize occupancy rates, obtain much higher rents, and secure more favourable long-term financing. And because ours is a fixed cost business, every new dollar of revenue from stabilization flows to the company's bottom line and to the ultimate benefit of our shareholders.



MAINSTREET PORTFOLIO SUMMARY

"Visit www.mainst.biz for photographs and descriptions of all our properties."

List of Properties as of January 31, 2003

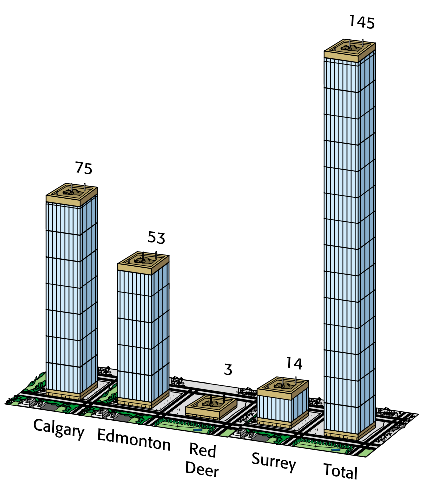
Calgary, AB	Address	# of units	Apartment type
Trevella Park	1300 – 41 St. SE	218	Townhouse complex
Falconcrest Village	360 Falshire Dr. NE	176	Garden style apartment
Doverglen	216 Doverglen Cr. NE	96	Garden style apartment
Heritage	331/333 – Heritage Dr. SE	58	Mid-rise apartment
Mainstreet Place	1122 – 8 Ave. SW	50	Hi-rise apartment
Delburn House	1419 – 17 Ave. NW	47	Garden style apartment
White Plains	2620 – 16 St. SW	34	Mid-rise apartment
The Westwinds	211 – 14 Ave. SW	32	Hi-rise apartment
The Wilmax	1212 – 13 Ave. SW	30	Hi-rise apartment
1612	1612 – 24 Ave. SW	24	Hi-rise apartment
Bankview Place	1715 – 24 Ave. SW	24	Garden style apartment
Chinook Winds Apts.	707 – 57 Ave. SW	24	Garden style apartment
Westview Terrace	1611 – 23 Ave. SW	24	Hi-rise apartment
Lincoln	2111 & 2107 – 54 Ave. SW	23	Garden style apartment
North Hill Manor	305 – 13 Ave. NE	23	Mid-rise apartment
Spring Garden Terrace	1723 – 26 Ave. SW	21	Garden style apartment
Westbrook Manor	937 – 37 St. SW	18	Mid-rise apartment
2501	2501 – 16 St. SW	10	Garden style apartment
Total		**932**	

Red Deer, AB	Address	# of units	Apartment type
Highland Terrace	3916/20/24 – 50 Ave.	66	Garden style apartment
Total		66	

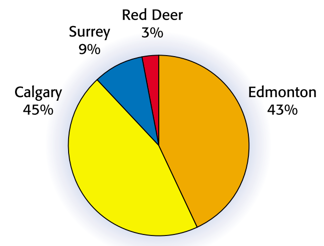
Edmonton, AB	Address	# of units	Apartment type
Wedgewood Homes	12267 – 129 A St.	132	Townhouse complex
Clareview Court	3830 – 134 Ave.	86	Townhouse complex
McCam 2	10325 – 123 St.	66	Garden style apartment
Riverside Estates	9209 – 9315 Jasper Ave.	66	Garden style apartment
Thunderbird	10720 – 104 St.	62	Garden style lofts
Lauderdale Manor	10504 Lauder Ave.	39	Townhouse complex
Edm5	11416 – 124 St.	33	Garden style apartment
Edm18	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
Edm2	14224 McQueen Road	27	Garden style apartment
Edm17	10835 – 115 St.	26	Garden style apartment
Elizabeth Manor	11334 – 124 St.	25	Mid-rise apartment
Edm13	7107 – 79 Ave.	24	Garden style apartment
Edm14	7108 – 78 Ave.	24	Garden style apartment
Edm11	10710 – 111 St.	22	Garden style apartment
Edm12	10720 – 111 St.	22	Garden style apartment
Edm15	10325 – 117 St.	22	Garden style apartment
Edm16	10316 – 119 St.	22	Garden style apartment
Edm20	10610 – 106 St.	22	Garden style apartment
McCam 3	10320 – 123 St.	22	Garden style apartment

Edm7	11906 – 104 St.	21	Garden style apartment
Edm8	11937 – 105 St.	21	Garden style apartment
Edm9	11919 – 105 St.	21	Garden style apartment
Edm21	10730 – 109 St.	20	Garden style apartment
Edm19	10634 – 113 St.	17	Garden style apartment
Pride	13608 – 109A Ave.	17	Garden style apartment
Edm10	10416 – 119 Ave.	15	Garden style apartment
Cedar Wood Arms	10614 – 122 St.	14	Garden style apartment
Total		**987**	
Surrey, BC	**Address**	**# of units**	**Apartment type**
Imperial	9555 – 128 Street	204	Garden style apartment
Total		**204**	
TOTAL PROPERTY UNITS		**2,189**	

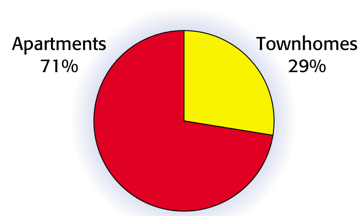
Market Value of Assets
($millions)



Geographic Locations



Asset Portfolio



MANAGEMENT'S DISCUSSION AND ANALYSIS

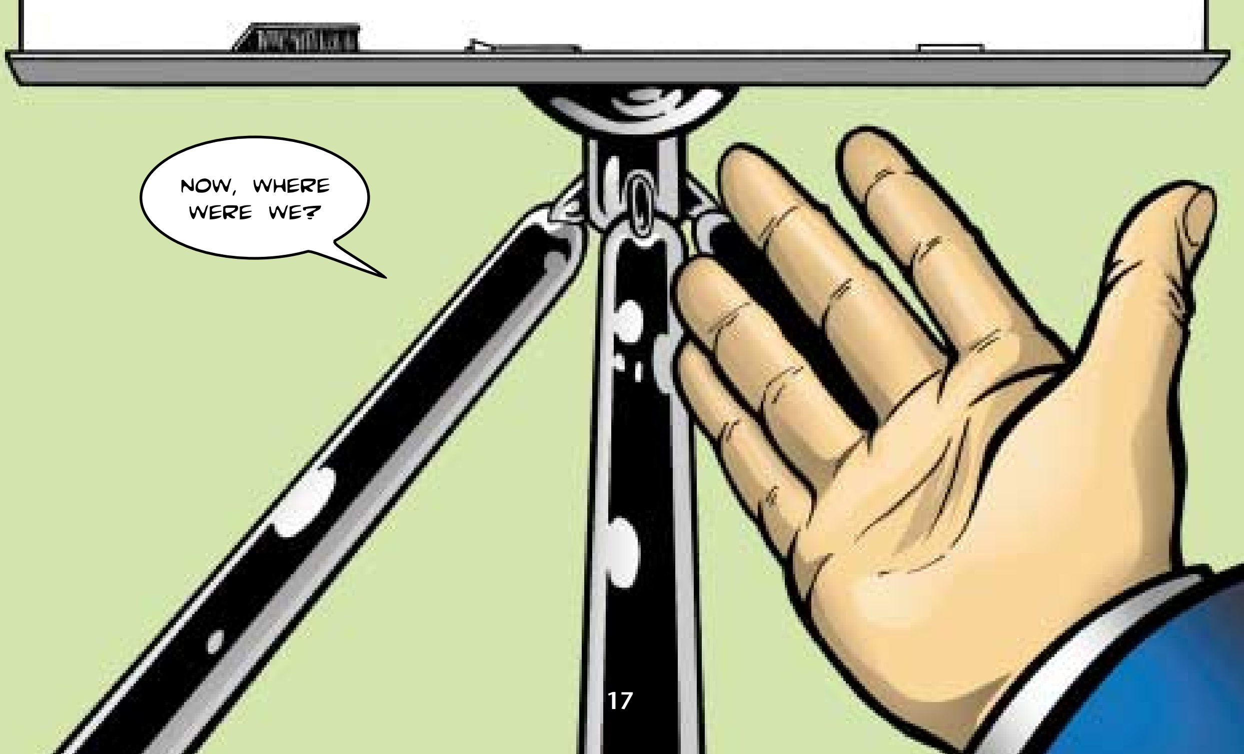
Mainstreet Equity Corp. (MEQ: TSX) acquires undervalued residential rental units, enhances them through strategic investment and effective management, and sells them when market conditions permit a significant profit.

Our goal is to create and capture value for our shareholders regardless of capital and market conditions, a strategy we have followed successfully since 1997.

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 30, 2002. The results from FY2002 are directly comparable to those from FY2001.

FINANCIAL HIGHLIGHTS

- Owned & Operated Assets of 2,280 units
  - 37 per cent growth from 1,667 units FY2001
- Rental Income of $15.2 million
  - 37 per cent growth from $11.1 million FY2001
- Net Operating Income of $11.1 million
  - 40 per cent growth from $7.9 million FY2001
- Funds from Operations (FFO) of $3.0 million
  - 36 per cent growth from $2.2 million FY2001
- FFO per Share of $0.33
  - compared with $0.24 FY2001
- Funds from Rental Operations (FFRO) of $3.0 million
  - 43 per cent growth from $2.1 million FY2001
- Earnings per Share of $0.08
  - compared with $0.09 FY2001



Revenue

Mainstreet Equity Corp. earned $15.2 million ($15,188,000) from rentals and earned interest of $50,000 in FY2002. This represents a gain of 19 per cent over FY2001. Year-end retained earnings grew 26 per cent to $3.4 million from $2.7 million.

Revenue

(Thousands of dollars)		2002		2001	% change
Gross revenue	**$**	**15,238**	$	12,818	19
Rental revenue	**$**	**15,188**	$	11,065	37
Properties held for resale		**–**	$	1,687	–
Interest income	**$**	**50**	$	66	(24)

Rental Income

Rental income increased 37 per cent to $15.2 million in FY2002, compared to $11.1 million in FY2001.

The average gross rent across the entire portfolio moved from $606 to $643 over the year, a gain of over six per cent.

Combined rental income		**2002**		2001	% increase
Rental revenue	**$**	**15,188,000**	$	11,065,000	37
Weighted average number of units		**2,053**		1,542	33
Rental rates per unit per month	**$**	**616**	$	598	3
Weighted average square footage		**1,653,000**		1,210,000	37
Rental rates per square foot per month	**$**	**0.77**	$	0.76	1

Calgary		**2002**		2001	% increase
Rental revenue	**$**	**8,210,000**		6,802,000	21
Weighted average number of units		**986**		845	17
Rental rates per unit per month		**694**	$	671	3
Weighted average square footage		**820,000**		706,000	16
Rental rates per square foot per month		**0.83**	$	0.80	4

Edmonton		**2002**		2001	% increase
Rental revenue	**$**	**6,123,000**	$	4,263,000	44
Weighted average number of units		**925**		697	33
Rental rates per unit per month	**$**	**552**	$	510	8
Weighted average square footage		**687,000**		504,000	36
Rental rates per square foot per month	**$**	**0.74**	$	0.71	4

Surrey		**2002**	2001
Rental revenue	**$**	**550,000**	–
Weighted average number of units		**77**	–
Rental rates per unit per month	**$**	**595**	–
Weighted average square footage		**92,000**	–
Rental rates per square foot per month	**$**	**0.5**	–

Red Deer		**2002**	2001
Rental revenue	**$**	**305,000**	–
Weighted average number of units		**52**	–
Rental rates per unit per month		**489**	–
Weighted average square footage		**45,000**	–
Rental rates per square foot per month		**0.56**	–

Cash Flow from Operations

Funds from rental operations (FFRO)[1] increased 43 per cent ($3.0 million in FY2002 compared to $2.1 million in FY2001). Funds from operations (FFO)[2] gained 36 per cent over the year, moving from $2.2 million in FY2001 to $ 3.0 million in FY2002.

Funds from operations

(Thousands of dollars)	2002	2001	% increase
Funds from operations	**$ 3,016**	$ 2,208	36
Funds from rental operations	**$ 3,016**	$ 2,066	43

Operating Costs

Mainstreet spent $4.4 million on operations in 2002, a 29 per cent increase over the $3.4 million spent in FY2001, largely because of our growing portfolio. The overall net operating margin was 73 per cent, within one per cent of last year's margin (72 per cent).

Operating expenses	2002	2001	% change
Operating costs	**$ 4,404,000**	$ 3,370,000	31
Cost per unit per month	**$ 179**	$ 182	(2)
Cost per square foot per month	**$ 0.22**	$ 0.23	(4)

General and Administrative Expenses

Considered on a per square foot per month basis, general and administrative costs declined to $0.6 from $0.7 as a result of efficient operation. In accordance with the growth of our portfolio, which increased by 37 per cent in 2002, general and administrative costs rose 33 per cent. In absolute dollars, general and administrative costs moved from $0.95 million in FY2001 to $1.26 million in FY2002.

Mortgage Financing

Reflecting our portfolio growth, Mainstreet's long-term debt increased 45 per cent year-over-year, climbing from $71.6 million in FY2001 to $103.7 million in FY2002. Financing costs on this borrowing stood at $6.5 million, an increase of 31 per cent over FY2001.

Approximately $32 million in mortgage loans were converted to long-term Canada Mortgage and Housing Corporation (CMHC) debt during 2002 at an average rate of 5.66 per cent. This contrasts favourably with the previous average rate of 6.57 per cent.

Depreciation

Because of portfolio growth, depreciation cost increased 63 per cent. The FY2002 cost was $1.8 million, compared to $1.1 million in FY2001.

Depreciation

(Thousands of dollars)	2002	2001
Buildings & other assets	**$ 1,812**	$ 1,110

[1] Funds from rental operations (FFRO) is calculated as net earnings from rental operations before depreciation of real estate properties and future income taxes. Readers are cautioned that funds from rental operations may be different from similar calculations used by other comparable entities.

[2] Funds from operations (FFO) is calculated as net earnings before depreciation of real estate properties and future income taxes. Readers are cautioned that funds from operations may be different from similar calculations used by other comparable entities.

Acquisitions

Mainstreet now owns properties in Calgary, Edmonton and Red Deer within Alberta and in Surrey within British Columbia's Lower Mainland. The portfolio grew 37 per cent in FY2002 to a total of 2,280 units. This added more than one-half million square feet of space to our portfolio at a total cost of $30 million, or $49,000 per unit. The new acquisitions were distributed as follows: 176 in Calgary, 167 in Edmonton, 66 in Red Deer, and 204 in Surrey. The total market value (the ultimate selling value may vary significantly from the market value) of our portfolio, as determined by qualified independent real estate appraisers, now stands at approximately $145 million.

Acquisitions	Calgary	Edmonton	Red Deer	Surrey	Total
Number of units	176	167	66	204	613
Square footage	143,000	135,000	57,000	245,000	580,000
Price per unit	$ 57,000	$ 37,000	$ 34,000	$ 57,000	$ 49,000
Price per square foot	$ 70	$ 45	$ 39	$ 48	$ 52

Divestitures

No properties were sold in FY2002.

Capital Investment

Mainstreet's 2002 capital investment program increased by 95 per cent over FY2001 from $2.1 to $4.1 million, demonstrating our commitment to adding value to the portfolio. We stabilized approximately 12 per cent of our portfolio in FY2002.

Long-Term Debt

The outstanding balance is $103.7 million, compared with $71.6 million in 2001, representing an increase of 45 per cent year-over-year. 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 continues to be converted into CMHC-insured debt, thus significantly lowering our borrowing costs.

Mortgage schedule

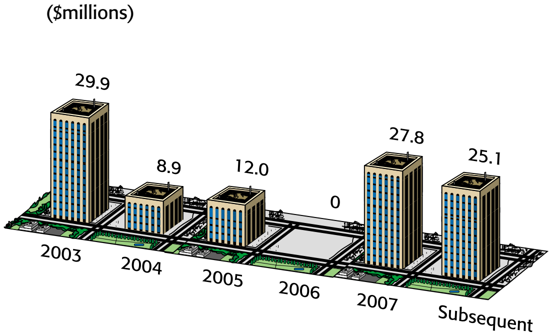
(Thousands of dollars)	Floating rate debt	Fixed rate debt	Total mortgage
CMHC Insured	$ –	$ 51,248	$ 51,248
Non-CMHC	$ 2,592	$ 49,901	$ 52,493
Total	$ 2,592	$ 101,149	$ 103,741

Fixed rate debt

(Thousands of dollars)	Amount	Term	Average interest rate
CMHC	$ 51,248	5 – 10 yrs	6.04%
Non-CMHC	$ 52,493	1 – 4 yrs	7.26%
Total	$ 103,741	1 – 10 yrs	6.66%

Mortgage maturity schedule 2003 – 2007

(Thousands of dollars)	Value	Percentage maturing
2003	$ 29,956	28.9%
2004	$ 8,957	8.6%
2005	$ 11,967	11.5%
2006	$ –	–
2007	$ 27,766	26.8%
Subsequent	$ 25,095	24.2%
Total	$ 103,741	100%



Liquidity and Capital Resources

In the normal course of its business, the company needs working capital equivalent to the principal component of mortgage payments and capital expenditures. Mainstreet funds those requirements with funds from operations (FFO) and, in some cases, with funds from the underlying mortgages. In 2002, our total capital expenditures were $4.1 million, compared to $2.1 million in 2001.

For the year ended September 30, 2002, funds from operations were $3 million. Mainstreet believes this will be sufficient to fund on-going operational requirements.

Stock-based Compensation Plan

Effective January 1, 2002, the Corporation adopted section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting and disclosure of stock-based compensation, which recommends that awards to employees be valued using a fair value method of accounting. These new rules also require that companies account for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, by measuring compensation expenses on an ongoing basis, as the amount by which the quoted market price exceeds the exercise price at each measurement date.

The Corporation has elected to account for stock options by measuring compensation expenses as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price.

Under CICA 3870, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as Black-Scholes model, as if the fair value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash or other assets.

Risk Management

Mainstreet is exposed to risk from changes in new supply of multi-family rental units, and in financing costs.

Demand for our rental properties is expected to remain strong, as there have been few additions to Canada's stock of new multi-family rental units during the past 15 years. Mainstreet continues to buy at less than replacement cost in a marketplace where demand keeps vacancy rates low and rents stable to rising. For new construction to occur, rents would have to rise substantially. In addition, Canada Mortgage and House Corporation forecasts that vacancy rates will remain stable. 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 as soon as a property has gone through the Value Chain cycle.

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 Committees

The Corporation has an Audit Committee and an Executive Committee. Because of the comparatively small size of the Corporation, it is typical for the Board of Directors as a whole to make policies and decisions, except those involving audit issues.

In keeping with TSX guidelines related to corporate governance, Mainstreet's Audit Committee comprises only outside directors. The Committee members, who are well versed in financial matters, provide oversight by working with both internal and external auditors in disclosing and reviewing financial issues and bringing pertinent matters before the Board of Directors for consideration. The Committee meets with our financial officers and our independent auditors to review financing, financial reporting, controls and procedures, audit procedures and plans, risk management, investments, and our annual and quarterly reports.

The sole responsibility of the Executive Committee, which consists of inside directors, is the approval of acquisitions exceeding the financial authority of the CEO. The CEO's financial limit is set by the Board of Directors as a whole.

Board Composition

The current Board consists of six directors: Rowland Fleming (Chair), 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.

Looking Ahead to 2003

After five successful years in operation, Mainstreet has the management team, the infrastructure and the capital resources to support significant additional growth. In the short-term, we expect most of that growth to occur in Alberta, British Columbia, Ontario and Quebec. As shown by our recent experience in Surrey, British Columbia, the Mainstreet Value Chain business model can be applied with success anywhere in the country.

While the cost of properties has been rising, record-low borrowing rates continue to make purchasing an attractive proposition. Our existing properties are all in metropolitan centres where supply is limited and tenancy risk is comparatively low. At the same time, low mortgage rates and an oversupply of new condominium apartments have encouraged some tenants to purchase for the first time. As a result, our industry as a whole has seen some decline in demand for rental accommodations. As a player in the mid-tier market, Mainstreet stands to be affected but not as significantly as top-tier operators.

Nonetheless, we are optimistic that the continuing strength of Canada's economic climate will also create new opportunities to diversify our portfolio strategically across new markets. We have been aggressive about seizing such opportunities, first in British Columbia's Lower Mainland and, subsequent to year-end, in Mississauga, Ontario. We are currently considering an acquisition that may meet the Mainstreet Value Chain criteria in the Montreal area.

We continue, as well, to dispose of mature properties on a selective basis when opportunities for significant profit present themselves. Since year-end, we sold a 188-unit property in Calgary for $16.8 million and realized a net gain of $3.8 million.

As always, strategic decisions like these owe much to our strong management team. 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 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.

In the past year, for example, our property portfolio grew by an unprecedented 37 per cent. As you might expect, that has meant greater emphasis on renovation and the temporary displacement of tenants. In fact, since year-end, our management has chosen to take advantage of low financing rates to renovate, redevelop and stabilize approximately one-third of our portfolio. Naturally, this increases our vacancy rate significantly in the short-term, but we are confident that the adverse effect on our performance will be brief. Over the longer term, such improvements will bring significant benefits to all shareholders.

Mainstreet delivered solid returns for our shareholders throughout 2002 and we look forward to continued growth across Canada in the new year.

BOARD OF DIRECTORS

Rowland Fleming (Chair), Business Executive, Mississauga, ON

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 and is also an Adjunct Professor with The Richard Ivey School of Business at The University of Western Ontario. 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, AB

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 & CEO, The Apex Corporation, Calgary, AB

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

Darrell Cook, President & CEO, Gibraltar Mortgage Ltd., Calgary, AB

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, AB

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, ON

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.

Fighting for quality,
value & The Mainstreet Way

www.mainst.biz

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.

(Signed)

Darrell Cook
Director

(Signed)

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, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years ended September 30, 2002 and September 30, 2001. 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, 2002 and 2001 and the results of its operations and its cash flows for the years ended September 30, 2002 and September 30, 2001 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
November 15, 2002

signed "Deloitte & Touche LLP"
Chartered Accountants

Consolidated Balance Sheets

(Thousands of dollars)

As at		**September 30 2002**		September 30 2001
ASSETS				
Real estate properties (note 3)	**$**	**110,986**	$	78,490
Restricted cash		**803**		648
Cash		**–**		112
Other assets (note 4)		**1,117**		851
Deferred charges (note 1)		**1,711**		792
	$	**114,617**	$	80,893
LIABILITIES				
Mortgages payable (note 5)	**$**	**103,741**	$	71,633
Bank indebtedness		**177**		–
Debentures (note 6)		**2,000**		2,000
Accounts payable		**965**		885
Refundable security deposits		**803**		648
Future income taxes (note 7)		**1,631**		1,117
		109,317		76,283
SHAREHOLDERS' EQUITY				
Share capital (note 8)		**1,869**		1,869
Retained earnings		**3,431**		2,741
		5,300		4,610
	$	**114,617**	$	80,893

Approved on behalf of the Board

(Signed)

Darrell Cook
Director

(Signed)

Joe Amantea
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 2002**	September 30 2001
Revenue		
Rental income	**$ 15,188**	$ 11,065
Sale of real estate properties	**–**	1,687
Interest income	**50**	66
	15,238	12,818
Expenses		
Property operating expenses	**4,404**	3,370
Utility rebate (note 12)	**(299)**	(228)
Cost of sales, real estate properties	**–**	1,505
General and administrative expenses	**1,256**	948
Financing cost	**6,545**	4,979
Depreciation	**1,812**	1,110
	13,718	11,684
Income before income taxes	**1,520**	1,134
Income taxes		
– **Current** (note 7)	**316**	36
– **Future** (note 7)	**514**	327
	830	363
Net income	**690**	771
Retained earnings, beginning of year	**2,741**	1,829
Prior period adjustment (note 2)	**–**	141
Retained earnings, beginning of year restated	**2,741**	1,970
Retained earnings, end of year	**$ 3,431**	$ 2,741
Earnings per share		
– **Basic** (note 10)	**$ 0.08**	$ 0.09
– **Diluted** (note 10)	**$ 0.08**	$ 0.08

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 2002	September 30 2001
Cash obtained from (used in):		
Operating activities		
Net income	$ 690	$ 771
Items not affecting cash		
Depreciation	1,812	1,110
Future income tax	514	327
Funds from operations	3,016	2,208
Net change in non-cash operating balances	(186)	207
Decrease in properties held for resale	–	1,505
Cash flow from operating activities	2,830	3,920
Financing activities		
Financing of revenue producing properties	53,594	7,168
Repayment of secured debts on revenue producing properties, and other debts	(37,324)	(3,427)
Issue of debentures	–	2,000
Deferred charges	(919)	386
	15,351	6,127
Investing activities		
Purchase of revenue producing properties	(18,470)	(10,301)
Decrease in cash and cash equivalents	(289)	(254)
Cash and cash equivalents, beginning of year	112	366
Cash and cash equivalents, end of year	$ (177)	$ 112
Cash and cash equivalents comprise of:		
Cash (bank indebtedness)	$ (237)	$ (428)
Short-term deposits	60	540
	$ (177)	$ 112
Income taxes paid	$ 188	$ 577
Interest paid	$ 5,909	$ 4,520

See accompanying notes to the consolidated financial statements

For the years ended September 30, 2002 and September 30, 2001
(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 at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Building	5%	– Sinking fund, 40 years maximum
Building improvement	20%	– Declining balance
Equipment and appliance	20%	– Declining balance
Painting	40%	– Declining balance
Carpet	30%	– Declining balance
Furniture and fixture	20%	– Declining balance
Computer equipment	30%	– Declining balance

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 $29,956,000 are subject to renewal in the next year. Increases in the interest 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, 2002 are as follows:

	Carrying Value	Fair Market Value
Mortgages payable	$ 103,741	$ 105,092
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.

USE OF ESTIMATES

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.

NON–GAAP MEASURE

Funds from operations is calculated as net earnings before depreciation of real estate properties and future income taxes. Readers are cautioned that funds from operations may be different than similar calculations used by other comparable entities.

2. Changes in accounting policies

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.

STOCK-BASED COMPENSATION PLAN

Effective January 1, 2002, the Corporation adopted section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting and disclosure of stock based compensation, which recommends that awards to employees be valued using a fair value method of accounting. These new rules also require that companies account for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, by measuring compensation expenses on an ongoing basis, as the amount by which the quoted market price exceeds the exercise price at each measurement date.

The Corporation has elected to account for stock options by measuring compensation expenses as the excess, if any, of the quoted market value of the stock at the date of grant over the exercise price.

Under CICA 3870, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as Black-Scholes model, as if the fair value method of accounting had been used. These new rules do not apply to pre-existing awards except for those awards that call for settlement in cash or other assets.

3. Real estate properties

	2002			2001		
	Cost	Accum. Depre.	Net Book Value	Cost	Accum. Depre.	Net Book Value
Land	$ 28,082	–	$ 28,082	$ 18,752	–	$ 18,752
Buildings	78,887	$ 1,631	77,256	57,525	$ 990	56,535
Building improvement	7,541	2,084	5,457	3,993	963	3,030
Office furniture, fixture, and other	313	122	191	245	72	173
	$ 114,823	$ 3,837	$ 110,986	$ 80,515	$ 2,025	$ 78,490

ACQUISITIONS

	2002	2001
Mortgages	$ 9,993	$ 4,917
Debts assumed	15,838	4,714
Cash paid	4,157	1,857
Total purchase price	$ 29,988	$ 11,488
Units acquired	613	321

DISPOSITIONS

	2002	2001
Net cash received		$ 1,687
Total proceeds	–	1,687
Net book value	–	1,505
Gains on sales	–	$ 182
Units sold	–	27

4. Other assets

	2002	2001
Accounts receivable	$ 66	$ 56
Other receivable	939	165
Deposits and prepayments	112	110
Income tax recoverable	–	520
	$ 1,117	851

5. Mortgages payable

Mortgages payable bearing interest at a weighted average rate of 6.65% (2001 – 6.85%) per annum, are payable in monthly principal and interest installments totalling $715,000 (2001 – $464,000), maturing from 2003 to 2010 and are secured by specific charges against specific properties and several personal guarantees of certain directors to the extent of $31,547,000 (2002 – $23,984,000), having a carrying value of $110,796,000 (2001 – $78,317,000).

September 30 2002	September 30 2001
$ 103,741	$ 71,633

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

Year	Amount
2003	$ 31,481
2004	10,031
2005	12,840
2006	1,242
2007	26,010
Subsequent	22,137
	$ 103,741

6. Debentures

The debentures maturing in 2006 and bearing 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.

7. Income taxes

The Corporation has non-capital losses of $904,035 available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The losses will expire in 2009.

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 2002	September 30 2001
Effective rate	39.12%	42.87%
Computed expected tax	$ 594	$ 486
Non-taxable portion of capital gain	–	(36)
Others	92	7
Adjustment for change in effective tax rate	(84)	(245)
Large corporation tax	228	151
Provision for income tax	$ 830	$ 363

The future income tax liability comprises of the following:

	September 30 2002	September 30 2001
Tax assets related to operating losses	$ (317)	$ (203)
Tax liabilities related to differences in tax and book basis	1,948	1,320
	$ 1,631	$ 1,117

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, 2001 and 2002	9,033,333	$	1,869

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, 2002 and 2001, and changes during the years ended on those dates is presented below:

	2002		2001	
Stock option	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	275,000	$1.78	255,000	$1.52
Granted	–	–	20,000	$5.00
Exercised	–	–	–	–
Outstanding, end of year	275,000	$1.78	275,000	$1.78
Options exercisable, end of year	275,000		275,000	

The following table summarizes information about stock options outstanding at September 30, 2002 and 2001:

	2002		2001	
Exercise Prices	Number of Shares Outstanding at September 30 2002	Weighted Average Remaining Contractual Life	Number of Shares Outstanding at September 30 2001	Weighted Average Remaining Contractual Life
$0.20	155,000	0.58 years	155,000	1.58 years
$3.00	50,000	2.17 years	50,000	3.17 years
$4.15	50,000	2.83 years	50,000	3.83 years
$5.00	20,000	3.08 years	20,000	4.08 years
	275,000	1.46 years	275,000	2.46 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.

The calculation of net earnings and funds from operations per share on a diluted basis considered the potential exercise of outstanding purchase options to the extent that each option was dilutive using the "treasury method".

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

	September 30 2002	September 30 2001
Numerator		
Net income	$ 690	$ 771
Funds from operations	$ 3,016	$ 2,208
Denominator		
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	159,427	169,787
Denominator for diluted earnings and funds from operations per share	9,192,760	9,203,120
Basic earnings per share	$ 0.08	$ 0.09
Basic funds from operations per share	$ 0.33	$ 0.24
Diluted earnings per share	$ 0.08	$ 0.08
Diluted funds from operations per share	$ 0.33	$ 0.24

11. Related party transactions

a) 1,000,000 of the debenture (2001 – $1,000,000) was issued to a company of which a Mainstreet 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.

b) Consulting fees amounting to $17,500 (2001 – $2,500) were paid to two directors of the company during the year.

12. Utility rebate

As of March 2, 2002 Atco Gas, the transporter of all nature gas in Alberta, distributed a non-recurring rebate to Mainstreet in an amount of $221,000 (2001 – Nil). The Alberta Energy & Utility Board instructed Atco to rebate a portion of the sale proceeds of the Viking Kinselle producing assets, to Atco North customers in the form of a one time rebate. The rebate was distributed to all Atco North customers based on historical usage, at a rate of $3.325/GJ. The balance of the remaining rebate for the year ended September 30, 2002 and the entire year ended September 30, 2001 represented one time rebates given by the Alberta Government.

13. Subsequent events

Subsequent to the year end date, the Corporation has acquired 96 of residential apartment units for consideration of $6,250,000. The acquisition was financed through a combination of cash and mortgage loan. The Corporation has also committed to acquire 104 of residential apartment units for consideration of $7,865,000. The acquisition would be financed through a combination of cash, mortgage and vender take back loans. The transaction is expected to be completed on or before April 30, 2003.

On November 29, 2002, the Corporation sold 188 of residential townhouse units for consideration of $16,817,000 and realized a net gain of $3.8 million.

On October 1, 2002, the Corporation amalgamated with 396249 Alberta Ltd., its wholly owned subsidiary.

Corporate Information

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Solicitors
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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, President & CEO
Calgary, Alberta

Darrell Cook, Secretary & Treasurer
Calgary, Alberta

Johnny Lam, CFO
Calgary, Alberta

Board of Directors
Rowland Fleming, Chair,
Mississauga, Ontario

Joe Amantea, Calgary, Alberta

Frank Boyd, Calgary, Alberta

Darrell Cook, Calgary, Alberta

Bob Dhillon, Calgary, Alberta

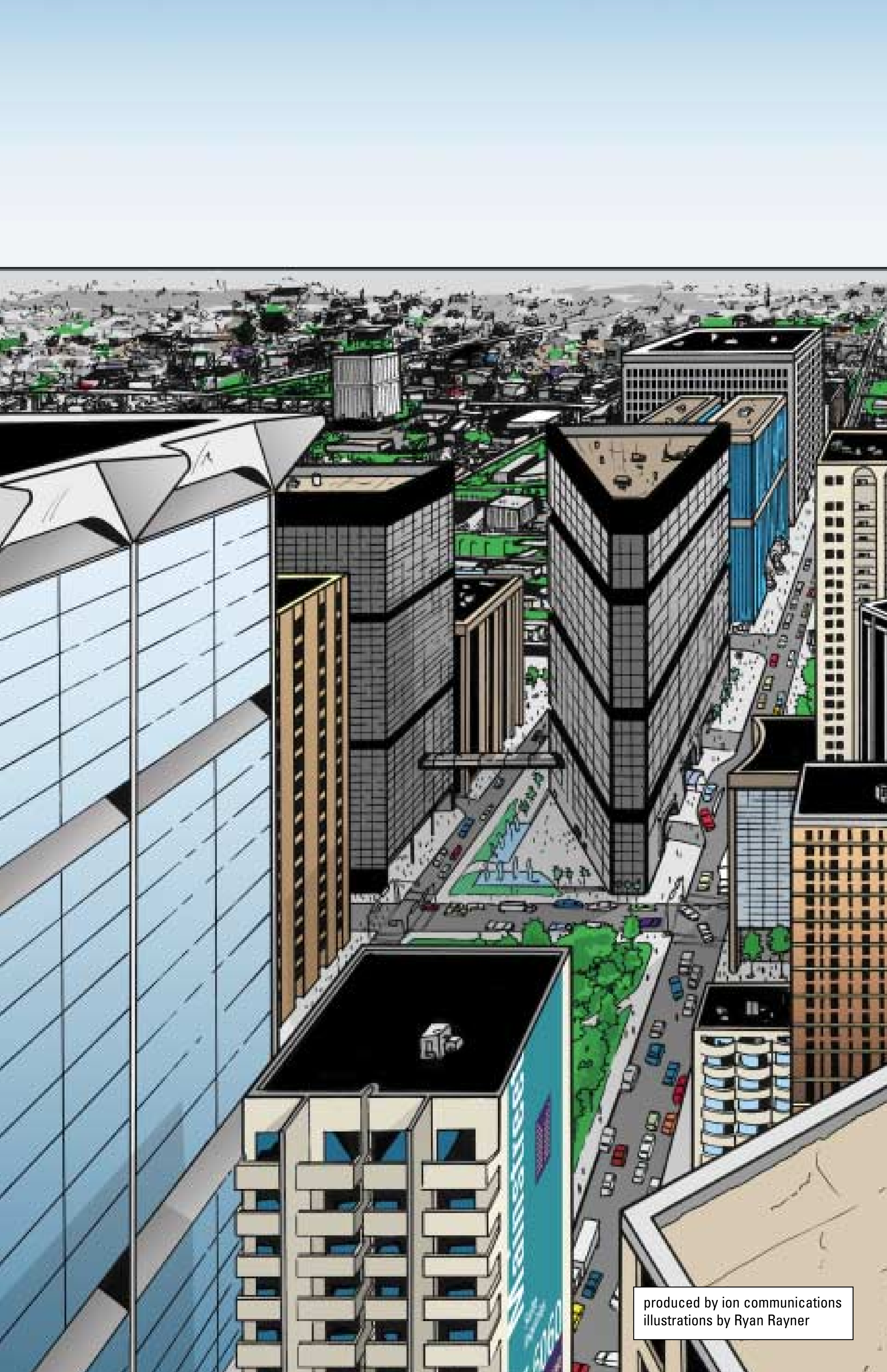
Lawrence Tapp, London, Ontario

Directors' Committees

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

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

The Annual General Meeting of shareholders of Mainstreet Equiy Corp. will be held on March 25th, 2003 at 9:00 a.m., in the offices of Warren Tettensor law firm, 1413 – 2nd St. S.W., Calgary, Alberta.



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