

# Boardwalk Equities Inc

ANNUAL REPORT 1998



*People*

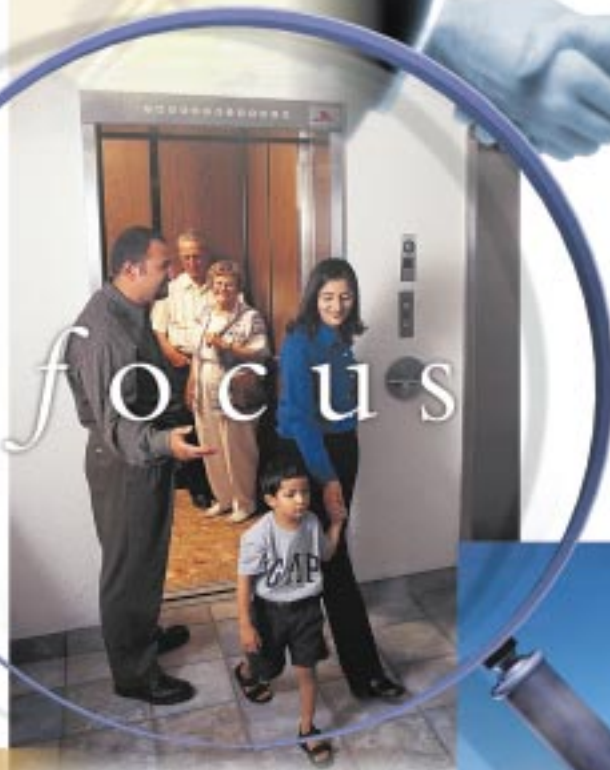


*Partners*



*Future*

growth



focus



*Buildings*



*Shareholder*



*Reutilization*



*Techn*

Enter

# *Boardwalk Equities Inc*

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*1998*  
*Annual*  
*Report*

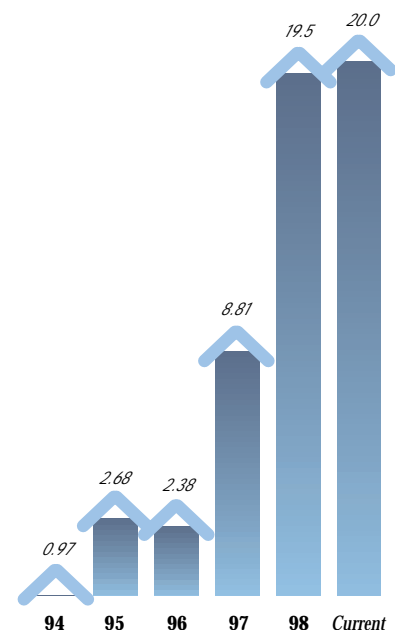
*Another Superior Growth Year*

- ☛ **June 04, 1997**  
Acquire 685 units for \$31.4 million in Calgary, Saskatoon & Edmonton
- ☛ **June 13, 1997**  
Clear 3,000,000 special warrant issue for gross proceeds of \$55.5 million
- ☛ **July 09, 1997**  
Buy 888 units for \$41 million in Calgary, Edmonton & Regina
- ☛ **August 18, 1997**  
Surpass 10,000 units with 559 unit acquisition for \$30.3 million in Edmonton
- ☛ **September 22, 1997**  
Announce Michael D. Young as new director
- ☛ **October 15, 1997**  
Purchase 2,318 units for \$95 million in Calgary & Edmonton
- ☛ **October 16, 1997**  
Announce record breaking first quarter results - \$.45 per share cash flow
- ☛ **November 14, 1997**  
Announce two for one stock split via 100% stock dividend, effective Dec. 01, 1997
- ☛ **November 20, 1997**  
Secure \$55 million in long term financing at rates between 5.98 and 6.25 percent
- ☛ **November 21, 1997**  
Buy 1,324 units for \$60.8 million in all Boardwalk markets
- ☛ **December 01, 1997**  
Announce 3,300,000 common share issue for gross proceeds of \$52.8 million
- ☛ **January 09, 1998**  
TSE announces Boardwalk's inclusion into TSE 300, effective Feb. 20, 1998
- ☛ **January 19, 1998**  
Strong second quarter results - \$.32 per share (post split) cash flow
- ☛ **January 21, 1998**  
Acquire 2,463 units for \$112.4 million, principally in Calgary & Edmonton
- ☛ **April 06, 1998**  
Purchase 1,989 units for \$94 million in Edmonton & Saskatoon
- ☛ **April 15, 1998**  
Announce strong third quarter results - cash flow per share of \$.50 (post split)
- ☛ **April 16, 1998**  
New equity issue of 3,335,000 shares for gross proceeds of \$70 million
- ☛ **June 01, 1998**  
Exceed 20,000 unit mark with purchase of 2,214 units for \$104.9 million - over 16.5 million net rentable sq. ft. in portfolio



*business must have a conscience as well as a counting house*

*Number of Units (Thousands)*

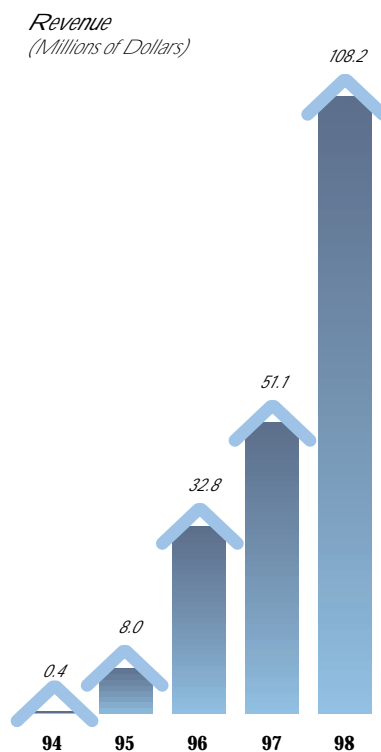




## A Brief Review

In the successful evolution of a good company, there is often a year of activity which stands out as exemplary in all aspects. For Boardwalk, 1998 was such a year. Not only did we exceed all financial and growth expectations, we managed to maintain our focus on our customers while continuing to provide excellent housing value in all our markets. We have done our job well, but we have much more to accomplish.

In our 1994 annual report, which was the first for our company, we wanted to simplistically set out our corporate objectives and the manner in which we would grow Boardwalk into a sound company. We spoke about customer satisfaction being our primary goal. We stated growth would be through acquisitions, not construction; about buying value in good locations, within solid markets boasting positive potential. We emphasized efficiencies and low cost of operations through technology and our talented people — while deliberately avoiding mentioning profits or fortunes to be made, knowing that our financial performance would follow in time. That year, we owned less than 1,000 units and posted a rather insignificant loss, but we had a clear vision of our future. Today, we own over 20,000 units and have once again more than doubled our cash flow per share over the previous year.



In 1994, we saw limitless opportunity in a market of such scope and scale that our activities to date have only touched the surface. This market continues to be characterized by passive management, outdated technology and limited access to capital. Although our market is larger than any other sector of real estate, it has the fewest well-capitalized participants, customer satisfaction is often a low priority and minimal maintenance is commonplace.

Today, as one of Canada's largest owners and managers of multi-family accommodation, we see the same opportunity as before, but we are now much better equipped to handle it. Our excellent track record and momentum, coupled with existing building inventory, will fuel our future growth — not only in our own markets, but potentially beyond.

## The Results

When referring to future growth, responsible management should highlight past performance. In this area, Boardwalk has much to be proud of, as exemplified by the

following statistical analysis and summary of the year's activity, ending May 31, 1998.

- Operating revenues for the year ended May 31, 1998 of \$108.2 million, up 112% from \$51.1 million reported during the same period of 1997.
- Operating earnings before taxes for the year ended May 31, 1998 of \$15.6 million, up 168% from the \$5.8 million reported for the same period last year.



- Net earnings of \$8.0 million for the year ended May 31, 1998, up 247% from the \$2.3 million reported for the same period last year.
- Cash flow from operations of \$24.8 million (\$0.63/share) for the year ended May 31, 1998, an increase of 192.8% over the \$8.5 million (\$0.30/share) for the same period last year.
- Net rental cash flow for the year ended May 31, 1998 of \$22.1 million, up over 360% from the \$4.8 million generated for the year ended May 31, 1997.
- The overall reduction in borrowing costs from a blended rate of 6.92% in 1997 to 6.45% in 1998. At the same time, average maturity has been extended well past the year 2000.

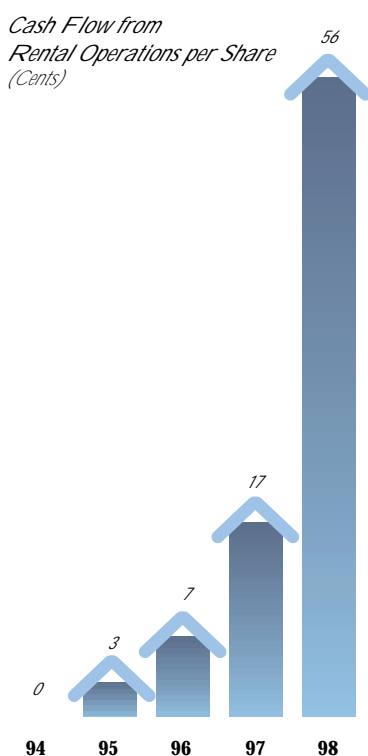
In addition to these financial achievements, Boardwalk also realized a number of significant operational accomplishments during the 1998 fiscal year. Some of these include:

- Inclusion in the TSE 300 Index, effective February 20, 1998.
- A 119% increase in total unit count from May 1997, to over 19,500 at year end.
- Successful equity issues of \$55.5 million in June 1997, \$52.5 million in December 1997 and \$70 million in May 1998, significantly adding to shareholders' equity.

### Our People

The aforementioned results and achievements would simply not have been possible without the efforts of the entire Boardwalk Team — a dedicated force of over 1,000 associates with a common goal in mind — to maximize value and customer satisfaction.

Our critical mass now enables us to utilize specialty teams for virtually all our day-to-day functions. From acquisitions and financing, capital projects, accounting, maintenance and property management, to our in-house customer service centre, information systems and investor relations, Boardwalk benefits from unparalleled depths of experience and a broad-based commitment to excellence. We are proud of our Team. They have demonstrated outstanding capabilities and overwhelming enthusiasm for what they do. Their contributions to community affairs and charitable events, on both a corporate and personal level, should also be noted with pride.



### The Equity Markets

Until mid-1997, the equity market was both receptive and generous to the majority of real estate companies. New IPO's were commonplace, as were secondary offerings and bond issues. As a result, competition in the property market was heightened, and in certain sectors, accretive property acquisitions became increasingly difficult.



By late 1997, investors were much more selective toward not only real estate, but all equity issues. This mood has prevailed through the majority of 1998, meaning those companies relying on furthering their growth through accessing the equity markets may find their objectives more difficult to realize. This situation could be particularly limiting for companies forced to distribute the majority of their cash flow.

Fortunately, Boardwalk is not encumbered by these limitations. We have significant equity available for further acquisitions as a result of recent equity issues, as well as substantial annual cash flow from a non-depleting resource capable of fuelling our growth indefinitely. Therefore, while we are a major public company, we are not as reliant on continued access to the equity markets as are many of our counterparts. Only with the proper market reception, combined with our ability to deploy new equity in a constructive and beneficial manner for all shareholders, will Boardwalk revisit the equity markets.

### Our Future

Never in the history of Boardwalk has our future looked so bright. Occupancy levels remain above normal in all our markets, which are enjoying healthy economic environments, but which are showing virtually no evidence of new supply or added competition. Our average rent per unit continues to increase, but is still a fraction of the rental level required to economically justify new construction. Still, with our extensive

refurbishing programs, our customers are enjoying unparalleled housing value on a comparative basis.

Our acquisition department is extremely active, not only in our own region but also researching new centres for added opportunity. Only when we are fully versed and comfortable in a new market will we make a financial commitment with our stakeholders' capital. Information

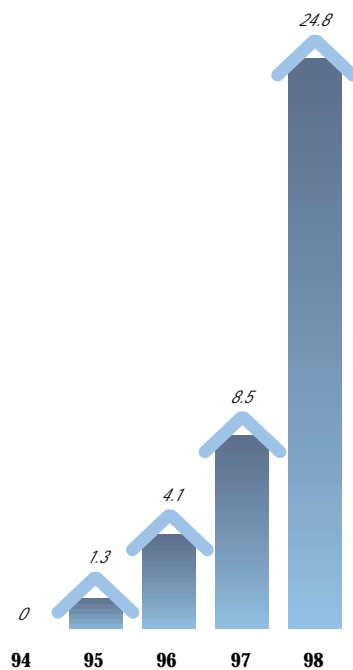
gathering is underway now, and, utilizing in-house developed computer programs, we are storing the necessary data which will continue to provide us with a market advantage.

Long term interest rates remain extremely favourable, and our traditional debt/equity ratios are yielding exceptional returns - the majority of which we are now locking in for a full ten years in order to mitigate interest rate risk. Recently, we were able to secure some mortgage funds for a full 20 year fixed term at under 6 percent.

In an effort to enhance and preserve the value of our assets and to ensure

long term satisfaction for our customers, we have implemented a \$50 million capital improvement program for 1998/1999. These improvements will also provide impressive yields through higher rental rates, and greatly improve the scope of our properties. Many projects are already underway, allowing us to continue providing the best value in the marketplace while differentiating our product from competitors' with lesser standards. Early response from our customers as well as

Cash Flow  
(Millions of Dollars)





residents from surrounding communities is very favourable. Our efforts to enhance neighbourhoods by providing well maintained and safe multi-family accommodation are being recognized.

We have also demonstrated our support for social and subsidized housing through broadening our subsidized tenant base and increasing the number of suites accessible by the physically handicapped.

One of the most recent and exciting technological advances for Boardwalk has been the unveiling of our BTM ("Boardwalk Tenant Machine"). In our relentless pursuit for ever greater efficiencies, we have launched a program to equip each of our larger projects with a BTM (much the same as an automated banking machine) designed to further improve customer service and communication. These BTM machines will also provide newer sources of horizontal revenue generation in the years to come — further enhancing cash flow and shareholder value. Coupled with our recently launched Customer Call Centre, Boardwalk's commitment to customer service and communication has never been more pronounced.

### *In Closing*

At Boardwalk, we have come a long way, but we have really only just begun. We pride ourselves in continually meeting our objectives and providing excellent value to both our customers and our shareholders. Our track record speaks for itself, but we will not rest on our accomplishments. Rather, we will vigorously pursue new opportunities with the same philosophy and objectives that have taken us this far.

We will not stray from our previous formula for success, which is best summed up by our mission statement

*"to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction".*

Finally, we would like to take a moment to thank all our Boardwalk customers, associates and shareholders. Your continued hard work, focus and commitment are the tools that have made Boardwalk the success it is today. We hope each and every one of you take pride in the accomplishments that we have achieved together; however, we must continue to concentrate on our tasks at hand, as this will guarantee the continued success of our company.

Thank you for your continued support.

On behalf of the Board,

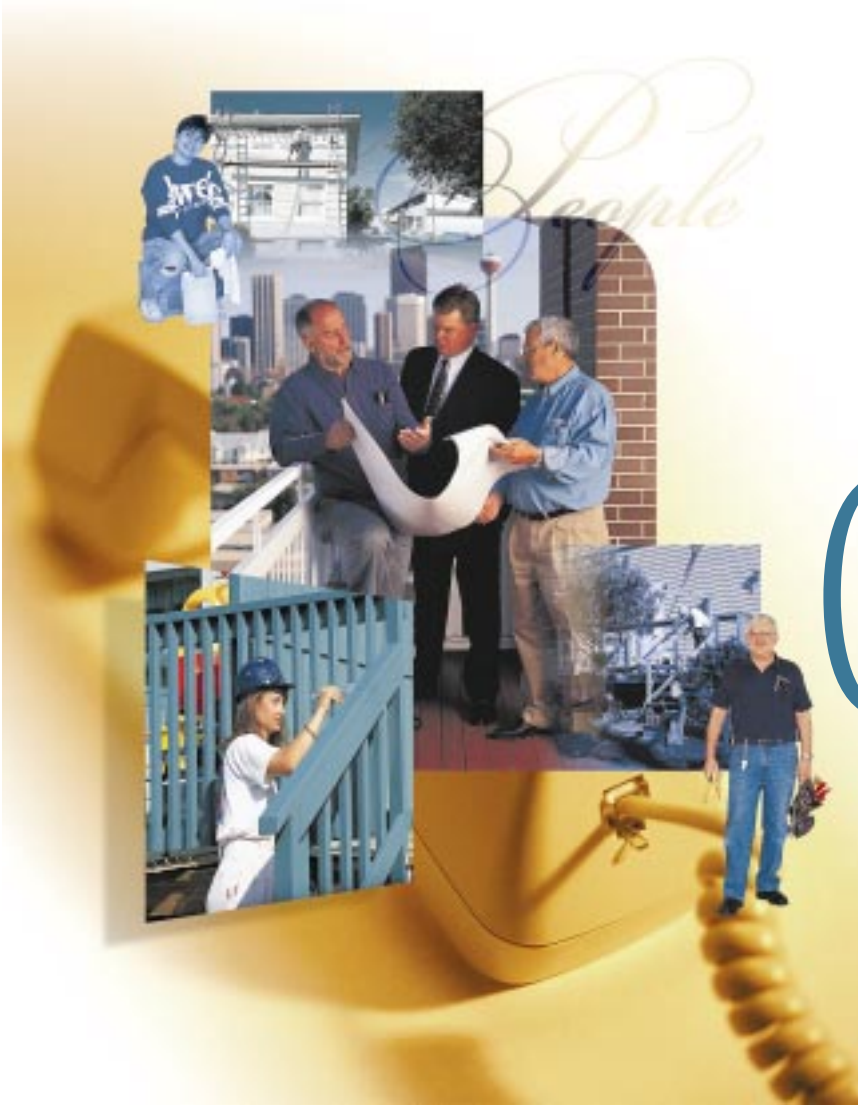
*Sam Kollias*

President and Chief Executive Officer

*George J. Reti*

Executive Vice President

September 17, 1998



O

*ne of the best ways to persuade  
others is with your ears,  
by listening to them.*

**T E A M W O R K**





*Our People*

Why do we define our employees as “associates”? The Oxford Dictionary definition of associate is “partner or colleague”; at Boardwalk, we take this definition seriously. Each of our more than 1,000 associates is very much a partner in the business and all are encouraged to become stakeholders. In fact, most of our associates are offered stock options after six months of employment,

rather than a pyramidal hierarchy structure, which allows all of us to learn from each others’ experiences and further bolster our efficiencies.

The Company also fosters an open door policy, weighing and acting upon all associates’ suggestions with the utmost consideration. This team approach has enabled Boardwalk to accomplish its impressive portfolio growth and financial performance.



*Standing - Left to right: Mike Guidolin, William G. Chidley, Massimo Geremia, George J. Reti, Sam Kolia, Kevin Screpnechuk  
Sitting - Left to right: Roberto Geremia, Shaun Renneberg, Rod Pirie  
Traveling on Business: Van Kolia, Mark Kornak*

ensuring they are placed on the same footing as our stakeholders and therefore having a vested interest in the success of their company. Common share ownership ensures a high level of allegiance and dedication towards Boardwalk’s goal of providing maximum value and a carefree lifestyle to our residents.

The most significant asset of any successful corporation is its people. Boardwalk has methodically built a strong and talented team over the past 15 years, with many of our associates part of the team since Boardwalk’s inception as a private company in 1983. We believe in the intrinsic value of our people, all of whom are treated with respect and dignity. We believe in a horizontal

One of the benefits of having such a sharp focus on our business activities in multi-family housing is our ability to engage specialty teams in virtually all of our day-to-day tasks. Each segment of our operations benefits from a high degree of specialization, from finance to maintenance operations. While most other real estate firms rely on residential managers to oversee each building, Boardwalk delegates specific responsibilities for each of the many facets involved in our business. This delegation means that associates focus on their own unique area of expertise, from property acquisitions and financing, capital improvements, parts sourcing and roaming hallway cleaning and landscaping crews to our in-house information systems and customer call centre.



We have also established an in-house training program in order to share our experience with new associates and build on the solid foundation of our collective corporate knowledge base to ensure our future success.

Boardwalk specifically assigns personnel to buy good quality parts at the lowest possible price, schedule work loads for suite turnovers, create new specialized computer programs or help relocate a tenant. Our acquisition team understands the markets in which they operate, and our finance people have up-to-the-minute information on the debt and equity side. We can dispatch personnel to an emergency situation in minutes, and our customer service representatives are always eager to serve.

This unequalled degree of specialization provides Boardwalk with the most efficient and customer-responsive business around, and is a real advantage in the multi-family industry. We intend to maintain this focus as a fundamental core of our business plan, and the commitment and dedication of our people have elevated Boardwalk to unparalleled levels of efficiency and production.



Boardwalk is also proud of its exceptionally well-qualified, yet young and eager, management group. The 11 most senior managers have an average age of 34 years, yet boast a wide variety of in-depth talent. Collectively, Boardwalk has hundreds of years of real estate knowledge and expertise to draw upon, with residential rental being a second generation business in many instances. This experience, coupled with a high level of computer literacy company-wide, results in an excellent mix of efficiency and knowledge.

None of our executives draw a salary, instead receiving remuneration entirely via stock options at market. This, along with the fact that the vast majority of the executives' personal wealth is tied to the Company's success, ensures a high degree of alignment with stakeholders' interests.

Boardwalk firmly believes that our people are essentially unrecorded assets. Although staff costs are accounted for as expenses on the statement of earnings, we are fully aware that without our excellent staff, Boardwalk would cease to be a going concern. A successful firm can manage without technology, despite its tremendous importance, but it would falter without quality people. Our focus will remain firmly on the customer, relying on technology only to allow us to sharpen this focus.



**A**t Boardwalk, we believe everyone deserves an opportunity to define their home. We've built our Company on the conviction that a home need not be fancy, but comfortable and represent good value.

**D I V E R S I F I C A T I O N**





## *Our Properties*

At Boardwalk, we have acquired a diversified portfolio of high potential multi-family accommodation, including townhouse, garden and high rise buildings to meet market need. Our selection process has a number of criteria, one of the most important of which is location. We strive to acquire properties in proven locations, with access to numerous public amenities and existing infrastructure. Proximity to the downtown core as well as other highly concentrated areas of employment is also a key factor.

Once a location is gauged to fit within our parameters, we diligently examine the physical and financial aspects of the property. This examination is supplemented by outside consultants' reviews, engineering and environmental studies, and often, third party appraisal reports. This analytical process has resulted in Boardwalk significantly increasing its property portfolio to over 20,000 units throughout Alberta and Saskatchewan. This makes Boardwalk the largest multi-family property owner in Western Canada, and places a major responsibility on our shoulders to provide our customers with a superior lifestyle and high standard of living at a competitive price.

A place to live is a basic consumer need, and the demand for affordable housing is consistently increasing. Government support for new rental housing and subsidized developments has decreased over the past decade, due to concern over public debt and deficits. The challenge for Boardwalk is to continue finding cost effective ways to meet this increasing demand, while providing an exceptional rate of return for our shareholders.

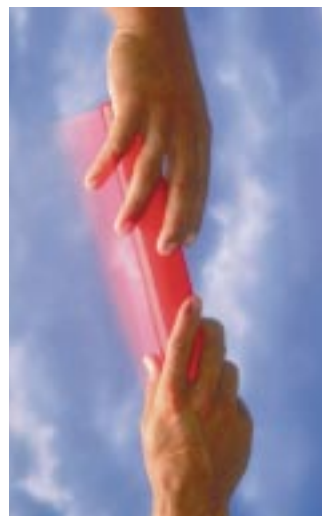
With a current inventory of approximately 17 million net rentable square feet, which represents an average unit size of approximately 840 square feet in a two-bedroom configuration, Boardwalk's current portfolio is nearly impossible to replicate within our current marketplace. The established locations enjoyed by most of our projects, together with the limited availability of development sites with comparable quality locations, suggest that many of our assets are virtually irreplaceable. With this in mind, we have implemented a major, \$50 million capital improvement program to upgrade our assets and enhance their values for years to come. These upgrading and refurbishing programs will serve to entrench a quality customer profile throughout our properties. Examples of capital upgrades include new architectural features such as sloped roofs on formerly flat roof buildings, the addition of exterior balconies, new windows and doors, upgraded floor coverings in hallways and individual suites, as well as new appliances and redecoration of both interior and exterior building components. Where warranted, new kitchen cabinets and bathroom vanities are also being installed. The end result will be "like new" product in older, established locations — a highly desirable product from all perspectives.

Because of the size of our portfolio and the critical mass enjoyed by Boardwalk, these capital improvements and refurbishing programs can be completed at a fraction of the cost that would be experienced by our competitors. All materials are sourced directly from the manufacturers, and much of the installation and on-site work is completed by Boardwalk associates. This provides even greater efficiencies in terms of property turnaround and cost effectiveness, and results in a superior product at a lower overall base cost — allowing us to pass on further value to our customers.



If you have built castles in the air, your work need not be lost; that is where they should be. Now the challenge is to put the foundations under them.

P A R T N E R S H I P





## *Our Partners in Business*

Without the cooperation of our numerous partners in business, including suppliers and contractors, financiers and Canada Mortgage and Housing Corporation (CMHC), the success enjoyed by Boardwalk would simply not have been possible. We have developed these relationships over a span of 15 years, and have allowed many of these business associates to grow and flourish along with Boardwalk. The constant meeting of deadlines, ensuring that Boardwalk receives maximum value for its expense dollar, and the sheer willingness of contractors to either meet or exceed Boardwalk's exacting standards are strong demonstrations of commitment by our suppliers and contractors.

Similarly, we acknowledge the many financial institutions which have been supportive of Boardwalk over the years. Our financial relationships have been rewarding for both parties. Through our association with CMHC, Boardwalk is helping fulfill CMHC's objective of "helping to house Canadians", and we are proud that we provide excellent housing value for our customers. Boardwalk enjoys key account status with CMHC and represents one of the largest insured accounts in Canada. This allows us to access the debt markets under highly favourable terms and maintain a very low cost of capital in comparison to our peers.

To demonstrate our interaction with our business partners, the Boardwalk strategy can be separated into five main elements:

- Consolidate residential rental properties in existing markets;
- Refurbish these properties to like-new condition to improve tenant satisfaction and maximize rental and financing capability;
- Improve tenant services to reduce turnover and develop new ways to raise revenues or reduce costs;
- Maintain strict expense control to remain a low cost operator; and
- Collect intelligence on new markets in preparation for entering one or two of these over the next 12 months.

### **Acquire vs. Build**

Boardwalk's core philosophy is to acquire existing properties rather than to build new units. This avoids a number of potential obstacles, such as risks attached to site selection and construction, costs of idle cash during construction, and what management refers to as the "if-come" of new projects — if we build it, they may come — rather than the "in"come of existing properties.

Boardwalk's acquisitions strategy for its core markets is enhanced by our proprietary computer systems, which contain information on all multi-family residential properties in a given area.



We regularly canvass markets for potential property sellers and can react quickly to any inquiries, given management’s knowledge of these properties.

Boardwalk targets well-located properties which have good-sized suites, a relatively high vacancy rate, need for repairs and refurbishment, and/or subnormal rents. We then upgrade the units and property to improve the appeal of the building, attract new tenants, and allow for rent adjustments with the aim of renovating to a like-new standard. Boardwalk can renovate efficiently and economically due to our centrally located distribution centre, just-in-time inventory control, and wholesale purchasing power. Rent increases are implemented gradually as improvements are made to the property, which mitigates tenant complaints.

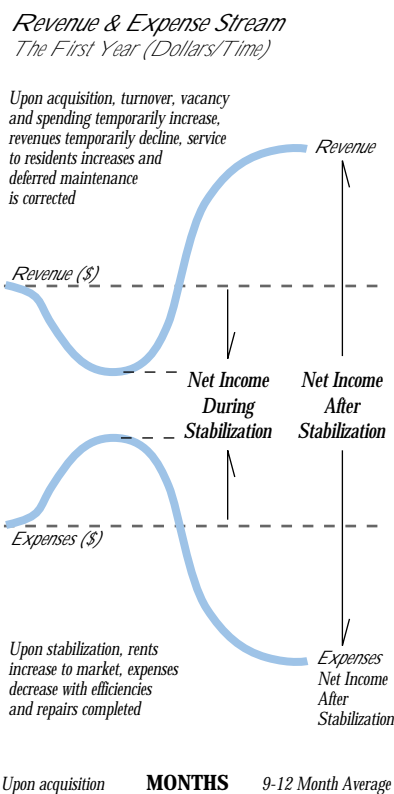
**Database provides acquisition, renovation guidance**

Boardwalk’s development strategy involves expanding our existing proprietary information systems into new geographic areas. These systems include data on all of our properties, including tenant and repair history for each suite, as well as comprehensive information on all rental properties not owned by Boardwalk.

This databank provides the information necessary for Boardwalk to quickly respond to prospective vendors with bids that accurately reflect both the property’s fundamentals and the Company’s lower cost structure, and allows us to operate the properties efficiently. In new areas, management is establishing extensive property databases for Vancouver, Victoria, Winnipeg and, in Ontario, Ottawa, Mississauga, London and Kingston. The

Company is monitoring these markets for an appropriate initial acquisition, which will likely be a portfolio of properties rather than a single building. This type of acquisition allows Boardwalk to establish a significant presence and achieve economies of scale in the new market.

By adhering to these basic business fundamentals, Boardwalk’s objective is to maintain our relationships with our partners in business, allowing them to grow and succeed in a similar fashion to our own. As is expected from our suppliers, we too will maintain our loyalty to our established and proven business partners.





**A** comfortable house is a great source of happiness. It ranks immediately after health and good conscience.

C O M M U N I T Y





### *Our Community Responsibility*

Although Boardwalk is a large corporation, we prefer to be viewed by the community as a much smaller and therefore more caring entity. One important role we have played in the community over the years involves the revitalization and enhancement of areas in the process of successfully turning around numerous major multi-family projects which were formerly seen as negative influences in the community. The enhancements we have made to our renovated projects have resulted in brand new curb appeal for the entire neighbourhood and allowed us to play an important role in this revitalization.

Because our focus is so location dominant, many of the single family properties surrounding Boardwalk projects have exceedingly high standards in terms of maintenance, repair and landscaping. We enthusiastically welcome the challenge put forth by these expectations, and are regarded as “turnaround specialists” by many industry sources. Our successful conversion of dated Limited Dividend projects into high quality condominium properties using Calgary home builders is an example of our ability to recognize and add value. Our numerous exterior upgrading programs, coupled with major interior renovations, have allowed for a higher caliber of occupancy, which is welcomed by most surrounding communities.

We are also an environmentally conscious company, reducing energy and resource consumption wherever possible and utilizing recycling facilities throughout our projects. Many of our buildings have undergone extensive energy improvement programs, helping to save valuable resources for future generations.

Boardwalk has dedicated a large portion of our resources to subsidizing tenants, believing it is our civic responsibility to do so. We are actively involved in low-cost housing by providing subsidized rental units in many of our markets. While this is not an imposed requirement of any of our lending institutions or CMHC, we feel that as a major property owner, it is our responsibility to ensure that a proportion of our units are accessible by those in need of lower cost accommodation. In Calgary alone, approximately 5% of our rental units are occupied by residents in the rent supplement program. We have also converted many of our suites to allow for access by the physically challenged and have donated portions of our projects for community functions as well as for police precincts.

Boardwalk also encourages its associates to actively participate in community events and as volunteers as further evidence of our commitment to our social responsibilities. Volunteers reach out in many areas, including non-profit housing, various support groups and even a local soup kitchen. These activities allow the Company to better gauge the needs of others and offer a helping hand, as we believe the best thing we can give is our time. Boardwalk also has a strong and consistent representation on industry boards and committees, including civic and provincial apartment associations and those which help the homeless.

Boardwalk feels that being a responsible member of the community through both corporate and personal activities acts to facilitate our continued success. We want to be known as a business with a conscience as well as a counting house - carefully maintaining the balance of interests between our customers, our shareholders and the community.



**F**ar and away the best prize that life has to offer is the chance to work hard at work worth doing.

**I N F O R M A T I O N**





### *Technology That Meets Our Needs*

Boardwalk prides itself on being on the leading edge of info-tech applications in diminishing risk. The 1990s has been a 'wholesale' decade in which the lowest-cost producer wins. Using proprietary state-of-the-art information systems, Boardwalk has become an efficient, low-cost wholesale provider of housing with the ability to accurately factor cash flow with financing and obtain the most advantageous terms.

With the advances in new technology, Boardwalk has been able to streamline many of its applications to drastically reduce, for example, response times to maintenance requests. Our earlier programs boosted efficiency but required two different systems, necessitating, in some instances, some five different inputs for a maintenance request. Now, we are in the process of developing interactive software which allows

users to access all of our data via the Internet. We now have the ability to push all of our information on to our Intranet web site, facilitating communication between our customers and all of our associates.

With the advent of the open access databases, many of our data input jobs will shift to data analyst positions, providing even greater customer value than before. In this way, Boardwalk will be able to expand our business without having to augment our administrative workforce, while at the same time avoiding any reduction of data input staff.



Timing of orders and scheduling of our staff will become much more efficient from both the operating and the administration end of our business.

The next step in this push towards ever-greater efficiency and improved customer service will come with the introduction of our on-site BTM system. Once these machines are up and running, a tenant will be able to enter maintenance requests right into the BTM. An e-mail is then automatically sent to the maintenance

associate, who makes the necessary repairs and then inputs the completed job order, also directly into the BTM. This one-time only input system will serve to expedite the entire maintenance process.

As well, tenants will be able to inspect their own maintenance ledger on the BTM for fast reference about the status of repair jobs, again contributing to our customers' satisfaction levels.

Boardwalk plans to take the BTM concept one step further by bringing in select vendors offering a wide variety of services, furthering our goal of providing residents with the best in carefree living. All vendors would be pre-approved by Boardwalk and, with some 60,000 tenants, Boardwalk will be able to negotiate effectively for preferred and priority rates for products and services ranging from pizzas and taxis to maid service and contents insurance.



The focus of technology in our business will continue to be the provision of advanced tools for our customers to gain ever-greater convenience and efficiency. Boardwalk's application of information technology ensures unprecedented effectiveness: administration time is slashed and associates are at maximum readiness for site supervision, project inspection, suite turnover and customer contact. The Corporation's data warehouse is used to continually monitor both income and potential expenses. Some examples of Boardwalk's computer applications specific to our operations include the following:

#### **Putting our technology to work**

##### **☛ Property Management Program**

Automatically handles suite availability collections, notices and reports, security deposits, utilities, parking assignments, and staff to-do lists

##### **☛ Property Maintenance Program**

Books, schedules, and reports turnovers in projects, quickly and efficiently

##### **☛ Inventory Program**

Tracks all stock, tools and purchases automatically for efficient inventory control

##### **☛ Energy Management Program**

Monitors and adjusts boilers, fans and water heaters automatically; notifies property managers immediately if malfunctions occur

##### **☛ Property Purchase and Analysis Program**

Provides information for profit/loss overview on all buildings in major cities where Boardwalk owns or is considering property acquisition



##### **☛ Intranet Applications**

Generates in-house custom-designed intranet capable forms, complete with all information needs and instructions for customers' input

##### **☛ Enterprise Wide Telephone Switching System And Interoffice Electronic Mail**

Integrates all telephones into the head office switchboard to re-route calls automatically when on-site managers are unavailable

##### **☛ CADD System**

Customizes site and unit layouts for condominium conversions and rental renovations

##### **☛ On-Line Banking System**

Facilitates in-house accounting and instant reconciliation

##### **☛ Carpet Inventory System**

Controls distribution of large wholesale supply purchases

##### **☛ Customer Call Centre**

Canada wide toll free number that allows direct customer access to one of our many customer call centre representatives



**Y**ou are never giving, nor can you give,  
enough service.

**H E R E A F T E R**





## *Our Future*

Boardwalk's future has never looked better. We have strong demand for our product and a well established and diverse inventory. Our team is in place, ready and able to serve our customers and continue expanding our portfolio. Our balance sheet is strong, and with a much lower reliance on the equity markets than have many of our competitors. At our current rental levels, new construction simply cannot be economically justified, and the upward pressure on overall rental levels should be maintained for the foreseeable future. The economies in our various markets all remain strong, and the demographic shift with the emergence of the echo-baby boomers will ensure high levels of occupancy in our units for the foreseeable future.

In an effort to serve our customers better, Boardwalk is moving toward supplying additional services and products to our residents. Through the incorporation of our Boardwalk Tenant Machine (BTM), which is scheduled to be launched in late 1998, our customers will have unparalleled access not only to Boardwalk services but also those provided by selected third parties. Examples include a virtual concierge, where customers can order a taxi or a pizza, buy tenant insurance or shop for groceries. By providing these associated services, Boardwalk will enjoy additional horizontal revenue expansion, which should bolster cash flows even further. At the same time, our customers will continue to receive unprecedented value in both their housing accommodation and related services.

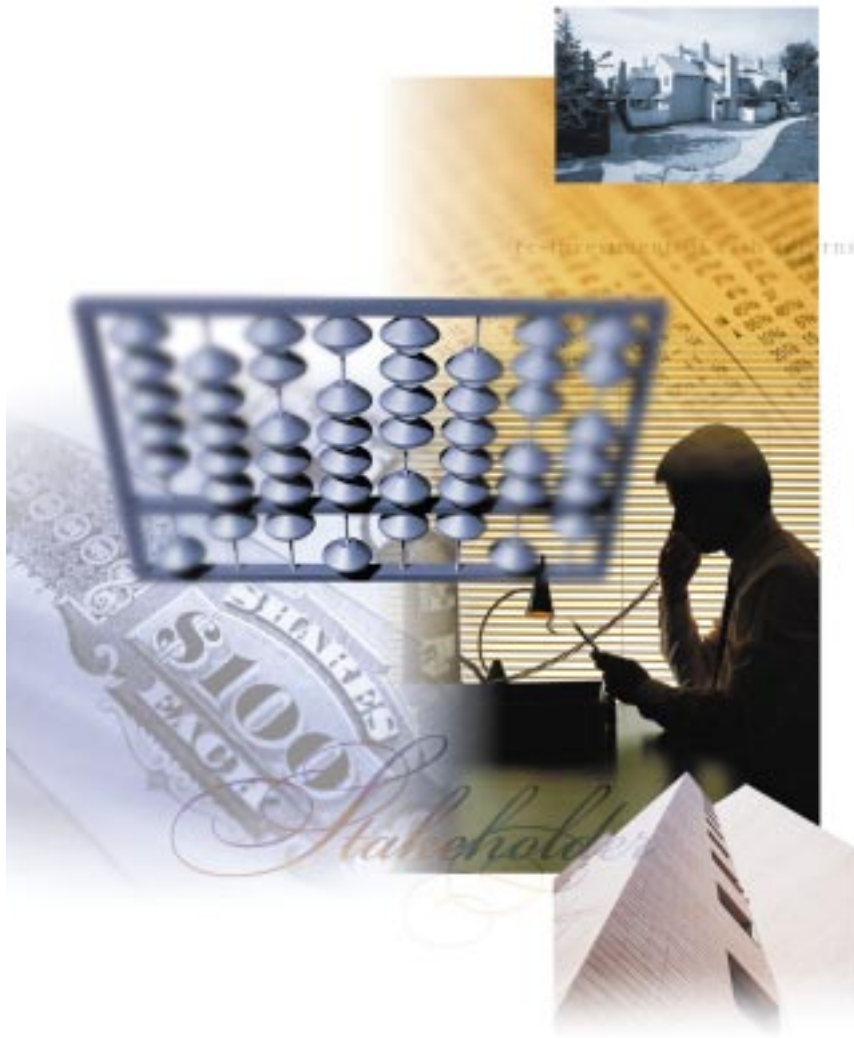
Boardwalk's future growth will not be based on size, but rather on quality. Over the years, many companies have been accused of being too big, but the same cannot be said about being too good. We will continue to focus on

customer satisfaction and our ability to provide unparalleled housing value, and it is our belief that if we continue along this vein, cash flow and success will most certainly follow.

As a dominant participant in our current marketplace, we have taken the first steps toward expansion of our core markets by researching selected multi-family markets throughout Canada. While this may not translate into immediate growth for some time, we want to be certain that any move into a new and untried market will provide maximum value and that we have a full and complete understanding of specific market dynamics. Research has been completed on a number of markets already, and our computers are currently processing this data in order to provide us the logistical advantage we have enjoyed within our existing markets.

One of the economic drivers for our future growth will be Boardwalk's ability to acquire larger scale portfolios on a tax efficient basis. By using our shares as equity, we can provide long term property owners' liquidity without immediate tax consequences. This should form a significant portion of our future growth, and allow us to access high quality real estate portfolios that otherwise would simply not be available for purchase. These acquisitions are highly accretive to existing shareholders, and allow for continued growth without direct access to the equity markets.

In summary, Boardwalk's future looks most promising, and the growth and success we have experienced to date should continue to be repeated in the upcoming years. Our strong team and relentless pursuit of efficiencies, coupled with our focus on the customer, should carry us well into the next millennium with excellent results.



**P**rofit and morality are a hard combination to beat.

A C C O U N T A B I L I T Y





## *Our Stakeholders*

As with our associates, Boardwalk's stakeholders are characterized by high levels of commitment and support. Historically, our shareholders have experienced virtually unprecedented performance from a real estate company, and in turn, Boardwalk has been rewarded through excellent support in the equity markets. Our philosophy relative to our stakeholders parallels that for our associates — do unto others as you would have them do unto you. Because management and associates have such a significant level of ownership within the Company, it stands to reason that all decisions made relative to future operations are made specifically for the benefit of both the customer and the shareholder.

Boardwalk's stakeholders cover a broad spectrum of individuals, investors and financial institutions, with over 50 major institutional investors on record as owners. We view each and every shareholder as extremely important to the ongoing success of the Corporation, and the support shown by each of our shareholders through both buoyant and testy markets has been greatly appreciated. Our focus will remain on providing maximum cash flow on a per share basis, to ensure that existing stakeholders receive the absolute best value for their investment.

The February 1998 listing of Boardwalk as a TSE 300 Index company placed many index funds on Boardwalk's shareholder list. We aim to earn the following and support of these institutions through meeting our objectives in a responsible and consistent manner. As we continue to grow, we are certain that many of our stakeholders will grow with us and increase their positions accordingly.

## **1 9 9 8 M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S**

*The following should be read in conjunction with the financial statements and the notes thereto, appearing later in this Annual Report.*

### *Overview*

Boardwalk Equities Inc. is a fully integrated, customer oriented multi-family residential real estate owner and manager. Boardwalk specializes in the acquisition, operation, value enhancement and selling of multi-family residential properties in Western Canada.

With a market capitalization as of May 31, 1998 of approximately \$1.0 billion, and total market capitalization (including long term debt) at May 31, 1998 of \$1.6 billion, Boardwalk is one of Canada's largest publicly traded real estate companies.



At May 31, 1998, Boardwalk owned a 100% interest in a portfolio of 147 properties approximating 16.5 million net rentable square feet. All properties owned are located in Western Canada, specifically in the Provinces of Alberta and Saskatchewan. Boardwalk's head office is situated in the City of Calgary; however, we have developed smaller regional offices in all major centres where we have a critical mass of properties. These small regional offices allow Boardwalk to increase the Corporation's ability to react more quickly to geographically specific situations.

### *Operating and Capital Strategies*

Boardwalk's operating strategy is best described through our mission statement:

*“to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction”.*

We believe that by developing an operating strategy that is consistent with our mission statement, enhanced shareholder value will be realized in both the short and long term by generating growth in operating cash flows on a per share basis, and creating realizable appreciation in our real estate portfolio. We can achieve this goal by applying fully integrated core strategies of focused investing, superior property management and strategic asset management to the following:

- ☛ Opportunities to acquire accretive new multi-family residential acquisitions;
- ☛ Continuous review and, where required, upgrade of existing services and facilities to increase customer satisfaction;

- ☛ Maximizing cash flows from existing properties;
- ☛ Strive to stabilize new projects and increase cash flows commensurately; and
- ☛ Continue to review the Corporation's portfolio in search of mature properties in attractive markets, maintaining focused sale discipline and re-investing all released equity back into the portfolio to assist in operating and acquisition programs.

This multi-dimensional strategy will help ensure a continued pipeline of growth opportunities in the short, medium and long term, both internally and externally.

The Corporation's operating strategy is supported by a prudent capital strategy which involves:

- ☛ ensuring ample capital is available at all times for operations, project improvements and new acquisitions;
- ☛ utilizing the appropriate level of leverage, given Boardwalk's ability to use NHA insurance to enhance both leverage level and access to lower financing rates;
- ☛ allocation of capital between existing product enhancement and new accretive acquisitions; and
- ☛ actively managing the Corporation's exposure to interest rate fluctuations.



The following discussion aims to provide the reader with an understanding of how these strategies affect the operating results and shareholder value of the Corporation. It will also review the risk, opportunities and trends as well as possible impacts of these tactics on Boardwalk's future performance.

### Results from Operations

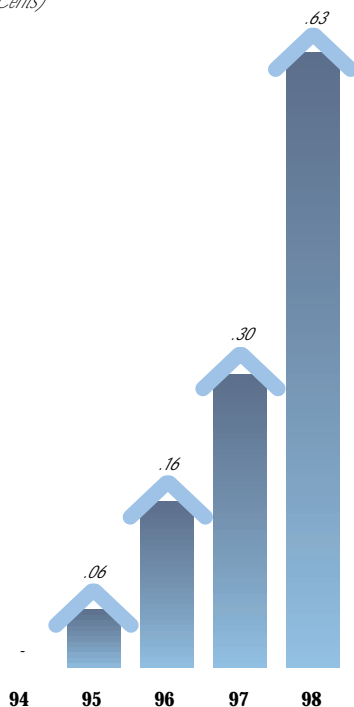
1998 was another banner year for Boardwalk. We reported strong financial results which bolstered the success of the Corporation's overall growth strategy. Recorded results from operations have shown dramatic growth in all key financial areas throughout the Corporation.

The 1998 review of operations will focus on the year-over-year changes, as compared to the 1997 prior year results, in cash flow from operations and other key components that make up the Corporation's overall net earnings.

Cash flow from operations was approximately \$25 million for the 1998 fiscal year, or \$0.63 per share, as compared to \$8.5 million or \$0.30 per share for the 1997 fiscal year. The significant increase over that recorded in prior years is attributed to the internal increase in cash flows generated from operations along with the impact of the Corporation's acquisitions made in both the late 1997 fiscal year and the 1998 fiscal year.

Growth in cash flow from real estate operations (defined as total revenue less costs directly relating to rental operations) and sales of property held for development for the year ended May 31, 1998 increased to \$0.85 per share (\$33.7 million) from \$0.42 per share (\$11.9 million) recorded at May 31, 1997. This represents a 103% increase in cash flow generated from real estate operations over the 1997 recorded values, enhancing the 117% increase over 1996 results.

Cash Flow per Share (Cents)



### Analysis of Cash Flow From Operations

The Corporation prepares its financial statements in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC") and the Canadian Institute of Chartered Accountants. In Canada, CIPREC has adopted a measurement of cash flow from operations (CFO) to supplement net income as a measure of operating performance. This measurement is considered to be a meaningful and useful measure of real estate operating performance.

The Corporation's presentation of cash flow from operations prior to changes in non-cash working capital is consistent with the definition as provided by CIPREC. This measure is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity.



Boardwalk generates its cash flow from two separate revenue streams, the Corporation's rental operations, consisting of long term ownership and operation of multi-family residential housing, and Property Held for Development and Resale. The Property Held for Development and Resale category focuses more on the sale of specific mature multi-family residential properties that typically have a "highest and best use" beyond that of a pure rental project.

**Rental Operations**

Boardwalk's most stable form of cash flow is generated through the leasing of high rise apartment, garden and townhouse type units. During the 1998 fiscal year, Boardwalk acquired approximately \$520 million (11,247 units) in this asset category. This compares to the \$264 million (6,810 units) acquired in the 1997 fiscal year. The properties acquired by Boardwalk have been traditionally managed for the most part, and have higher than standard vacancies or are economically under-performing. As a result, the acquisition price of these assets is approximately \$46,200 per unit (1997 — \$38,800), which represents only a fraction of replacement value.

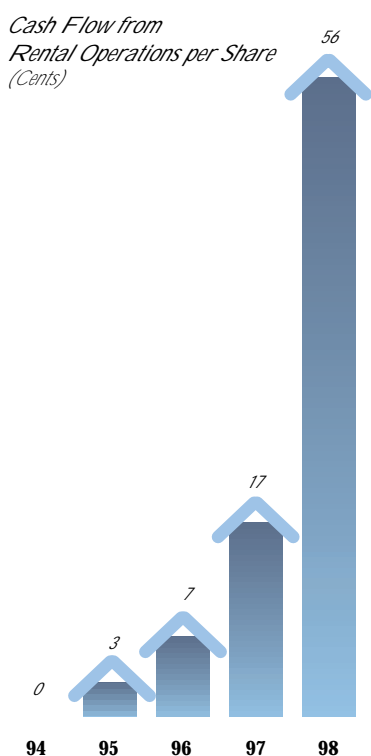
The increase in the purchase price per unit as compared to 1997 was mainly due to the 1997 acquisition of the Gladmer Portfolio, a 1,600-unit townhouse portfolio located in five separate cities in Western Canada. This portfolio was acquired at an advantageous price and represented a large portion of the 1997 unit acquisitions.

The 1998 acquisitions occurred at various times throughout the fiscal year. However, final results show that a higher percentage was acquired in the latter two quarters as compared to the first two. As a result, 1998 operations do not record the annualized operational effect of these purchases. In fact, for the 1998 fiscal year, cash from rental operations was generated from a weighted average of approximately 12,000 units. This is dramatically below the 19,500 units with which the Corporation exited the 1998 fiscal year.

Boardwalk derived approximately 85% of rental revenue in 1998 from its Alberta Portfolio. The remaining 15% was derived from revenue generated in Saskatchewan.

Cash flow generated from rental operations, defined as rental revenue less operating expenses from revenue producing properties and applicable financing charges, has increased dramatically over prior years. For 1998, cash flow from rental operations was \$0.56 per share (\$22.2 million) as compared to \$0.17 per

share (\$4.8 million) for the 1997 fiscal year. This represents a 229% increase from 1997 recorded results, which surpassed the 183% increase recorded in 1997 as compared to 1996. In general, all of these categories have increased dramatically as compared to prior years, mainly as a result of the increased property expansion in 1998 and the timing of this expansion.





The following discussion will attempt to review the major factors used to determine these operations.

**Rental Revenue**

Boardwalk has the ability to increase revenue both internally and externally. Internal increases refer to the enhancements of revenues through the strategic placement of rental adjustments resulting from increased service and improved product, as well as the annualization of revenues generated from properties acquired within the last twelve months. External revenue enhancements are the result of recent strategic property acquisitions.

The result of these enhancements has been the increase in overall rental revenues for 1998 to \$75.4 million (\$1.91 per share) which represents an increase of 159% from the \$29.1 million recorded in 1997 (\$1.02 per share). The increase recorded is the combined result of rental adjustments to existing buildings, the annualization of newly acquired buildings and the acquisition of strategic properties.

Internally, Boardwalk has recorded an increase in average realized rent to \$525 per month compared to \$496 for the 1997 fiscal year. Although the 6% increase shows a strong improvement, the net effect of the 1998

average amount was reduced by vacancies and lower than market rent recorded in recent acquisitions that contributed to the growth in the Corporation's revenues.

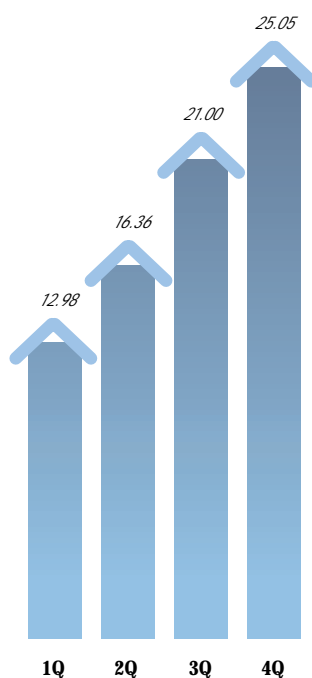
Many of the recently acquired projects were in need of revitalization, with above average vacancy rates. As was consistent with the Corporation's unit growth, Boardwalk recorded a continued improvement in the rental cash flows on a quarterly basis.

Boardwalk has begun to recognize the effect of its revitalization process. An analysis of similar building rentals on stabilized properties, defined as buildings that were owned for the entire twelve months of both the 1998 and 1997 fiscal years, evidences a dramatic increase in rental revenues of approximately 17% to \$25.7 million compared to \$22 million for the prior year.

Operating costs on these units increased slightly compared to the prior year, although a large part of this increase was offset by lower recorded financing charges. The resulting change in net operating

income, defined as rental revenue generated less directly related operating and financing charges, was a significant increase of approximately 129% and further emphasizes Boardwalk's ability to flow the majority of the rental adjustments to operating cash flow.

*Rental Revenue  
(Millions of Dollars)*





**Operating Expenses**

Operating expenses on revenue producing properties include salaries and wages of onsite personnel, utility charges, property taxes, ordinary repairs and maintenance, advertising and other expenses directly related to units generating rental revenue for the Corporation. Overall, Boardwalk's operating expenses of \$0.69 per share (\$27.3 million) have increased dramatically from the prior year's \$0.37 per share (\$10.6 million). The recorded increase stemmed from the combined effect of the Corporation's increased focus on customer satisfaction and product enhancement and the large number of operational intensive acquisitions made in the 1998 fiscal year. With the dramatic increase in the number of owned units, the increase in these recorded amounts was anticipated. This is consistent with our philosophy of being proactive rather than reactive, thus ensuring we have adequate capacity for continued growth.

**Financing Charges**

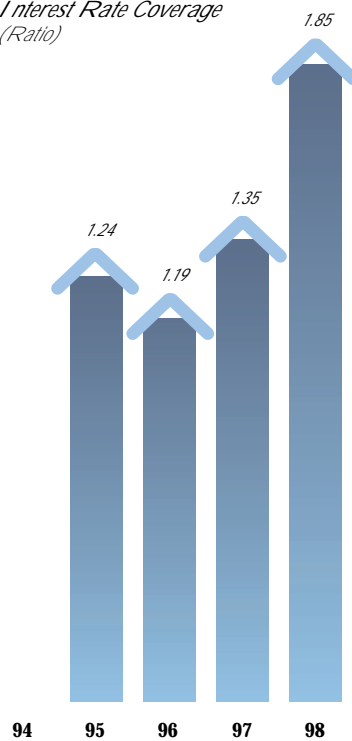
For the 1998 fiscal year, Boardwalk incurred financing charges of \$0.66 per share (\$26.1 million) compared to \$0.48 per share (\$13.7 million) for 1997. The increase from the prior year is attributable to the same growth indicators as discussed in the operating expenses section.

During the current year, the Corporation assumed existing debt of approximately \$186.5 million, while at the same time either financed or refinanced existing debt in the amount of \$233.9 million. Boardwalk was also able to discharge mortgages on the sale of buildings in the amount of \$17 million. The end result is the Corporation's overall weighted average interest rate decreased to 6.45% from 6.92% at May 31, 1997 and 7.98%

in 1996. This continuous decrease has been beneficial to the Corporation as a whole, with estimated annualized savings of approximately \$3 million or \$0.07 per share based on existing debt and common shares issued at May 31, 1998.

The interest coverage ratio on rental operations (defined as cash flow from rental operations adding back the financing charges divided by financing charges) has shown a dramatic improvement over prior years.

*Interest Rate Coverage (Ratio)*



*Property Held For Development and Resale*

An important source of income for the Corporation arises from the sale of units that are classified as property held for development and resale. The units in this category are classified as mature properties,

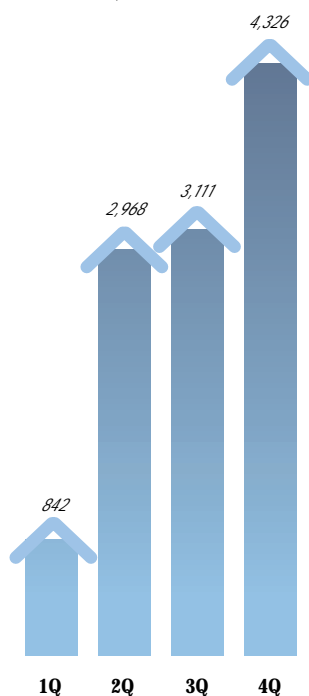


implying limited capital appreciation remaining on a rental basis on these locations in comparison to other, more lucrative investment opportunities. Once a property has reached this stage, it is either sold as individual condominium units or as a single bulk transaction, the proceeds of which are then reinvested back into the Corporation and used to either acquire other selective multi-family properties or to assist in the capital improvements or operations of the existing portfolio.

The sales of properties held for development and resale for 1998 equate to approximately \$32.8 million compared to \$22 million in the 1997 fiscal year. This increase of approximately 49% compared to 1997 resulted from a higher number of units sold, along with an increase in the average per unit sales price. During 1998, a total of 583 units were sold on a bulk basis. The sale of these units represented less than 5% of the Corporation's total acquisitions for the entire 1998 fiscal year. The average sales price per unit achieved for the 1998 sales was \$56,200. This is down approximately 2% from the sales prices recorded in 1997 on a per unit basis. The average cost was \$36,500 per unit compared to \$38,900 in 1997.

The variance in the cost base per fiscal year is a direct result of the unique nature of the sales of these projects. Each project typically has an independent costing base which is highly dependent on the type and location of the project. Although the recorded cost base per unit for 1998 was above the amounts recorded in 1997, the Corporation realized an increased margin on a per unit basis to \$19,700 compared to \$18,600 recorded in 1997.

1998 Quarterly Unit Growth  
(Number of Units Acquired)



Boardwalk intends to continue to monitor the various markets in which we are active and, based on individual property performance and perceived opportunities, will deploy the appropriate disposition strategy. Regardless of the number of units sold, it is the Corporation's intention to continue in an expansionary mode. Accordingly, the numbers of units under ownership should not be depleted.

**Corporate Charges**

Boardwalk's corporate charges generally include those general costs that are not allocated on a site specific basis. In addition, the current year's administration includes the amounts recorded as Saskatchewan Large Corporations Tax. Comparatives for prior years have been adjusted accordingly to include this recorded amount. There are no amounts in this category which relate to specific management financing or acquisition fees. 1998 administrative expenses amounted to \$6.8 million (\$0.17 per share) as compared to \$2.6 million (\$0.09 per share).



The increase in the amount recorded in this category is attributed to the cost of development and expansion of the Corporation's infrastructure. These include items such as setting up regional distribution centres as well as increasing Boardwalk's associate base to assist in the acquisition and operation of these facilities.

**Analysis of Net Earnings**

Net earnings for 1998 were \$8.0 million (\$0.20 per share) up from \$2.3 million (\$0.08 per share) for the 1997 fiscal year. Net earnings are determined by deducting amortization and related taxes from the Corporation's operating earnings. Amortization expense was approximately \$11.2 million (\$3.5 million in 1997), an increase of approximately \$8 million over the prior year. The increase is due mainly to the acquisitions made in 1998 along with the annualization of those projects acquired in the second half of 1997. Amortization expense also includes the amortization of prepaid and legal financing fees over a straight line basis for a five year period. The amortization of these expenses is also up from figures in 1997 as a result of the stepped-up financing and refinancing program Boardwalk has implemented during 1998.

Boardwalk's provision for deferred income taxes against operations was approximately 37% of operating earnings before income taxes. This rate is slightly lower than the combined basic Canadian federal and provincial income tax rate of approximately 44%, largely due to permanent

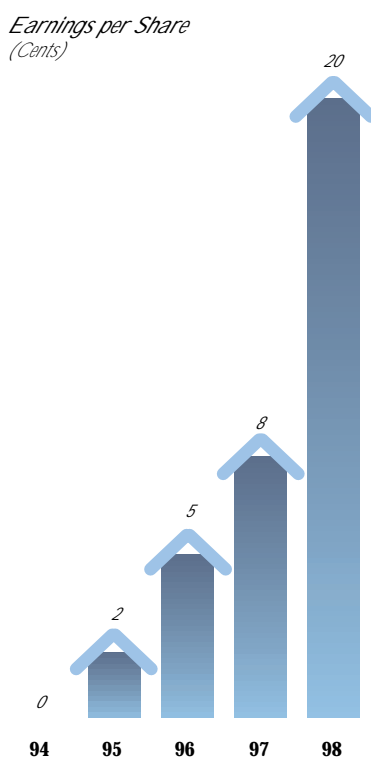
differences that arise as a result of the sale of specific pre-identified properties and part of the properties held for development and resale. The actual taxes which were deducted from cash flow from operations relate to the Corporation's federal and provincial Large Corporations Tax.

*Acquisition Activity*

In 1998, Boardwalk acquired a total of 11,247 units, bringing the total net rentable square feet to approximately 16.5 million. The acquisition price for these projects was approximately \$520 million or \$46,000 per unit. For the most part, the units acquired are located in major cities in the Provinces of Saskatchewan and Alberta. As part of the acquisition process, Boardwalk performs a detailed analysis on each project to be acquired including, when appropriate, an environmental review.

*Capital Expenditures*

It is Boardwalk's strategy to enhance, where possible, the products available to our customers. Boardwalk continuously reviews its portfolio and, where appropriate, implements revenue enhancing improvements. The extent of these enhancements varies on a project by project basis; however, in general they consist of a variety of internal and external upgrades. Internally the enhancements may include improvements to all common areas as well as upgrades to the existing customer suites.





Exterior improvements may vary from extensive repainting of projects to complete refitting of the exterior, including alterations to existing building lines. During 1998, Boardwalk spent approximately \$26 million on these enhancements. This represents approximately \$2,100 per unit. Although this amount appears excessive, it must be understood that over 75% of Boardwalk's portfolio is considered unstabilized and as such, subject to extensive renovation. In 1998, Boardwalk commenced a significant capital improvement program which is estimated at \$50 million.

With an estimated \$10 million spent to date on this improvement program, which should be completed within the next 18 months, it is expected that approximately 50% of Boardwalk's portfolio will have been subject to these revenue enhancements. Items not included as part of the expenditure are ongoing revenue enhancements such as suite improvements. Funding for these projects will be raised through a combination of pre-approved mortgage proceeds, cash flow from operations, and, if required, temporary use of the Corporation's Acquisition and Operating facility. Boardwalk believes these continual upgrades will add significant value to the Corporation's real estate assets and, in return, increase shareholder value.

### *Liquidity and Capital Structures*

The Corporation's objective is to ensure, in advance, that we have ample capital resources to allow execution of our business plan. Our significant liquidity provides greater certainty of execution, which in turn gives the Corporation a competitive advantage in its negotiations for acquisitions or development investment. Capital resources are defined as a combination of mortgage debt, share capital equity and internally generated equity. The conversion of lower yielding mature properties into cash for redeployment into higher yielding investments supports this objective. In 1998, the sale of approximately 583 units released a significant portion of equity, which was then reinvested to assist in the acquisition of higher yielding real estate investments.

During the year, Boardwalk was successful in raising approximately \$125 million of new equity. This was achieved in two separate transactions, one occurring in December 1997 on a post stock dividend basis, of 6 million common shares at a value of approximately \$9.25 per share. The second offering occurred in May 1998 representing approximately 3.335 million shares at an equity price of \$21 per share.

At May 31, 1998, Boardwalk had approximately \$17 million of cash in term investments and undrawn facilities of approximately \$57.5 million. The cash recorded at year end was subsequently used to assist in the closing of additional projects. Subsequent to year end, Boardwalk has taken the additional step of upgrading its existing acquisition facility with a major financial institution.



Currently, we are in the final process of increasing our existing acquisition and operating line from the current \$55 million to \$100 million. This acquisition and operating facility, together with the Corporation's existing financing and cash generated from operations, will assist Boardwalk in the acquisition of additional properties without requiring additional external equity. Any future assistance provided by the issuance of external equity, combined with Boardwalk's strong market capitalization, augments the advantageous situation of being recently listed on the TSE 300 Index. Boardwalk's demonstrated ability to deploy this equity for accretive new acquisitions will further enhance shareholder returns.

The Corporation currently believes that the best investment for any additional dollar earned is reinvestment back into new acquisitions or for helping improve existing facilities. As such, Boardwalk has no dividend payout policy.

*Leverage*

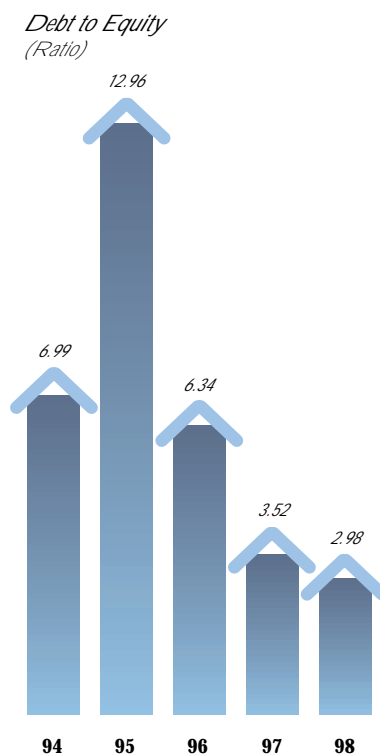
Boardwalk continues its current leverage policy of higher than average debt levels. This policy is achieved through the use of the National Housing Act (NHA) insurance — a program initiated by the Government of Canada through CMHC, which allows individuals and corporations in residential real estate to obtain insurance for a premium, on a selective property by property basis.

This insurance lowers the risk of default to the lenders — a benefit which is then passed down to the mortgagor in the form of lower interest rates. With this insurance in place, the Corporation has the ability to increase the leverage to 85% of value. Management is oriented toward retaining capital for reinvestment in properties to expand its business as an alternative to significantly

reducing mortgage debt. Given the current economic environment, Boardwalk's present focus is long term financing terms of 10 to 20 years, and, as such, has continued to stagger the maturity dates of its existing mortgage debt.

The expressed leverage ratio is a ratio of long term debt or "Mortgage Debt" as compared to total shareholders' equity or "Capital".

The dramatic reduction of this ratio bodes well for the Company as it demonstrates a decreased reliance upon mortgage financing. The decrease is the combined result of the current year's issuance of share capital and the continued improvement in the overall earnings by the Corporation.





### Long Term Debt

Boardwalk's long term debt consists mainly of low rate, fixed term mortgage financing. All amounts are secured by individual mortgages or debentures registered against real estate properties, and the maturity of this debt is staggered to lower the Corporation's overall interest rate risk. Current year's balances have increased dramatically from those recorded in 1997, due entirely to the growth of the Corporation through the assumption of existing financing on acquisitions or the arranging of new financings on acquired buildings. Boardwalk's debt level has decreased on a per unit and per square footage basis, and on the whole, we have decreased our weighted average interest rate.

At May 31, 1998, the Corporation had no floating rate debt. Due to our active asset management and redevelopment strategy, the Corporation uses a portion of its debt on a floating rate basis. This floating rate debt gives Boardwalk a competitive advantage with available resources to enable further acquisitions or capital improvements that offer well above average rates of return. To better maintain cost effectiveness and flexibility of capital, Boardwalk continuously monitors short and long term interest rates and, if the environment warrants, will take its limited short term floating rate debt and lock into a longer term fixed rate.

Approximately 26% of Boardwalk's overall debt matures in the 1999 fiscal year. An additional \$339 million comes due fairly evenly over the following four fiscal years. Boardwalk plans to meet these maturing obligations by replacing the maturing debt with new financing. Given the fact that Boardwalk's portfolio is NHA insured, and factoring in a strong demand for mortgage backed securities, this is not expected to pose a problem.

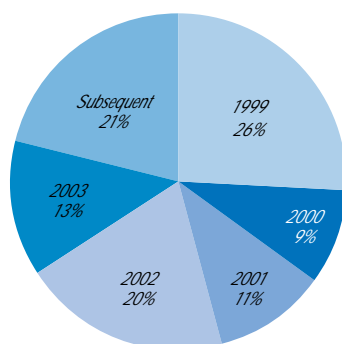
### Outlook: Risks and Opportunities

#### Rental Operations

The performance of Boardwalk's rental operations is affected directly by the supply of and demand for multi-family residential rents. In macro economic conditions such as those currently prevailing and the expected growth in the economy, business and consumer confidence and employment levels drive this demand.

In 1998, there has actually been a negative supply of construction of new multi-family residential development in the markets where Boardwalk concentrates — Alberta and Saskatchewan. With the continued broad-based improvement of the economy resulting in generally lower overall vacancy rates, excess supply in multi-family residential is expected to be gradually filled. Management expects a continuation of these trends in 1998 with ongoing benefit to Boardwalk's rental portfolio, as the existing rental rates would require significant upward adjustment, in some cases as much as doubling, to justify the cost of new construction. As markets approach this balance, it is expected rental rates will increase significantly. Since

Mortgage Maturity  
(Percent)





Boardwalk is involved exclusively in multi-family residential, it currently has no long term leases in its portfolio. Accordingly, with the maturing of these leases, market forces continue to push rates upward.

These factors, combined with the upward rental adjustments Boardwalk anticipates to achieve as a result of product and service enhancement and the stabilization and annualization of newly acquired properties, will have a positive effect on rental operations. It is expected that rental rates overall on leases expiring in 1998 will also increase.

### *Risk Management*

Boardwalk's performance is affected by supply and demand for multi-family residential product in Western Canada. Macro economic conditions in these particular markets, such as current and expected growth of the economy, business and consumer confidence and employment levels, will dictate or drive this demand. Western Canada's continued broad based improvement has been reflected by an overall generally lower vacancy rate. Net absorption and lower costs have also assisted the Corporation in improved performance. The potential for reduced revenue growth exists in the event that Boardwalk is unable to maintain its properties at high levels of occupancy, or in the event of a downturn in the economy which results in lower rents. Boardwalk has minimized these risks by taking the following steps:

- Ensuring customer satisfaction, Boardwalk is proactive rather than reactive. Boardwalk's focus on customer satisfaction and improvement of existing product will show increased returns for shareholders.
- Diversifying its portfolio across Western Canadian cities and thus lowering its exposure to any regional economic swings.
- Acquiring properties only in desirable locations where vacancy rates are historically at or below city-wide averages.
- Holding a balanced portfolio which includes a variety of housing types including high rise, townhouse and walk-ups, each with their own market niche.
- Maintaining a wide variety of suite mix, Boardwalk has a well balanced unit type, including bachelor, one, two, three and four bedroom units.
- Building a broad and varied customer base, thereby avoiding economic dependence on larger scale tenants.
- Focusing on affordable multi-family housing which is considered a staple commodity.
- Maintaining a high quality product, Boardwalk renovates and manages its products at above industry standard and is thus considered a preferred landlord of quality product.
- Developing a specific rental program which is characterized by rental adjustments that are a result of enhanced service and superior product.



### *Interest Rate Risk*

Financing for real estate during 1998 continued to benefit from the improvement in real estate markets, renewed participation by traditional providers of real estate capital such as insurance companies and pension funds, lower current interest rates and narrower corporate borrowing spreads.

Management believes these factors will continue through 1999 and favourably impact financing terms, execution and pricing. In addition, Boardwalk has a strong working relationship with CMHC, and the majority of the Corporation's mortgages are insured under the NHA mortgage program.

The added level of assurance offered to lenders as a result of this insurance allows the Corporation to obtain the best possible financing and interest rates. These mortgages are also insured for their full amortization, virtually eliminating the potential for the lender to prematurely call the loan.

The NHA insurance is also a further protection against any possible failure by the lending institution. By obtaining NHA insured mortgages, the Corporation is also able to obtain additional financing on the existing buildings in excess of conventional amounts and in turn, increase return on equity to shareholders.

### *Property Valuation*

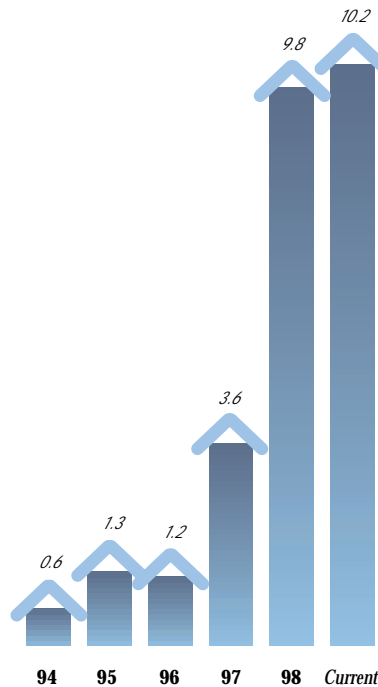
It is Boardwalk's policy to regularly review the value of its assets in order to ensure that the amounts recorded are in accordance with generally accepted accounting practices. Those assets which are held for investment purposes are valued at the lower of cost net recoverable value. Cost includes all amounts relating to the acquisition and improvement of the properties. Net recoverable amounts represent the undiscounted estimated future net cash flows expected to be received from ongoing use of the property and its residual value. To arrive at this amount, the Corporation projects the cash flow over a maximum of ten years and includes the proceeds of the residual sale at the end of this period. The projections take into account a specific business plan for each property and management's best estimate for the most probable set of economic conditions anticipated in the prevailing market. Current year's reviews have noted that no significant adjustments to existing values are necessary. Boardwalk has undertaken to provide an estimated required replacement value, based on construction costs, for its entire property portfolio including those assets acquired subsequent to year end. On this basis, it is estimated that the Corporation's net replacement value is approximately \$1.8 billion.



## A Look Ahead — Boardwalk Then and Now

Overall, the Canadian economy continues to perform well. CMHC estimated that overall vacancy rates for Canada at the end of October 1997 were 4.1%, down from 4.3%. CMHC is continuing to forecast the decline in vacancy rates through the 1999 fiscal year. Boardwalk estimates that there are currently about 2 million multi-family residential units across the country, and only a minimum amount of new construction is expected. Alberta and Saskatchewan account for about 170,000 of these units and Boardwalk controls about 11.8% of the existing markets, or 1% of the national. Boardwalk commenced operations in April of 1994 and has since been witness to substantial unit growth and diversification. As a result of Boardwalk's strategy of acquiring underperforming, above average vacancy properties, a period of stabilization is required following such acquisitions. During this period, both service and product enhancements are initiated, resulting in a more desirable project which is then subject to rental enhancements. Boardwalk will continue to focus on both product and service improvements for its existing tenants with the goal of achieving utmost customer satisfaction.

Edmonton Properties  
(Thousands of Units)



The following analysis is intended to provide an understanding of the growth that Boardwalk has achieved in each of its major markets. It will also discuss significant economic factors that may affect demand for Boardwalk's product and service.

### Alberta

Alberta, where the majority of Boardwalk's current assets are held, is much less dependent on oil today than in the past. The Province has become increasingly involved in manufacturing, petrochemicals and natural gas, forestry, transportation and computer technology. Thus, despite currently depressed oil prices, Alberta's economy continues to prosper. Rental markets in Calgary have continued to strengthen along with the local economy. The population of Calgary in April 1998 increased 6.5% from the April 1997 rate, with unemployment at the end of June at just 5%, well below the national rate of 8.4%. Calgary has experienced significant growth in population, largely due to the net migration of people to the City.

### Edmonton

Boardwalk has experienced exceptional growth in Edmonton where it currently controls 9,950 units. This is up over 1,424% from the 653 units controlled in 1994.



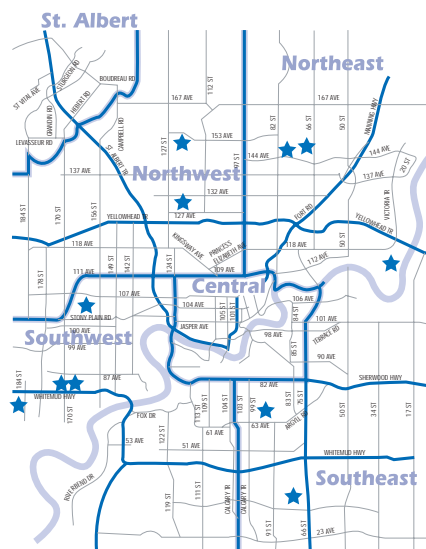
The Edmonton rental market has improved dramatically from 1997 to 1998. According to CMHC, at the end of October 1997, the vacancy rate for the City was 4.5%, down from 7.6% at the end of 1996 and 10.2% for 1995. CMHC forecasts that the vacancy rate will decline to about 2.8% by the Fall of 1998, allowing Boardwalk to make more significant gains in this market.

The decline is due largely to improved job markets and net migration into the Province. Unemployment for the City was about 7.2% in 1997, and is expected to fall to 6.6% by the end of 1998. Edmonton's economy has become much more diverse over the last few years.

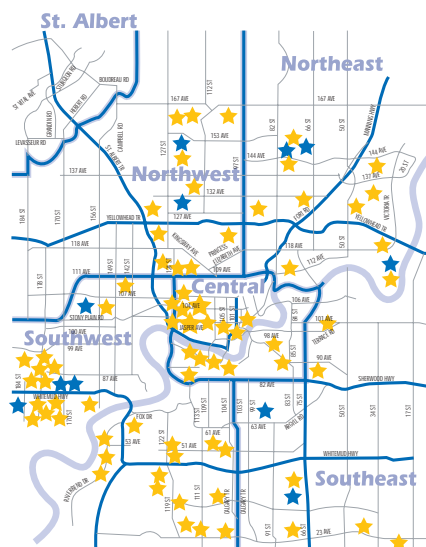
The strong pace in job growth will be fueled by numerous oil, natural gas and oil sands projects slated to begin over the next decade, as well as major investments in petrochemicals and forestry products in Edmonton and in Northern Alberta. As well, the Alliance natural gas pipeline which is to be built from Alberta to Chicago is expected to add 7,200 person years of employment during its 18 month construction phase, and 105,000 person years of employment in oil and gas over the next 20 years. It is anticipated that over the next few years, the Edmonton market will show a net migration to the City.

The use of rental incentives or free rent in Edmonton is declining, with only about 40% of new tenants receiving some sort of incentive in October 1997 versus 62% in the previous year. According to CMHC, the average monthly rent of a two bedroom apartment in Edmonton was \$525 in October 1997 and is forecast to climb 3% by October 1998. The growth in Edmonton units controlled by Boardwalk was a result of our strategic analysis and value buying and has positioned Boardwalk well for continued expansion in the Edmonton rental marketplace.

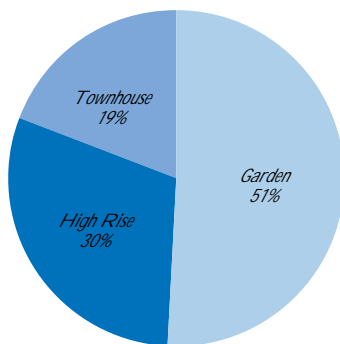
*1996 Edmonton Holdings*



*1998 Edmonton Holdings*



*Edmonton Properties  
(Unit Types)*





**Calgary**

Boardwalk's growth in Calgary is a vivid illustration of the Company's ability to locate and acquire valuable properties. Boardwalk's current holdings of 5,506 units represents an increase of approximately 1,700% over the number controlled in 1994.

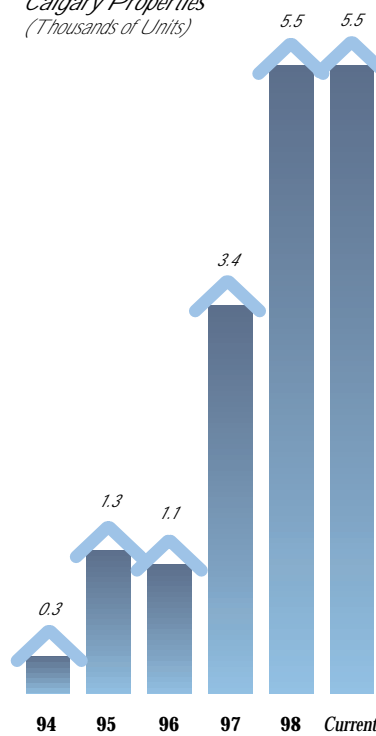
Rental markets in Calgary have continued to strengthen along with the local economy. The population of Calgary in April 1998 increased 6.5% from the April 1997 rate, with unemployment at the end of June at just 5%, well below the national rate of 8.4%.

Calgary has experienced significant growth in population, largely due to the net migration of people to the City.

*1998 Calgary Holdings*



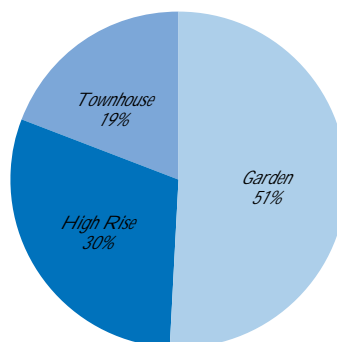
*Calgary Properties  
(Thousands of Units)*



*1996 Calgary Holdings*



*Calgary Properties  
(Unit Types)*



According to CMHC, the vacancy rate at the end of October 1997 was 0.5%, down from 1.5% in October 1996, and CMHC estimates it will further decline to just 0.3% by October 1998. Boardwalk is well positioned to take advantage of this anticipated growth.



## Saskatchewan

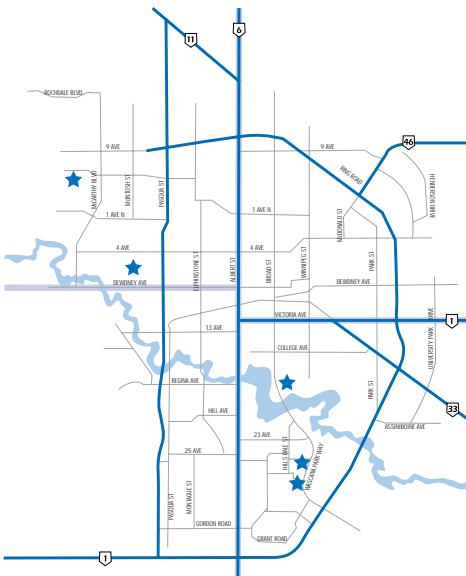
Boardwalk continues to be bullish about the Saskatchewan market. Over the last two fiscal years, we have increased our holdings in this province and we are currently actively searching for additional accretive acquisitions.

### Regina

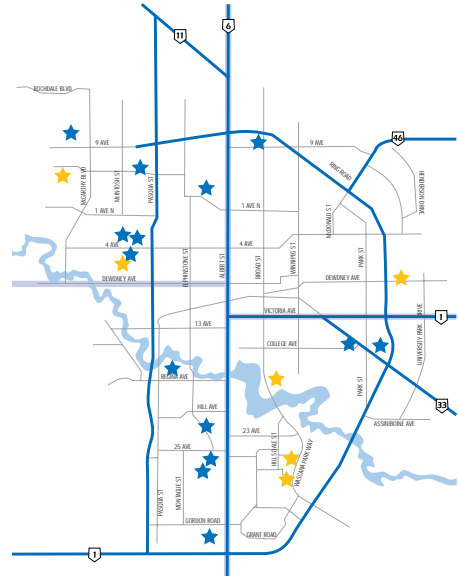
Regina has a population of 200,000 and an unemployment rate of approximately 4.9% — as of June 1998, the second lowest unemployment rate of all major cities across Canada.

CMHC has predicted that 1,000 new jobs will be created in this city over the next few years, fuelling continued growth. The residential rental market in Regina has strengthened over the past year, and according to CMHC, vacancy rates fell to 1.5% at the end of October 1997 from 1.9% in October 1996.

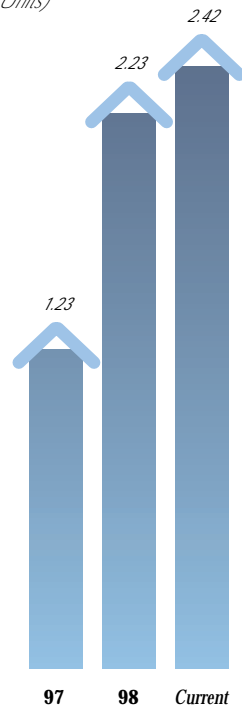
### 1996 Regina Holdings



### 1998 Regina Holdings



Regina Properties  
(Thousands of Units)



CMHC does note, however, that vacancy rates moved to 3% by the end of 1997 due to a large number of renters who became first time home buyers. This increase in first time home buyers can be attributed to the combination of increased rental rates and lower interest rates. At the end of October 1997, CMHC reported the average monthly rent on a two-bedroom unit increased more than 3.6% to \$512.

Boardwalk entered this market in 1996 and has continued with steady growth.



**Saskatoon**

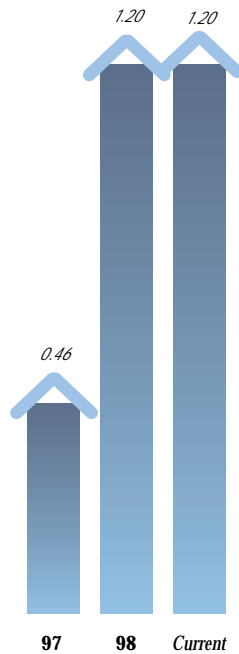
The average vacancy in Saskatoon apartment properties is 0.9%, up from 0.7% a year earlier. CMHC is forecasting the vacancy rate will increase in October 1998 to between 1% and 2%. Job growth will remain strong in the City, with unemployment of 6.8%, considerably lower than the national average.

Saskatoon's population has grown steadily to reach more than 222,100 with CMHC estimating that an additional 1,500 to 2,000 new houses are being created every year. Many low income households from rural areas of the Province are moving to the City, thereby fueling increased demand for rental housing and holding vacancy rates down.

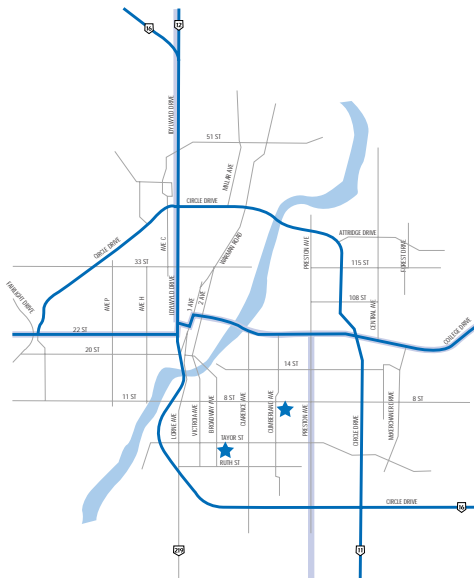
*1998 Saskatoon Holdings*



*Saskatoon Properties  
(Number of Units)*



*1996 Saskatoon Holdings*





## *An Overall Outlook*

In 1998, Boardwalk was able to achieve a number of important initiatives as part of the Corporation's mandate to focus on the customer and in turn increase the value offered to the shareholder. These initiatives are part of Boardwalk's core business concepts and have been designed not only to benefit past and current years but also to continue to add value for years to come.

Some of these initiatives can be summarized as follows:

- Boardwalk is constantly reviewing its existing markets, and the prevailing market conditions indicate that the enhancements implemented by the Corporation have led to a significant appreciation in our asset value. Equity released from the sale of those selected projects are then reinvested back into the Company to be re-deployed in higher yielding real estate investments.
- Continued focus on the customer through the implementation of numerous service and product ideas designed firstly to increase convenience and service and secondly to streamline existing administrative operations.

- Continued focus on the acquisition of existing multi-family properties. Boardwalk does not develop new multi-family real estate supply.
- An aggressive financing strategy designed to maximize the effect and the use of NHA insurance to continue to lower the cost of debt to the Corporation.
- A capital enhancement program that will assist Boardwalk in meeting its overall corporate mission of providing the best value in carefree living.

Boardwalk's challenge for the future will be to continue to create value added products and services that meet our current customer needs as well as create efficiency in existing operating and administrative operations. With Boardwalk's existing markets experiencing strong economic advancements, and given the continuation of service and capital enhancements, we are well positioned for the future.



## *Management's Report*

### **To the Shareholders of Boardwalk Equities Inc.**

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche, an independent firm of chartered accountants, has been engaged to audit the financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

*Sam Kalias*

President and Chief Executive Officer

*Roberto A. Geremia*

Vice President Finance and Chief Financial Officer

August 18, 1998

## *Auditors' Report*

### **To the Shareholders of Boardwalk Equities Inc.**

We have audited the balance sheets of Boardwalk Equities Inc. as at May 31, 1998 and 1997 and the statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion these financial statements present fairly, in all material respects, the financial position of the Corporation as at May 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*Deloitte & Touche*

Chartered Accountants

Calgary, Alberta

August 18, 1998



## F I N A N C I A L   S T A T E M E N T S

For the years ended May 31, 1998 and 1997

### *Balance Sheets* As at May 31

(Thousands of dollars)	Note	1998	1997
<b>Assets</b>			
Revenue producing properties	2	\$ 856,427	344,634
Properties held for development and resale	2	30,819	18,338
Cash and short term investments		17,054	–
Mortgages & accounts receivable	3	9,428	10,012
Funds held in trust		210	53,325
Other assets	4	15,948	6,154
		<u>\$ 929,886</u>	<u>432,463</u>
<b>Liabilities</b>			
Mortgages payable	5	\$ 645,652	310,342
Bank indebtedness		–	722
Accounts payable and accrued liabilities		11,087	7,894
Payable on property acquisitions		42,995	19,400
Refundable security deposits and other		5,541	2,580
Income taxes payable		1,523	823
Deferred income taxes		5,763	2,563
		<u>712,561</u>	<u>344,324</u>
<b>Shareholders' Equity</b>			
Share capital	7	205,551	30,354
Special warrants		–	53,998
Retained earnings		11,774	3,787
		<u>217,325</u>	<u>88,139</u>
		<u>\$ 929,886</u>	<u>432,463</u>

Approved by the Board:

*Sam Kollias*

Director

*David V. Richards*

Director



*Statement of Earnings and Retained Earnings* For the years ended May 31,

(Thousands of dollars, except per share amounts)	1998	1997
<b>Revenue</b>		
Rental income	\$ 75,407	\$ 29,078
Sales - properties held for development and resale	32,768	22,031
	<u>108,175</u>	<u>51,109</u>
<b>Operating expenses</b>		
Revenue producing properties	27,276	10,632
Cost of sales - properties held for development and resale	21,273	14,892
Administration	6,844	2,625
Financing costs	26,055	13,683
Amortization	11,169	3,481
	<u>92,617</u>	<u>45,313</u>
<b>Operating earnings before income taxes</b>	<u>15,558</u>	<u>5,796</u>
Large corporations taxes	1,878	789
Deferred income taxes	5,693	2,703
<b>Net earnings</b>	<u>7,987</u>	<u>2,304</u>
<b>Retained earnings, beginning of year</b>	<u>3,787</u>	<u>1,483</u>
<b>Retained earnings, end of year</b>	<u>\$ 11,774</u>	<u>\$ 3,787</u>
<b>Earnings per share</b> - Basic	<u>\$ 0.20</u>	<u>\$ 0.08</u>
- Fully diluted	<u>\$ 0.20</u>	<u>\$ 0.08</u>

*Statement of Cash Flow from Operations*

<b>Net earnings</b>	\$ 7,987	\$ 2,304
Items not affecting cash		
Amortization	11,169	3,481
Deferred income taxes	5,693	2,703
<b>Cash flow from operations prior to changes in non-cash working capital</b>	<u>\$ 24,849</u>	<u>\$ 8,488</u>
<b>Per share</b> - Basic	<u>\$ 0.63</u>	<u>\$ 0.30</u>
- Fully diluted	<u>\$ 0.63</u>	<u>\$ 0.30</u>



*Statement of Changes in Financial Position* For the years ended May 31,

(Thousands of dollars)	1998	1997
<b>Cash obtained from (used in):</b>		
<b>Operating activities</b>		
Cash flow from operations	\$ 24,849	\$ 8,488
Net change in non-cash working capital	16,887	17,998
Increase in properties held for development and resale	(12,481)	(11,519)
	<u>29,255</u>	<u>14,967</u>
<b>Financing activities</b>		
Issue of common shares, net of offering costs	121,199	18,109
Issue of special warrants	–	52,803
Mortgage financing assumed	186,502	129,915
Mortgage proceeds from financing	233,901	114,282
Mortgage payments upon refinancing	(62,680)	(17,715)
Mortgages discharged on sale	(16,972)	(7,250)
Mortgage principal reduction	(5,441)	(3,541)
Funds held in trust	53,115	(53,036)
Advances to affiliates	–	(534)
	<u>509,624</u>	<u>233,033</u>
<b>Investing activities</b>		
Additions to revenue producing properties	(521,103)	(248,852)
	<u>(521,103)</u>	<u>(248,852)</u>
<b>Increase (decrease) in cash balance during the year</b>	<b>17,776</b>	<b>(852)</b>
<b>(Bank indebtedness) cash balance, beginning of year</b>	<b>(722)</b>	<b>130</b>
<b>Cash balance (bank indebtedness), end of year</b>	<b>\$ 17,054</b>	<b>\$ (722)</b>

**N O T E S   T O   F I N A N C I A L   S T A T E M E N T S**

*For the years ended May 31, 1998 and 1997* (Tabular amounts in thousands of dollars)

*Note 1**Significant Accounting Policies***(a) Operations**

Boardwalk Equities Inc. is a real estate corporation that specializes in multi-family residential housing.

**(b) Basis of presentation**

The Corporation's accounting policies and its standards of financial disclosure conform with the recommendations of the Canadian Institute of Public Real Estate Companies and the handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**(c) Revenue recognition**

- (i) Revenue from a rental property is recognized once the Corporation has attained substantially all of the benefits and risks of ownership of its rental properties and accounts for leases with its tenants as operating leases. Rental revenue includes rents, parking and other sundry revenues.
- (ii) Revenue on property held for development and resale is recognized when all conditions of the purchase agreement have been met, a purchaser deposit has been received and there is reasonable assurance on the collectability of the outstanding amount.

**(d) Real estate properties**

- (i) Revenue producing properties

Revenue producing real estate properties, which are held for investment, are stated at the lower of cost less accumulated depreciation or "net recoverable amount". Cost includes all amounts relating to the acquisition and improvement of the properties. All costs associated with upgrading of the existing facilities, other than ordinary repairs and maintenance, are capitalized and amortized as project improvements.



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 Company projects the cash flow 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.

(ii) Properties held for development and resale

The Corporation capitalizes all direct costs, net of related revenue. Direct costs include property taxes, administration costs, finance costs and other costs associated with the cost of property held for development and resale. Real estate properties held for development and resale are recorded at the lower of cost or net realizable value.

**(e) 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	4%	—	Sinking fund, 50 years
Equipment	20%	—	Declining balance
Parking lots	8%	—	Declining balance
Project improvements	20%	—	Declining balance

Amortization of revenue producing buildings is determined using the sinking fund method under which an increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 4% is charged to income so as to fully depreciate the buildings over their estimated life of 50 years. Financing and other related costs are deferred and amortized on a straight-line basis over a five-year term.

**(f) Income taxes**

The Corporation follows the tax deferral method in providing for income taxes, whereby the income tax provision is based on the income reported in the accounts. Under this method, deferred taxes arise primarily as a result of providing for amortization for income tax purposes on a different basis than for accounting purposes. Deferred income taxes are provided for on these differences at current income tax rates. In 1998, the provision for income taxes differs from the expected amount when the combined Canadian federal and provincial rates are applied, primarily because a portion of the net gain arising from the sale of properties is not subject to tax.

**(g) Per share calculation**

Basic net earnings and cash flow from real estate operations per share were calculated based on the weighted average number of shares outstanding for the year. The calculation of net earnings and cash flow from real estate operations per share on a fully diluted basis considered the potential exercise of outstanding share purchase options to the extent these options were dilutive.

**(h) Risk management and fair value*****Risk Management***

The Corporation is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its tenants. These risks are managed as follows:

**(i) Interest rate risk**

Interest rate risk is minimized through management's constant review of demand and maturing secured mortgages. If market conditions warrant, the Corporation has the ability to convert its existing demand debt to fixed rate debt. At May 31, 1998, the Corporation had demand debt outstanding of \$ nil (1997 - \$35 million). In addition, the Corporation structures its financings so as to stagger the maturities of its debt, thereby minimizing the Corporation's exposure to interest rate fluctuations.

**(ii) Credit Risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Corporation mitigates this risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect to all new leasing. In addition, where legislation allows, the Corporation obtains a security deposit to assist in a potential recovery requirement.

***Fair Value***

In accordance with the disclosure requirements of the CICA Handbook, the Corporation is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset. The fair value of the majority of the Corporation's financial assets and liabilities, representing net working capital, approximate their recorded values at May 31, 1998 due to their short term nature. In these circumstances, the fair value is determined to be the market or exchange value of the assets or liabilities.



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 May 31, 1998 are as follows:

	Carrying Value	Fair Market Value
Mortgages and accounts receivable	\$ 9,428	\$ 9,428
Mortgages payable	\$ 645,652	\$ 694,832

The fair value of the Corporation's mortgages payable exceeds the recorded value by approximately \$49.2 million at May 31, 1998 due to changes in interest rates since the dates on which the individual mortgages were assumed. The fair value of the mortgages payable has been estimated based on the current market rates for mortgages with similar terms and conditions.

**(i) Measurement uncertainty**

The accounting process requires that management make a number of estimates including the following:

- (i) economic useful life of buildings for purposes of calculating depreciation as disclosed in note 1(e)
- (ii) forecast of economic indicators in order to measure fair values of buildings for purposes of determining "net recoverable amount" under generally accepted accounting principles as discussed in note 1(d)

Management periodically reviews the useful lives of its properties to determine the adequacy of its depreciation policy. Economic indicators are also monitored to ensure that current information is used in projections of cash flow.

**(j) Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

*Note 2*

*Real Estate Properties*

	1998	1997
Revenue producing properties	\$ 871,444	350,421
Less: accumulated amortization	(15,017)	(5,787)
	856,427	344,634
Properties held for development and resale	30,819	18,338
	\$ 887,246	362,972

Included in the cost of properties held for development and resale are capitalized financing costs of \$1.2 million (1997 - \$718 thousand) less net operating revenue of \$ 2.1 million (1997 - \$38 thousand). All real estate assets are pledged as security against mortgages payable.



### Note 3

#### Mortgages and Accounts Receivable

The Mortgages and accounts receivable comprise an aggregate amount of \$9.4 million (1997 — \$10 million) which come due periodically up to May 31, 2003. The Corporation is currently earning a weighted average interest rate of 6.5% (1997 — 6.0%) on these amounts.

### Note 4

#### Other Assets

	1998	1997
Unamortized deferred financing costs	13,253	4,310
Prepaid	1,780	870
Inventory	701	374
Deposits on properties	214	600
	15,948	6,154

### Note 5

#### Mortgages Payable

##### (a) Revenue producing properties

	1998	1997
Mortgages payable bear interest at a weighted average rate of 6.45% (1997 — 6.92%) per annum, payable in monthly principal and interest installments totalling \$4.7 million (1997 — \$2.1 million) maturing from demand to 2013 and are secured by specific charges against specific properties.	\$ 628,186	\$ 300,851

##### (b) Properties held for development

Mortgages payable bear interest at a weighted average rate of 7.1% (1997 — 7.49%) per annum, payable in monthly principal and interest installments totalling \$133 thousand (1997 — \$65 thousand), maturing from 2000 to 2002 and are secured by specific charges against specific properties.	17,466	9,491
	\$ 645,652	310,342

##### (c) Demand facilities

The Corporation has two separate demand facilities with two separate financial institutions. These facilities are in the form of acquisition and operating lines of credit to a combined maximum of \$57.5 million (1997 - \$35 million), which were not drawn on as at May 31, 1998 (1997 - \$35 million). Security for these facilities consists of a combination of pledges of specific properties. These facilities carry an interest rate of prime plus 3/4% per annum, and have no fixed terms.



Estimated principal payments required to meet mortgage obligations as at May 31, 1998 are as follows:

	Revenue Producing	Development and Resale	Total
1999	\$ 167,541	\$ 204	\$ 167,745
2000	58,847	881	59,728
2001	57,659	11,861	69,520
2002	127,538	93	127,631
2003	78,083	4,427	82,510
Subsequent	138,518	–	138,518
	<u>\$ 628,186</u>	<u>\$ 17,466</u>	<u>\$ 645,652</u>

## Note 6

### Related Party Transactions

#### Property acquisitions

During the period ended May 31, 1998, the Corporation acquired a property from a related company for total consideration of \$1.8 million. The property is used as the Corporation's head office. As at May 31, 1998, \$1.1 million is included in accounts payable and accrued liabilities relating to the transaction. During the period ended May 31, 1997, the Corporation acquired four additional properties from a group of companies of which a board member is an officer and director. The transaction was recorded at an exchange amount of \$17.7 million. As part of the purchase, the Corporation issued 459,772 common shares at a deemed issue price of \$2.18 per share and 200,000 warrants to acquire 200,000 common shares on payment of \$2.18 per share. These warrants were exercised on October 21, 1996.

	1998	1997
Assets acquired		
Revenue producing properties	\$ 1,806	17,723
	<u>\$ 1,806</u>	<u>17,723</u>
Liabilities assumed		
Mortgages Payable	\$ 675	13,978
Vendor mortgage and other	–	2,099
	<u>\$ 675</u>	<u>16,077</u>
Consideration provided		
Common shares and warrants	\$ –	1,348
Cash	1,131	298
	<u>\$ 1,131</u>	<u>1,646</u>
	<u>\$ 1,806</u>	<u>17,723</u>



## Note 7

### Share Capital

#### (a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

#### Issued:

	Shares		Amount
May 31, 1998	45,459,999	\$	205,551
May 31, 1997	15,813,820	\$	30,354
Details of shares issued are as follows:			
	Shares		Amount
May 31, 1996	13,390,000	\$	13,441
1997			
On acquisition of assets	229,886	\$	1,000
On exercise of warrants	100,000	\$	783
On exercise of warrants	2,000,000	\$	15,500
Exercise of stock options	93,934		213
Less expenses relating to Special Warrant offering, net of income taxes of \$465 thousand	—		(583)
	15,813,820	\$	30,354
1998			
On exercise of warrants	3,000,000	\$	55,500
On exercise of options	71,701	\$	499
Stock dividend	18,885,521	\$	—
On issue of equity	3,300,000	\$	52,800
On acquisition of asset	19,730	\$	365
On issue of equity	3,335,000	\$	70,035
Exercise of stock options	1,034,227	\$	587
Less expenses relating to issue of equity, net of income taxes of \$2.5 million	—	\$	(4,589)
	45,459,999	\$	205,551

#### (b) Stock options

The Corporation has a stock option plan that provides for the granting to directors, officers and associates of the Corporation options to purchase up to 4,000,000 Common shares. As at May 31, 1998, there are a total of 2,832,270 (1997 — 2,913,132) options issued to directors, officers and associates. The exercise prices range from \$0.25 to \$22.48. These options expire periodically up to May 1, 2003.

*Note 8**Uncertainty Due to the Year 2000 Issue*

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a period. Date-sensitive systems may recognize the period 2000 as 1900 or some other date, resulting in errors when information using period 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

*Note 9**Subsequent Events***(a) Property acquisitions**

Subsequent to May 31, 1998, the Corporation has contracted to acquire 694 units for an aggregate purchase price of \$26.4 million. The acquisitions were financed through cash of \$20.3 million and a combination of the assumption of existing mortgages and vendor mortgages.

**(b) Property sale**

Pursuant to an Offer to Purchase dated July 31, 1998, the Corporation has agreed to sell a total of 184 units to an unrelated party for a purchase price of \$14.2 million. This transaction was completed on July 31, 1998 and will result in a significant gain to the Corporation.

**(c) Stock options**

Subsequent to May 31, 1998, the Corporation issued 200,200 share options to officers and employees of the Corporation. All options have a four year vesting period with 1/4th vesting on each anniversary date. These options expire up to August 2003.

*Boardwalk Equities Inc.*

**1 9 9 8   A N N U A L   R E P O R T**

*To Our Readers:*

Your feedback is important to us. To ensure the content of our Annual Report meets your needs as well as our own, we would appreciate your taking a moment to answer the following questions and mail this reply card.

Are you a:

- Shareholder
- Employee
- Analyst, portfolio manager, financial advisor
- Prospective investor

How much of the report did you read?

- < 5%
- 5-10%
- 10-25%
- 25-50%
- 50-75%
- > 75%

Please rate each section of the report on a scale of 1-3

Section of report	Did you read it	Length	Usefulness	Comments
	Yes/No	1-Short 2-Right 3-Long	1-Not 2-Avg 3-Very	How could we improve?

Letter to Shareholders .....

Review of Operations .....

MD & A .....

Please rate the report overall

- Poor
- Fair
- Good
- Very Good

Any general comments on the report or on our strategies?

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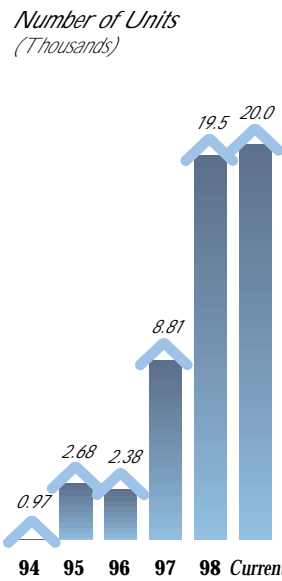
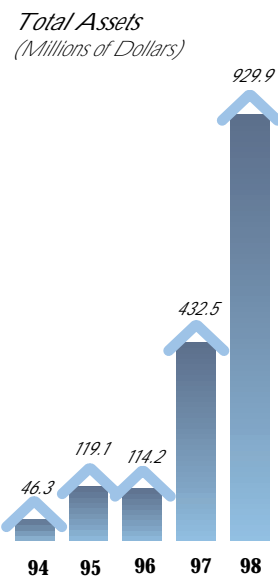
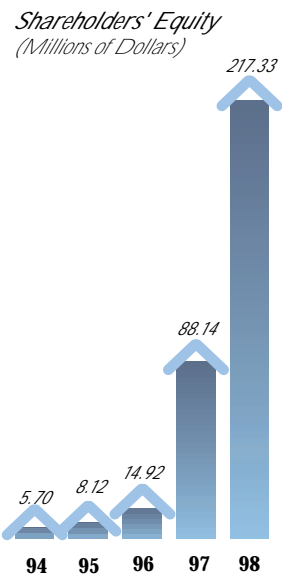
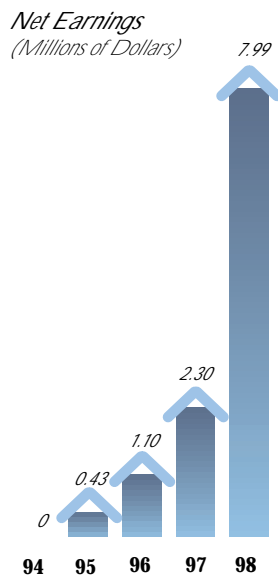
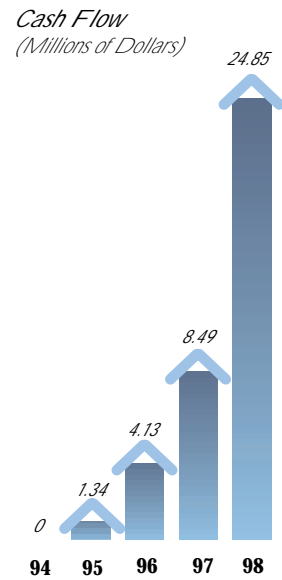
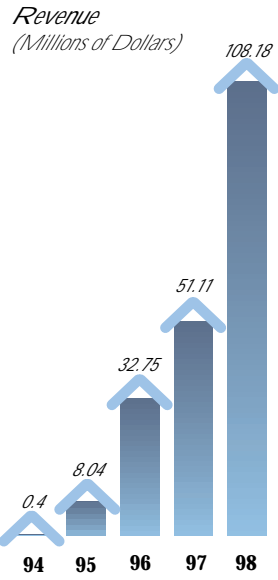
Thank you.



## Boardwalk Equities Inc.

## 1998 ANNUAL REPORT

(000's)	1995	1996	1997	1998
<b>Revenue producing properties</b>				
Rental income	6,362	14,434	29,078	<b>75,407</b>
Rental guarantee income	205	1,584	—	—
Gain on sale of revenue producing property	165	—	—	—
	<u>6,732</u>	<u>16,018</u>	<u>29,078</u>	<u><b>75,407</b></u>
<b>Operating expenses</b>				
Revenue producing properties	2,249	5,631	10,632	<b>27,276</b>
Financing costs	3,308	7,392	13,683	<b>26,055</b>
Amortization	601	1,780	3,481	<b>11,169</b>
	<u>6,158</u>	<u>14,803</u>	<u>27,796</u>	<u><b>64,500</b></u>
<b>Earnings before corporate charges</b>	574	1,215	1,282	<b>10,907</b>
<b>Cash flow before corporate charges</b>	1,175	2,995	4,763	<b>22,076</b>
<b>Sales of properties held for development and resale</b>				
Revenue	1,310	16,735	22,031	<b>32,768</b>
Cost of sales	864	14,899	14,892	<b>21,273</b>
<b>Income before corporate charges</b>	446	1,836	7,139	<b>11,495</b>
<b>Corporate charges</b>				
Administration	281	226	2,325	<b>6,844</b>
Large Corporations Tax	—	474	1,089	<b>1,878</b>
Deferred income taxes	307	1,253	2,703	<b>5,693</b>
	<u>588</u>	<u>1,953</u>	<u>6,117</u>	<u><b>14,415</b></u>
<b>Net Earnings</b>	432	1,098	2,304	<b>7,987</b>
<b>Earnings per share</b>				
— fully diluted	0.02	0.05	0.08	<b>0.20</b>
<b>Cash flow from operations</b>	1,340	4,131	8,488	<b>24,849</b>
<b>Cash flow per share</b>				
— fully diluted	0.6	0.16	0.30	<b>0.63</b>
<b>Balance Sheets</b>				
<b>Assets</b>				
Revenue producing properties	106,100	99,263	344,634	<b>856,427</b>
Properties held for development and resale	12,001	6,820	18,338	<b>30,819</b>
	<u>118,101</u>	<u>106,083</u>	<u>362,972</u>	<u><b>887,246</b></u>
Other assets	998	8,138	69,491	<b>42,640</b>
<b>Total assets</b>	<u>119,099</u>	<u>114,221</u>	<u>432,463</u>	<u><b>929,886</b></u>
Mortgage payable	105,228	94,651	310,342	<b>645,652</b>
Other liabilities	5,751	4,646	33,982	<b>66,909</b>
	<u>110,979</u>	<u>99,297</u>	<u>344,324</u>	<u><b>712,561</b></u>
Shareholders' equity	8,120	14,924	88,139	<b>217,325</b>
<b>Total liabilities and shareholders' equity</b>	<u>119,099</u>	<u>114,221</u>	<u>432,463</u>	<u><b>929,886</b></u>
Common shares outstanding (000)	23,500	26,780	31,628	<b>45,500</b>
Share price May 31, (\$)	1.08	3.75	9.88	<b>22.00</b>
Market capitalization (\$Mm)	0.025	0.100	0.3123	<b>1.001</b>
<b>Number of units</b>	2,676	2,383	8,810	<b>19,507</b>
Real estate asset value per unit	44	45	41	<b>45</b>
Mortgage payable per unit	39	40	35	<b>33</b>
<b>Net rentable square feet (000)</b>	2,160	1,871	7,590	<b>16,500</b>
Real estate asset value per square foot	55	57	48	<b>54</b>
Mortgage payable per square foot	49	51	41	<b>39</b>
<b>Average net rentable SF per unit</b>	807	785	862	<b>846</b>
<b>Mortgage weighted average interest rate</b>	8.46%	7.98%	6.92%	<b>6.45%</b>



**Boardwalk Equities I nc.**

**Suite 200,**

**1501 - 1st Street S.W.**

**Calgary, Alberta**

**T2R OW1**

**Attention: Mr. Massimo Geremia**