

Letter to Our Shareholders

Dear Shareholders

Following a record 1999 at Boardwalk, we have now begun our millennium year by again posting record profits and successfully entering new markets during the first quarter of our 2000 fiscal year. We added roughly \$300 million in assets to our balance sheet over the past 12 months, and at the same time, reduced our overall cost of long term mortgage debt to a historic low of only 6.27%. We also reduced our overall vacancy rate from roughly 7% at the start of the quarter, to just over 3% entering our second quarter reporting period. Moreover, we continue to evaluate numerous acquisition opportunities, as well as expand our E-commerce platform. Our major refurbishment programs are still underway, and an ever-increasing number of our rental units are entering the stabilized phase of their Boardwalk tenure. In other words, we have been very busy at Boardwalk — but not so busy as to lose sight of our main objective — that of customer satisfaction and providing true rental value. We have done so in the face of a difficult equity market for real estate, and the benefits of our internally sustainable cash flow are beginning to be realized.

Some of the more meaningful financial results for the three month period ending August 31, 1999 include:

- ❖ **Total revenues of \$51.4 million, up \$5.7 million, or 12% from 1999's \$45.7 million.**
- ❖ **Net rental income of \$13.8, up \$4.3 million or 45% from \$9.5 million posted in 1999.**
- ❖ **Cash flow from operations of \$19.1 million (\$0.40 per share), up 27% from 1999's \$15.1 million (\$0.33 per share).**

In addition to these financial highlights, the following operational activities should also be noted.

- ❖ **A successful \$46 million equity issue to facilitate our eastern expansion on an accelerated basis. This underwriting further broadened our institutional and retail shareholder base in both Canada and the U.S.**
- ❖ **The profitable disposition of an underimproved excess land holding which will allow major refurbishing to take place on the balance of the project on both an economic and practical basis.**
- ❖ **The overall reduction in interest rate of our long term debt from the May 31, 1999 rate of 6.33 percent to 6.27 percent - further mitigating short term interest rate risk.**

These financial results are only a partial measure of our true success in becoming Canada's largest affordable housing provider. Our innovations in the technology sector are at the threshold of yielding additional revenue in the form of higher occupancy levels and the generation of ancillary income. We continue to build relationships with recognized third party suppliers of goods and services, which will eventually result in a wide choice of value oriented options for our customers and added performance for our shareholders.

Boardwalk continues to operate with the backdrop of strong economic indicators in all our existing markets. Job growth, unemployment levels and overall vacancy rates all bode well to maintain sustained strong demand for quality rental housing. The Alberta economy in particular, where the majority of our assets are located, looks exceptionally strong in the wake of renewed strength in energy prices. Still, even with our increased rental levels, economic justification for new construction is absent in all our markets — thereby

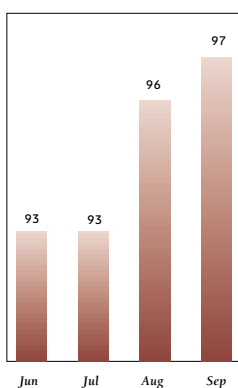
ensuring strong demand for the foreseeable future. In short, our future is highly promising, and our company has vast, untapped potential which will be realized.

Review of Operations

The first quarter of Boardwalk's 2000 fiscal year continued to show significant improvement in overall operations. With substantial increases in revenue that have translated to increased cash flow from operations, and, more importantly, an increase in cash flow recorded on a per share basis, Boardwalk has taken a large step in meeting market expectations for the company.

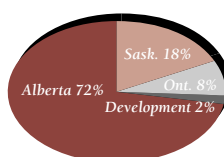
Boardwalk's largest source of stable cash flows comes from our revenue producing properties. During the first part of fiscal 2000, Boardwalk has added a total of 1,428 units to its portfolio and has since contracted to acquire an additional 340 units. The purchase price of these units was \$84.4 million or \$47,700 per unit. With the inclusion of these properties, Boardwalk's portfolio has grown to 24,068 units located in three separate provinces in Canada. Average rental rates for the first quarter, on a portfolio wide basis, have increased to \$599 as compared to \$550 for the first quarter of 1999 and \$592 for the fourth quarter of 1999.

Boardwalk Occupancy Rate
Percent

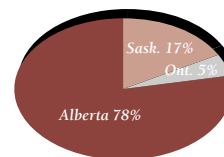


The first quarter of 2000 brought Boardwalk's first major step into the Ontario marketplace. Ontario is the largest market in Canada, and a natural fit for Boardwalk's proven strategy. Ontario operations, although in their infancy, have already begun to show many signs of promise. With lower than anticipated occupancy in a market that is characterized by increasing demand and relatively low new supply, the key market indicators are in place to maximize the effect of the Boardwalk process.

Boardwalk Portfolio
August 31, 1999 — Percent

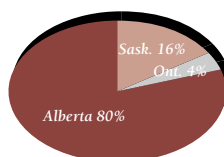


Rental Revenue
Percent

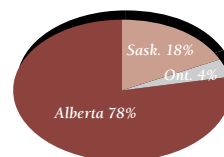


Boardwalk's largest portfolio is located in Alberta, which continues to be one of the economic leaders in Canada and shows strong growth for the company. For the first quarter of 2000, Boardwalk's average rent for its Alberta Portfolio was \$611 as compared to \$550 for the same period in 1999, an increase of 11.1 percent. The average occupancy rate during this period of time was approximately 93%. This rate has increased dramatically in the month of August, to 97% - which bodes well for the second quarter of 2000.

Net Operating Income
Percent



Net Rental Income
Percent

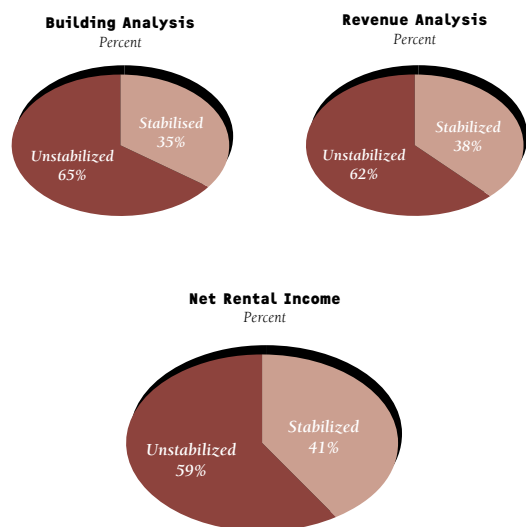


Boardwalk's Saskatchewan portfolio continues to show improvement. With rents averaging \$543 per unit as compared \$492 for the same period in 1999, and occupancy averaging 95% for the quarter, the Saskatchewan

portfolio has begun to show signs of maturity. As with the Alberta portfolio, the month of August 1999 shows a strong net absorption of units, with occupancy for the month of August 1999 in excess of 99%.

Stabilized Unit Analysis

Boardwalk continues to show a dramatic improvement in its stabilized properties, defined as buildings that were owned for a twenty-four month period prior to the respective August 31, 1999 reporting date. The total units classified as stabilized, numbering 8,256, represent just 35% of Boardwalk's entire announced portfolio. Results show that gross rental revenues generated were up 10% to \$15.6 million, as compared to \$14.1 million for the same 3 month period ended August 31, 1998. Net rental income, defined as rental revenue less direct operating and financing charges, has increased in excess of 35% to \$5.6 million from the \$4.2 million recorded in August of 1998. This significant improvement underlines the phenomenon of positive rental adjustments directly impacting net rental income due to the more or less fixed nature of expenses on stabilized properties.



The review of the existing portfolio, with an eye to properties having a highest and best use beyond pure rental, has always been a directive of the Boardwalk model. On a regular basis, properties are selected to be sold on a bulk basis, with the equity released on the sale reinvested back into the organization to assist with other value creating projects. During the first quarter of 2000, Boardwalk divested itself of 167 units, representing a partial sale of a large property with significant excess density provisions. It is the company's intention to substantially renovate the balance of the units in this project, which enjoys an excellent location.

Financing Review

Boardwalk continues to take advantage of the existing financing market. Although current interest rates are slightly higher than those recorded 12 months ago, debt capital is still at very advantageous rates given existing acquisition parameters. Boardwalk's overall weighted average interest rate at August 31, 1999 was 6.27% - a rate which has decreased from the 6.33% recorded at May 31, 1999. Boardwalk continues to review its existing debt, and where advantageous, will refinance these loans at more favorable rates with significantly longer maturity terms. Assisted by strong gains in rental revenues, financing costs continue to decrease as a percentage of total rental income, with interest coverage ratios at record high levels for the corporation.

A Look Ahead

The future at Boardwalk appears extremely promising. Operating from a stable base in Western Canada, with an ever-strengthening economic backdrop, our eastward move into a market five times as large, is

timely and provides unparalleled opportunity. We plan to continue our portfolio growth in Eastern Canada, as well as within our established Western Canadian markets. At the same time, we will further bolster our internally generated cash flow through a combination of decreased operating and financing expenses, positive rental adjustments reflecting our extensive upgrading programs, and greater efficiencies through advanced technology and bulk purchasing capability. All these initiatives will further enhance shareholder value and the overall performance of the company. Boardwalk is again on track to set yet another record year of financial results.

We wish to again thank our numerous stakeholders, representing customers, associates, suppliers and shareholders. Without your unwavering support, we would not have enjoyed the corporate success experienced over the past five years. By continuing to work together with a common focus, our mutual success is imminent.

On behalf of the Board,



Sam Kolas

President and Chief Executive Officer



George J. Reti

Executive Vice President

22 October, 1999

Financial Statements

Consolidated Balance Sheets

August 31, May 31,
(Thousands of dollars) 1999 1999

(Unaudited) (Audited)

Assets

Revenue producing properties	1,158,473	1,064,781
Properties held for development and resale	27,099	28,882
Mortgages & accounts receivable	27,178	23,513
Other assets	33,666	30,633
Cash and short term investments	1,430	—
	<u>1,247,846</u>	<u>1,147,809</u>

Liabilities

Mortgages payable	913,256	867,757
Accounts payable and accrued liabilities	18,111	14,595
Deferred income taxes	19,864	16,126
Refundable security deposits and other	7,023	6,382
Bank indebtedness	—	4,388
Income taxes payable	1,876	1,170
Payable on property acquisitions	—	182
	<u>960,130</u>	<u>910,600</u>

Shareholders' Equity

Share capital	255,958	210,628
Retained earnings	31,758	26,581
	<u>287,716</u>	<u>237,209</u>
	<u>1,247,846</u>	<u>1,147,809</u>

**Consolidated Statement
of Earnings and Retained Earnings**

For the three months ended August 31

(Thousands of dollars, except per share amounts) (Unaudited)

	1999	1998
Revenue		
Rental income	40,458	31,498
Sales - properties held for development and resale	10,908	14,199
	<u>51,366</u>	<u>45,697</u>
Operating expenses		
Revenue producing properties	13,211	11,323
Cost of sales - properties held for development and resale	1,798	6,310
Administration	3,144	1,834
Financing costs	13,434	10,641
Amortization	9,298	5,383
	<u>40,885</u>	<u>35,491</u>
Operating earnings before income taxes	<u>10,481</u>	<u>10,206</u>
Large corporations taxes	657	456
Deferred income taxes	4,647	3,663
Net earnings	5,177	6,087
Retained earnings, beginning of period	26,581	11,774
Retained earnings, end of period	<u>31,758</u>	<u>17,861</u>
Earnings per share - Basic	<u>0.11</u>	<u>0.13</u>
- Fully diluted	<u>0.11</u>	<u>0.13</u>

**Consolidated Statement
of Cash Flow from Operations**

(Thousands of dollars, except per share amounts) (Unaudited)

	1999	1998
Net earnings	5,177	6,087
Items not affecting cash		
Amortization	9,298	5,383
Deferred income taxes	4,647	3,663
Cash flow from operations prior to changes in non-cash working capital	<u>19,122</u>	<u>15,133</u>
Per share - Basic	<u>0.40</u>	<u>0.33</u>
- Fully diluted	<u>0.40</u>	<u>0.33</u>

Consolidated Statement of Cash Flows

For the three months ended August 31

(Thousands of dollars, except per share amounts) (Unaudited)

	1999	1998
Cash obtained from (used in):		
Operating activities		
Cash flow from operations	19,122	15,133
Net change in non-cash working capital	(3,979)	(13,733)
Decrease in properties held for development and resale	1,783	4,187
	<u>16,926</u>	<u>5,587</u>
Financing activities		
Issue of common shares, net of offering costs	45,330	341
Financing of revenue producing properties	172,477	80,477
Repayment of secured debt on revenue producing properties, unsecured debt and other debt, net	(134,869)	(69,638)
Reduction of secured debt on properties sold	(4,734)	(190)
	<u>78,204</u>	<u>10,990</u>
Investing activities		
Purchases of revenue producing properties net of liabilities assumed of \$12,443 (1998 - \$1,718)	(60,608)	(20,105)
Project improvements to revenue producing properties	(28,704)	(15,511)
	<u>(89,312)</u>	<u>(35,616)</u>
Increase (decrease) in cash balance during the period	5,818	(19,039)
(Bank indebtedness) cash balance, beginning of period	(4,388)	17,054
Cash balance (bank indebtedness), end of period	<u>1,430</u>	<u>(1,985)</u>

Notes to Financial Statements

For the Three Months Ended August 31, 1999

Note 1 - Subsequent Events

Property Acquisitions

The Corporation has agreed to acquire from arm's length parties a total of 300 units in Windsor, Ontario. The terms of the agreements include a total purchase price of \$12 million to be financed through cash and the assumption of \$6.4 million in existing mortgages. All of the above transactions closed on or prior to September 29, 1999.

Note 2 - Statement of Cash Flows

Effective June 1, 1999, the Company adopted, retroactively, the new recommendations of The Canadian Institute of Chartered Accountants with respect to the presentation of Statement of Cash Flows. Prior period figures have been restated for comparison purposes.

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George J. Reti
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Van Kolias
Calgary, Alberta
Kevin P. Screpnechuk
Calgary, Alberta
A. Gordon Stollery
Calgary, Alberta
Paul J. Hill
Regina, Saskatchewan
David V. Richards
Calgary, Alberta
Michael D. Young
Dallas, Texas

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Registrar & Transfer Agent

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600, 530 - 8th Avenue SW
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Stock Exchanges

The Alberta Stock Exchange
The Toronto Stock Exchange
The Montreal Stock Exchange
Trading Symbol: **BEI**

Boardwalk Equities Inc.

Q1



**2000
First
Quarter
Report**



BOARDWALK

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Q2



**2000
Second
Quarter
Report**

Q3



**2000
Third
Quarter
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