

digitalhabitat



BOARDWALK

Annual Report
December 2000

Boardwalk is pioneering an entirely new paradigm in the real estate and property management industry.

We have chosen to call this principle of providing unprecedented customer convenience **digitalhabitat**.

By utilizing our extensive real estate asset base while embracing the technology of the new economy, we are now positioned to create profound value for both our customers and shareholders. We believe that our responsibility toward our customers doesn't end at the front door of their residence; it must extend into their lives in valuable, meaningful ways to make a connection that goes beyond what it means to be a landlord.

It's a vision of a new kind of relationship with our customers; one that begins right in their living rooms.

a new **paradigm**



digital

A warm, sunlit dining room. In the center is a round, light-colored wooden table with four matching chairs. The chairs have striped, patterned seat cushions. On the table, there is a glass bowl of fruit, a small vase, and some plates. In the foreground, a dark brown dog is walking across a beige carpet. To the left, a portion of a glass-topped coffee table is visible. In the background, there is a white door with a window and a window with white blinds. Sunlight streams in from the window, creating bright patches on the carpet.

habitat

digital

250,000 simultaneous phone calls

120 entertainment channels

100 megabit intranet connection

habitat

45,437% five-year revenue growth

50,000 customers

25,000+ units



value



habitat

ELBOW TOWERS, CALGARY, ALBERTA

value

- 1.6 billion** current enterprise value
- 2.5 billion** current replacement cost
- 900 million** potential value growth

habitat

40% rise in average house price – 20 years

10% reduction in average rental rates – 20 years

#1 housing value in North America



digitalconvenience

720,000

inquiries fielded by our call centre

6 million

automated "Transact" transactions

12 million

annual hits on corporate website



http://www.clubboardwalk.com/visitor/menu.htm

Visitor Building Name

Welcome Club Bo@rdw@lk Visitor



CLUBCLUBCLUB BO@RDW@LK

BOARDWALK
www.clubboardwalk.com

MAIN MENU

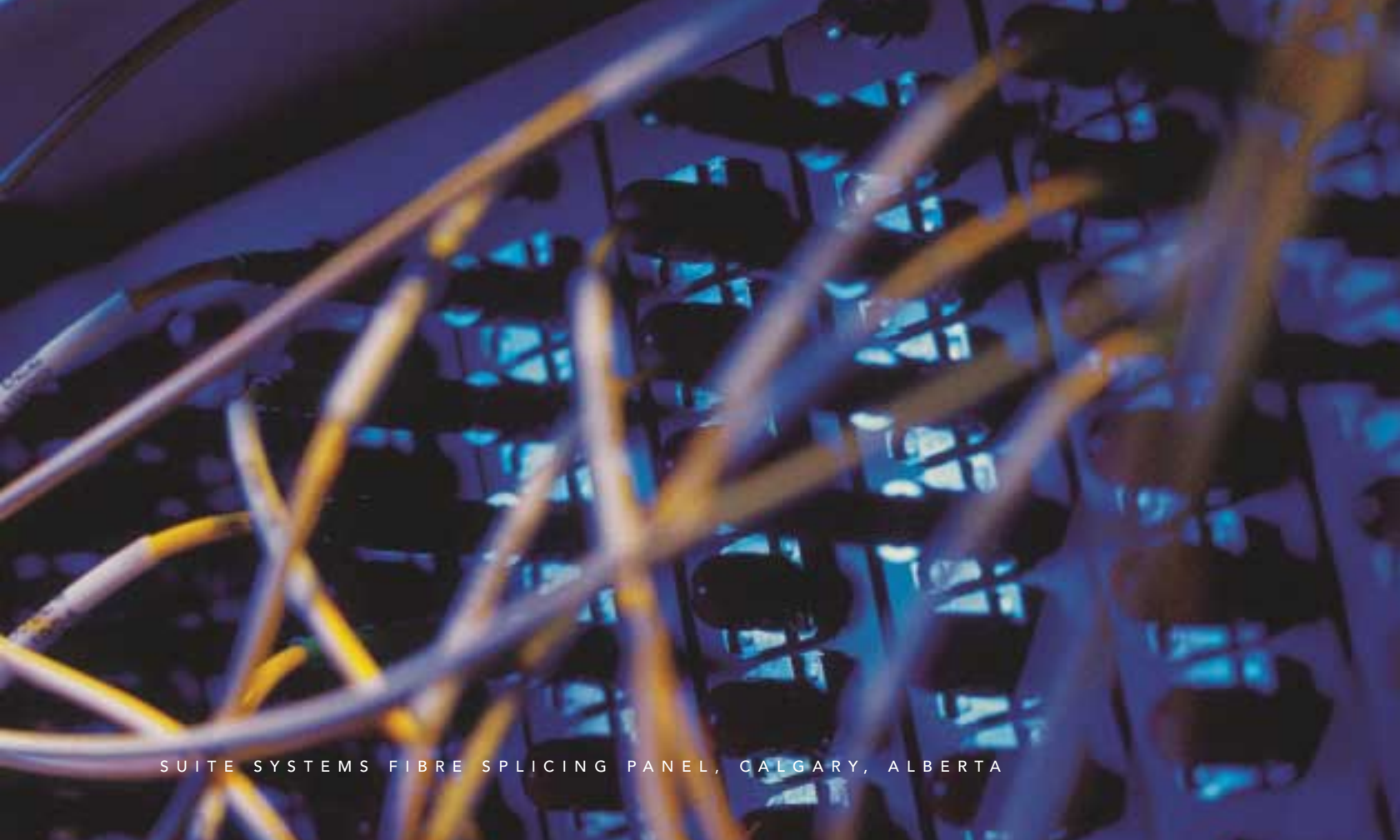
ACCOUNT BALANCE

CURRENT MAINTENANCE

MAINTENANCE REQUEST

Club Boardwalk Visitor

CALL **310-WALK**
FOR MORE INFORMATION



SUITE SYSTEMS FIBRE SPLICING PANEL, CALGARY, ALBERTA



Popcorn

digitalentertainment

10 million+

residents in broadcast areas

1,200

video movie storage capacity

100%

on TV screen channel guide





SUITE SYSTEMS DISH FARM, CALGARY, ALBERTA



digitalconnection

One

backbone, multiple services

100%

home runs to each unit

100%

optical gig Ethernet network

Address <http://www.suitesystems.com>

suitesystems
CONNECTED COMMUNITY

Company Information

Customer Offering

Customer

**PROPERTY MANAGERS -
Opportunity To
Increase
Desirability and
Revenue**

Increase your property value with



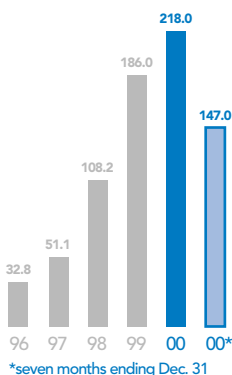
financial highlights

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

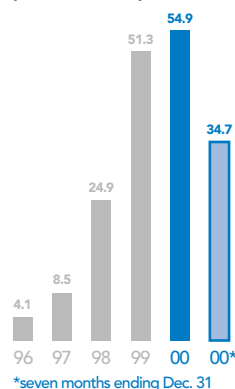
	7 months ending December 31	Years ended May 31				
	2000	2000	1999	1998*	1997*	1996*
Total revenues	147,082	217,971	186,000	108,200	51,100	32,800
Revenue producing properties						
Rental income	110,771	178,147	140,590	75,407	29,078	14,434
Rental guarantee income	–	–	–	–	–	1,584
	110,771	178,147	140,590	75,407	29,078	16,018
Operating expenses						
Revenue producing properties	14,121	22,471	20,050	12,716	4,201	2,349
Property taxes	11,004	18,431	12,285	6,747	3,437	1,632
Utilities	14,713	20,140	14,595	7,813	2,994	1,650
Financing costs	37,425	58,212	46,401	26,055	13,683	7,392
Amortization	27,811	38,177	26,545	11,169	3,481	1,780
	105,074	157,431	119,876	64,500	27,796	14,803
Earnings from rental operations	5,697	20,716	20,714	10,907	1,282	1,215
Cash flow before corporate charges	33,508	58,893	47,259	22,076	4,763	2,995
Sales of properties held for development and resale						
Revenue	36,311	39,824	45,382	32,768	22,031	16,735
Cost of sales	24,258	24,017	28,532	21,273	14,892	14,899
Income from sales of properties	12,053	15,807	16,850	11,495	7,139	1,836
Corporate charges						
Administration	8,924	16,891	10,444	6,844	2,325	226
Large corporations tax	1,913	2,881	2,414	1,878	1,089	474
Income taxes [recovery]	[8,652]	6,306	10,221	5,693	2,703	1,253
	2,185	26,078	23,079	14,415	6,117	1,953
Net earnings	15,565	10,445	14,485	7,987	2,304	1,098
Earnings per share – basic	0.32	0.21	0.31	0.20	0.08	0.05
Cash flow from operations	34,724	54,928	51,251	24,849	8,488	4,131
Cash flow per share – basic	0.71	1.12	1.11	0.63	0.30	0.16

*Amounts reported have not been adjusted to reflect the change in accounting for future income taxes.

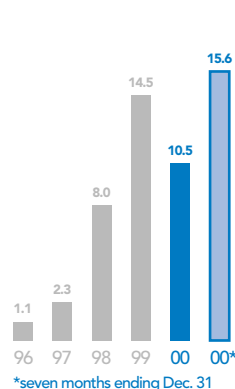
Revenue
[CDN\$ MILLIONS]



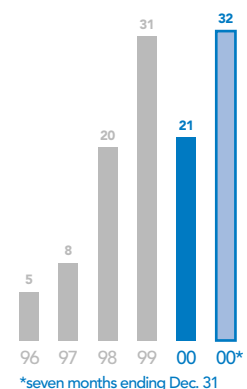
Cash flow from operations
[CDN\$ MILLIONS]



Net earnings
[CDN\$ MILLIONS]



Earnings per share
[CENTS]



letter to shareholders

Dear Shareholders, 2000 was a year of transition and adaptation for Boardwalk. We watched the value deflation of the technology sector and its effect on the most robust stock market in recent history. Energy prices soared and property taxes jumped, forcing property owners to operate more and more efficiently in response. Technology continued to pervade people's lives in direct, tangible ways and through it all, our commitment to our customers and our shareholders remained as constant as when we first started: "to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction." It is our relentless commitment to this mission that has carried us this far and will carry us still further, creating significant additional value in the years to come.

It is important to note that effective December 31, 2000, Boardwalk changed its fiscal period end to December 31 from May 31. For the purposes of this annual report, the following discussion focuses on the audited seven months ending December 31, 2000 compared to the audited results for the twelve months ended May 31, 2000.

The outlook

People ask us time and again "What does the future hold for Boardwalk?" and "What are you going to do with the business moving forward?" The answer is always the same – we will stay the course. But doing so doesn't mean resting on our laurels and letting operations take care of themselves. It means refining this business, making it run more efficiently, and developing new, creative ways to generate revenue and value both for our customers and shareholders. Now, all this has the opportunity of being completed with the strongest economic backdrop Alberta has seen in 20 years. Fortunately, this is where the majority of our properties are located.

We are now beginning to reap the rewards of our business model. Boardwalk holds the single largest portfolio of residential properties ever amassed in Canada, with an enterprise value of \$1.6 billion. This comprises some 25 million gross square feet of residential real estate occupied by over 50,000 residents. The fundamentals in the multi-family rental business remain strong, with attractive demand/supply characteristics and market rents still well below replacement cost rents. Our current in-place rents of only \$637 per month are hundreds of dollars below replacement cost rents. The conclusion? We are well positioned with a portfolio heavily weighted in markets that are projected to show above average economic growth over the next several years.

This real estate portfolio alone is responsible for a steady and growing revenue base that makes us a profitable and valuable company. Leveraging this considerable asset base to create still more value for our shareholders has been the challenge – one we are now poised to meet and capitalize on in ways no one could have foreseen. Through Suite Systems Inc., our wholly-owned subsidiary, we are unlocking untapped opportunity within our asset base and maximizing value not only for our customers but our shareholders as well.

A simple concept – carefree living

Unlocking the untapped value inherent in our existing assets means coming up with novel ways to deliver carefree living to residents. We must leverage what we have and make something greater of it. We are providing enhanced lifestyle services that residents can and will use on a proprietary basis, rather than having to go outside our buildings to get them. That is the logic at the root of the carefree living concept and the reasoning behind the Suite Systems Inc. business model. Boardwalk residents will not only have access to high-quality accommodations, but also a suite of lifestyle services. Things like digital television service, high-speed Internet access, telephone service, online computer games, video-on-demand, and a shop-at-home service through HomeXpress will all be available for a fee. The best part is that these are services people use all the time. We will just offer them in a better way and at a higher level of quality, and we will offer them cost-effectively. That is how we are enhancing value for our residents and creating it for our shareholders.

Real estate – our foundation

Boardwalk Equities Inc. is built and remains focused on a solid foundation of real estate. Acquisitions for the December 31, 2000 fiscal period were restrained compared to previous periods, reflecting a highly disciplined approach to portfolio expansion. That discipline is vital to the balanced growth of the company and remains the hallmark of our business. We are currently in various stages of discussions with owners of a number of portfolios in existing and new markets, and we are cultivating new relationships with a number of institutional real estate investors. We believe these discussions will positively impact our operations, resulting in mutually beneficial, long-term strategic partnerships.



Through value enhancement initiatives, we are offering our residents additional services, outfitting our properties with new amenities and ultimately, strengthening our presence in the real estate sector. These initiatives will allow us to generate significant additional value from assets we already have.

For many years now, Boardwalk has been a leader in applying innovative technological solutions to the real estate and property management industry to enhance value. This past year we consolidated that leadership role through a number of initiatives:

Online management. The roll-out of our web-enabled, real-time property management system, unique in the multi-family sector.

Real estate portfolio. Boardwalk will offer Suite Systems Inc. services within our exiting portfolio of properties to create significant value for core operations. Speaking conservatively, if we can command an additional \$25 per month rent premium through value-added services, the result, in time, could top \$100 million in increased value on our existing properties.

Investment in Suite Systems Inc. Boardwalk's interest in Suite Systems Inc. has the potential to realize multiple returns on the overall initial investment. This return will be realized through the adaptation of existing Boardwalk properties, and an eventual roll-out to outside, third-party owners and their properties. The potential spin-off of Suite Systems Inc. as a separate entity will yield a significant reduction to general and administration expenses for Boardwalk.

We believe that these innovations will keep us at the forefront of the multi-family sector and will enable us to reap significant benefits in the years to come.

Success based on the three C's of technology

Fundamental to the success of Boardwalk's technology initiative is the concept of the three C's – Content, Connectivity and Customers. The difficulties witnessed in the technology sector over the last year are a direct result of an undeveloped understanding of the need to have all three C's accounted for in a technology roll-out. Many companies had content, but without customers to whom they could sell that content, their fates were sealed. Other companies had customers, but with no content to provide them, the result was inevitable. The fulcrum on which content and customers balance is connectivity and Boardwalk has it. We are building North America's first converged services optical fibre Ethernet network. With this network, we can deliver desired content more cost and technologically effectively than anyone else. And customers? As mentioned, we have over 50,000 already occupying the buildings we are wiring, as well as extensive relationships with owners of both large and small apartment and condominium portfolios across Canada and into the United States.

Financial performance

What enabled us to get to this point was yet another period of internal revenue growth in our core real estate operations, resulting in a balance sheet that has never looked better. All financial performance indicators were also up significantly, including average unit rental rate and occupancy rates. Available liquid capital now consists of over \$75 million. The adjusted occupancy rate now stands at 95%. Combined, these factors enabled us to launch the Suite Systems Inc. initiative using less than 2% of Boardwalk's enterprise value – a significant achievement.

The year was not without its challenges however. Utility costs per share and property taxes per share increased by over 100% over the past three year period. This effectively served to stall per share growth by some \$0.40 – certainly not what we had expected given otherwise good prospects for real estate. Management is adamant that these utility and tax hikes represented an unprecedented, once-in-a-lifetime jump that was unforeseeable. The recovery process has already begun, with rental rate adjustments, the successful appeal of a number of property assessments and the securing of favourably priced utility contracts.



Milestones

The ongoing prosperity of our real estate operations and successful implementation of the Suite Systems Inc. initiative comprised a number of milestones:

- December 31, 2000, Boardwalk changed its fiscal period end to December 31 from May 31;
- Boardwalk secured a listing on the New York Stock Exchange – This tremendous achievement represents an undeniable endorsement of our track record by the world's most recognized stock exchange;
- Over \$225 million was invested in capital upgrades to our properties over the last four years;
- Stabilized properties now comprise some 19,916 units, or 80% of the overall portfolio – a jump of 8 percentage points over the May 31, 2000 year-end;
- Class 1 BDU – Boardwalk, through Suite Systems, became the first ever real estate company to secure a multi-regional broadcast distribution undertaking license from the CRTC. This is historic in that it is the single largest territory ever approved in one application, with over 10 million residents;
- Boardwalk successfully trialed its digital television and internet offering to selected customers with highly positive results;
- The roll-out of the first web-enabled property management system in North America was successfully completed;

All this was accomplished by reinvesting capital generated solely from core real estate operations.

The plan going forward

As mentioned, the plan going forward is to stay the course. That is something we cannot over-emphasize. We are still firmly focused on our original goal of delivering carefree living. That goal has always defined our strategy. Boardwalk was built on strategic, reasonable growth with resources allocated appropriately. We are not interested in growth for growth's sake; bigger companies don't create value, better ones do.

In our bid to become that better company, we now find ourselves standing at a crossroads. We could hold back and simply continue profitable operations based on our existing assets, or we can diversify our service offering and begin to drive revenues from new, lucrative sources. We firmly believe the latter course of action will benefit our customers and our shareholders the most.

We will build on this strategy as we move into the forthcoming year and deliver a more rewarding, carefree lifestyle to customers and true value to shareholders. Through Suite Systems Inc. and its fulfillment arm HomeXpress, Boardwalk is poised to leverage existing real estate assets with technology and open revenue streams and value creation initiatives unheard of in the real estate and property management industry. We are now beginning to deliver on the promise hinted at last year.

Before we get to the hard facts, we would like to take the opportunity to thank our shareholders, customers, partners, contractors, and financiers, as well as our service providers, employees, associates and all their families for their unflagging support of Boardwalk. Our prosperity or future prospects would not be possible without you.

The horizon is clear, let's seize our vision.

On behalf of the Board

Sam Kolia
President and Chief Executive Officer

George J. Reti
Executive Vice President



a meta-company

CENTURY TOWERS, CALGARY, ALBERTA

A pioneer of the new economy. Participating in the new economy doesn't mean Boardwalk is changing direction. Our focus has always been on real estate, property management and delivering carefree living. This will remain our focus. With the activation of Suite Systems Inc. within the greater Boardwalk real estate superstructure, we are building what we call a **meta-company**. The term "meta" implies transcendence. It denotes a multi-faceted nature as well as a fortuitous combination of basic elements that produce something that is more than the sum of its parts. For us, it means that Boardwalk is a corporation that is able to leverage its underlying real estate asset base to create profound customer and shareholder value on a scale unprecedented in the industry.

This is done through embedded technology initiatives that present customers with features and services that are both valuable and desirable. The fact is, Boardwalk is not pioneering new technology, just a new value proposition. By offering customers a choice in where and how they access vital services like communications and entertainment, we are addressing a demand for those services. The difference is we do it better than the competition and we do it for less – the same thing we have done in our core real estate business for the last 17 years.

Building on proven success. The meta-company that is Boardwalk exists only through the ongoing prosperity of its core operations in property management and acquisition. Real estate operations will continue to focus on strategically enhancing the portfolio of holdings and rental cash flow and realizing the tremendous imbedded value in our portfolio. The best way to accomplish that is to do what we have done since the beginning – provide unbeatable housing value for our customers.

solid core business

tremendous potential

We will continue to draw on the proven skill of our management team to execute our mandate to deliver the best in carefree living. Attention will be on satisfying the persistent demand for affordable housing through our tried-and-true acquisition and renovation strategy. This will enable us to deliver the superior product we are known for at the competitive rates that retain residents. To that end, we plan to expand farther into our traditional markets in Alberta, Saskatchewan and Ontario. We are also assessing the feasibility of moving into the Quebec market, though plans are in their formative stages at this time.

The imbedded value in the Boardwalk portfolio derives from a latent rental rate disparity. Looking back 20 years, when the majority of our properties were being built, monthly rents of \$800 to \$850 were normal as they were economically designed to recover the construction costs associated with these properties. Boardwalk's average apartment rents are approaching \$640 per month; a difference of about \$200 from 20 years ago. While housing values over this time have increased dramatically, rents have not followed suit (average homes in Calgary went from \$135,000 in 1981 to over \$185,000 in 2000; an increase of \$50,000). The fact is that rents are long overdue for an increase, with fewer rental units in inventory today than 20 years ago due to condominiumization in some markets. For Boardwalk that means that by adjusting the average monthly rent on our properties to match figures from 20 years ago, we could generate an additional \$60 million a year from existing properties alone (25,000 suites at \$200 extra per month over 12 months). That is the imbedded value inherent in Boardwalk Equities Inc. and it represents tremendous, unrealized value to shareholders.

The meta-company – an entity born of demand. If we take a look back through the history of rental accommodation, a trend toward increasing service becomes apparent. Thirty years ago, you may have received a refrigerator and stove with your apartment; appliances you would have bought yourself up to then. The reason they showed up in your apartment was because there was a demand for these services and landlords responded by accommodating that demand. Laundry facilities followed soon thereafter, but the trend, for most operators, seems to have stopped at that point. Obviously, building methods became more sophisticated providing increasingly higher quality accommodations, but no real added value was manifested otherwise.

Today, people move into an apartment, call up the phone company and the cable company, wait for a serviceman to arrive and hook them up and pay whatever the installation fee is plus their monthly charges. With the proliferation of information technologies, people are demanding access to high-speed Internet connections and other value-added in-suite services. At Boardwalk we are responding to the demand for a choice in how and who delivers these services. The premise is simple – why not offer services people are using already, but more conveniently, more cost effectively and above all, better? And why stop at laundry?

Going beyond rent. These are precisely the questions Boardwalk is answering through technology initiatives like Suite Systems Inc., which has furnished us the opportunity to deliver on our promise of carefree living in a comprehensive way. It has also provided us the opportunity to open up whole new revenue streams derived from our existing asset base.

Over **\$225 million** invested in capital upgrades to properties over the last four years.

The process will be simple: A customer signs his/her lease agreement. That customer would then usually have to call the phone and cable companies and go through all the hassles of getting communications and entertainment connections activated. Through Suite Systems Inc. that customer can sidestep the existing monopolistic telecommunications and cable companies in favour of our solution. We will offer a complete package of telephone, cable and Internet services on a bundled basis. And it is better than anything out there now – fibre-optic cable with North America's only full gig Ethernet converged services network. The best part is that there will be no waiting to get these services. They will be already there, dedicated to Boardwalk customers. We will only need to activate the specific unit that customer has rented. It is that simple, it is that powerful.

Scalability – the key to enhanced revenues. Because Suite Systems Inc. is scalable according to demand, we are never in a position where we risk major capital up front to deploy our services. Unlike a "Field of Dreams" model that says if you build it (a technology infrastructure) they will come, Boardwalk builds only according to demand; they have arrived, let's build it.

Implications for the core business. This is the best thing that could have happened for Boardwalk. It has given us a versatile way to access more revenue streams through horizontal integration. The core business will still remain of course – it is the structure that supports and makes the technology initiative viable. We will continue our counter-cyclical buying strategy; buying when the market is low, selling at the peaks. We are simply compounding rental revenues through the horizontal integration of technology, leveraging our assets to maximize cash flow and equity appreciation. As an example, take a typical unit that brings in rental revenues of \$600 per month. If a bundled information/entertainment/telephone package and other digital conveniences were added to that unit by a third-party supplier such as Suite Systems Inc., we believe a premium rental rate over traditional rents can be realized. By ensuring that this new level of service becomes the industry standard, an average monthly rental premium of just \$25 makes a substantial difference in Boardwalk's operating cash flows. If we realize this premium rent for just 25 units, we add what constitutes one full suite's monthly rent to our revenues with no capital outlay. Imagine if every one of our suites commanded this premium? Over time, this would result in close to a \$100 million increase in value for our existing properties alone. The potential to further leverage these services to some of the roughly 22 million rental units outside of Boardwalk in North America results in astonishing metrics. Bottom line? The focus remains real estate. We just derive more from it.

HomeXpress. The final component of the Boardwalk meta-company is HomeXpress. This represents the fulfillment arm of our carefree lifestyle commitment. Through a full feature, user friendly interface which has extensive product selections, customers can find, purchase and use products and services. Today, customers in Edmonton and Calgary can order services such as groceries through HomeXpress at a competitive price. HomeXpress may eventually include newspaper delivery, dry-cleaning, prescription drug ordering and even prepared meals. It is a tremendous service that represents one of the most tangible manifestations of our overall value proposition.

Boardwalk Equities Inc. has now amassed the single largest apartment portfolio in Canada. It consists of some 25 million square feet of residential living space.

Suite Systems stands alone. We believe Suite Systems Inc. will become a stand-alone, self-sufficient entity once operations have been refined and the company is generating satisfactory revenues. As such, Boardwalk will retain shares in the company but not full ownership thereof. Initiatives are currently underway to secure agreements with key strategic and financial partners. These agreements will not only accelerate the roll-out of Suite Systems Inc. and build solid synergies, but also minimize future capital contribution requirements on the part of Boardwalk.



digital convenience

SUITE SYSTEMS DIGITAL HEAD END, CALGARY, ALBERTA

Time. People have less and less these days. They work harder, longer hours and sacrifice time at home to do it. And when people finally get home there are a million things to do like grocery shopping, preparing dinner, laundry – all with little in the way of tangible reward. Boardwalk is directly addressing this time crunch through digital convenience initiatives like Suite Genie, Club Suite, iSuite, and HomeXpress. With these programs, Boardwalk customers are experiencing a level of convenience never before seen in rental accommodations. We liken it to hotel living in the home. Anything from Internet access to grocery shopping can be handled from a single interface while relaxing in one's living room – more inexpensively and in a fraction of the time it would take using ordinary methods. That is the reality of carefree living; that is the added value Boardwalk is able to build and bring to its real estate operations.

Suite Genie. The Suite Genie is a fully functional Internet appliance giving customers access to local and global online content. It is self-provisioning, has full computer functionality and will double as a television set. This “always on” appliance also acts as a sophisticated telecommunications interface controlling everything from ordering groceries and pizza, to customizing telephone and television functions. It is an easy to use computer and will eventually be available on a fully portable, wireless touch screen basis. The Suite Genie represents the first step into the Suite Systems Inc. selection of value-added convenience services. It is also the hub around which Boardwalk is building a whole new kind of apartment lifestyle.

Club Suite. Part of the Suite Systems offering involves affiliation with a property owners' lifestyle program. By earning valuable lifestyle points for utilizing various in-house offered goods and services, customers can lower their monthly rent or, in the case of third-party condominium projects – condominium fees. The more they use the program, the more they save.

it's your home

like a hotel, but better and much more inexpensive

It's simple, valuable and a real incentive to use Suite Systems Inc. The Club Suite concept will allow customers to access their suites, do laundry, order a movie, buy a candy bar, even pay rent all from home using smart card technology. Customers will even have full access to virtual banking capabilities, all right from home.

HomeXpress. HomeXpress fulfills Boardwalk's commitment to delivering the utmost in “value and carefree living” for customers and residential consumers. It enables shopping from homes, offices or any other location with Internet access on a 24/7 basis and offers home delivery seven days a week.

HomeXpress is a full shopping experience with both e-commerce and conventional store features and capabilities. Through a user-friendly Web site, customers order products on-line, or alternatively, through facsimile or telephone. Goods are delivered directly to customers' homes via specially equipped, HomeXpress climate controlled delivery trucks. Purchases are paid for upon delivery by cash, cheque or wireless credit/debit card right at the customers' door. HomeXpress allows the customer to poll prices and various products, as well as special offers that are updated regularly. Customers log on using a simple registration procedure, enter a password and commence shopping. By navigating through virtual shopping aisles, customers can check products and then simply click to add them to their virtual grocery cart. HomeXpress boasts a price comparison feature allowing customers to actively compare prices of various products with those of regular grocery retailers. They also have the option of creating an “Xpress List” of preferred products. The list is completely updatable and accessible anytime for shopping with maximum convenience.



digital entertainment

SUITE SYSTEMS DIGITAL HEAD END, CALGARY, ALBERTA

The widespread adoption and proliferation of digital technology has made a profound impact on literally everyone. Businesses, institutions, organizations and individuals have access to a constantly changing spectrum of goods and services delivered via the digital medium. Anyone with a DVD player knows how great the picture and sound quality are. This technology, even more so than the VCR, has made enjoying a film at home better than going to the movies for many. Ask any child with a video game console what they think of it and the response is always the same – “I love it”. These are the forms of entertainment people want in their homes, and they are willing to pay to get them. Boardwalk, in tandem with Suite Systems Inc. is giving residents what they want – access to full feature entertainment that includes not only television, but movies and video games all delivered digitally to their homes. This is a truly tangible added value delivered on an instant basis – yet another part of the Boardwalk commitment to carefree living and another way to bring value to, and build value on, our real estate operations.

Suite TV. Boardwalk’s subsidiary, Suite Systems Inc., has secured the first ever multi-regional broadcast distribution undertaking (BDU) license granted to a real estate company from the Canadian Radio and Television Commission (CRTC). What this means is that we can now offer an unlimited number of video and audio channels of high-quality, digital programming to a region with over 10 million residents, eliminating the middle-layer cable incumbent. Our current offering consists of over 120 quality digital channels. Customers will be able to choose the level of programming right from their suite through self-provisioning. With instant access to current, and in the future, stored TV programming, there is no need to ever miss a show or televised movie again. And through the use of a set-top box, digital signal can be received on conventional analog televisions. The result is total access to entertainment people want, delivered in a format that provides maximum quality and convenience for the dollar.

complete enjoyment

with a world of options

Show Suite. Forget about going to the video store, we’re working on putting it right in your living room! Unlike pay-per-view, Show Suite is true Video on Demand. The service will boast full video functionality – stop/start, pause, etc., and customers will have access to thousands of titles ready for instant viewing. There is no waiting in line, and because movies are delivered digitally direct to the customer, there are no late charges, ever.

Suite Play. The reemergence of the video gaming console has put some of the most innovative, engaging games ever created onto television. But with numerous corporations vying for preeminence in a market that is fickle and fad oriented, games, as well as systems, come and go and their prices fluctuate wildly with each shift in market taste. Staying abreast of the fads and new technologies can be a strain, not only to the senses, but also to the pocketbook. Suite Play, through higher capacity, can make available games from all major manufacturers, regardless of system. The result will be the most versatile platform for gaming ever. Customers will be able to play, save game data, and even compete head-to-head in any game. And again, it will all be accessible from the living room.

A photograph of a server room with rows of server racks. The racks are filled with server units, and the room is illuminated with a cool blue light. The perspective is from a low angle, looking down a long aisle between the racks.

digital connection

VIDEO RECEIVERS, SUITE SYSTEMS DIGITAL HEAD END, CALGARY, ALBERTA

The power of Boardwalk's technology initiative is realized through connectivity, or more precisely, the quality of that connectivity. By opting to install and run only the finest components available, we have not only made the suite of services we offer highly attractive, we have also made our operations and overall service the envy of every traditional, large-scale provider. Our digital connectivity is built around a 100% optical gig Ethernet network, without twisted copper or coaxial cable. What this means is that we can deliver tremendous amounts of data at higher speeds and with better quality than anything regularly available – translation: incredible value and quality with technology second to none in this industry. Why do it this way? The answer is simple – demand. Once a customer has used true high-speed internet and watched real digital TV, it's hard to go back to the old standard.

Suite Tel. We have received preliminary approval as a competing local exchange carrier of telephone services (CLEC). A Nortel DMS 500 full service phone switch has been installed and interconnection testing is well underway. The complete system, capable of handling 250,000 simultaneous calls, offers full Class 5 functionality including: local and long distance services, caller ID, call forwarding, call waiting, messaging, etc. Like most Suite Systems Inc. services, Suite Tel is self-provisioning with customers simply selecting and activating the features they require.

Telephone service is almost universally required. Therefore, we expect to be able to achieve significant market penetration with this service on the basis of convenience and price alone. Upstream marketing opportunities through third-party property owners will further expand Suite Tel's uptake.

the absolute best

in connectivity at an affordable price

I-Suite. I-Suite represents the ultimate in high-speed Internet access. Using either a PC or the Suite Genie, customers have a light speed 100-megabit per second local area connection through dedicated home runs to each suite. That kind of connectivity means streaming video comes through clearly and quickly and interactive Web content was never more engaging. Again, the service is self-provisioning with customers opting for open Web surfing or Intranet access only at their discretion.

Suite-E. Suite-E is a sophisticated, value-added, customizable e-commerce portal. Through the portal, customers can purchase both the basic and sophisticated goods and services offered by not only HomeXpress, but also other strategic partners. The portal can be customized to afford access to local, national and international resources. Available through the site are numerous bulk purchasing opportunities and everything is affiliated with our rewards program for maximum value.

Suite Byte. Suite Byte will be another value-added feature of the Systems Inc. selection of services. It is a full application service provider listing the latest up-to-the-minute software as it is released. The software available on either a bulk or "a-la-carte" basis so customers only ever buy what they will actually use. It can list everything from business programs, to word processing, to tax programs and even video games. Suite Byte offers full computer functionality without the need for buying a computer or individual software programs ever again.

As we move ahead through 2001 and into 2002, the prevailing attitude at Boardwalk will be that it is “business as usual”. Boardwalk is not drifting into the technology sector. It is true that we have always used technology as a tool to enhance value to customers and deliver exceptional performance to shareholders, but this is a real estate company first and foremost. Technology simply serves to further enhance the considerable value inherent in our portfolio of properties. We believe the portfolio itself will continue to expand along established parameters with steady per unit revenue growth. The focus will be on operations to ensure that this growth takes place with a more accretive, more structured approach to acquisition, and with an eye toward building our presence in the real estate sector. Targets will include individual properties, but also companies and entire real estate portfolios.

Renting versus buying. The question of the viability of the Boardwalk business model in terms of buying versus renting is always raised. The fact is that apartment renting still represents excellent value versus home buying. Interest rate hikes over the last two years have resulted in increased mortgage rates and payments. In Calgary for example, the average purchase price of a new home has also increased, climbing 11.3% to \$184,384 in 2000 over \$165,670 in 1998. The result has been an increase in the overall monthly mortgage payment of 24.6% – from \$1,202 in 1998, to \$1,498 in 2000. Average rents have increased a mere 4.7% over the same time period – from \$707 to \$740 (Source CHMC). Increasing tax rates and skyrocketing utilities charges are also taking their toll on home buyers. Accordingly, we feel that more than ever, apartment living of the type we offer represents real value and incentive to keep renting.

Creating value. At this time, it is estimated that the Boardwalk real estate portfolio is undervalued by some \$900 million relative to its replacement cost. Management feels that given this situation, the stock represents an exceptional value investment. Close attention will be paid to the balance sheet, rather than the income statement, to advance the process of aligning the stock price with the real estate portfolio’s value.

As the Suite Systems Inc. concept rolls out, it is anticipated that Boardwalk will disengage itself as parent and allow it to function as a separate entity. This would result in a shift of some of the general and administrative costs Boardwalk has accrued through its technology initiatives to Suite Systems Inc. itself. The spin-off will also allow Suite Systems Inc. to move toward becoming the provider of choice for telecom and entertainment services across Canada and eventually the U.S., especially as the service is marketed to individual apartment and condominium owners.

portfolio

Alberta

City	Project name	Building type	Number of units	Net rentable square footage	Average unit size
Calgary	Glamorgan Manor	Garden	87	63,510	730
Calgary	Hillside Estates	Garden	76	58,900	775
Calgary	Lakeside Estates	Garden	90	77,732	864
Calgary	McKinnon Court	Garden	48	36,540	761
Calgary	McKinnon Manor	Garden	60	43,740	729
Calgary	Northwest Pointe	Garden	150	102,750	685
Calgary	Northwoods Manor	Garden	76	53,340	702
Calgary	Patrician Village	Garden	392	295,600	754
Calgary	Pineridge Apartments	Garden	75	52,275	697
Calgary	Prominence Place	Garden	76	55,920	736
Calgary	Spruce Ridge Estates	Garden	288	196,464	682
Calgary	Tower Lane I & II	Garden	163	130,920	803
Calgary	Travois Apartments	Garden	89	61,350	689
Calgary	Vista Gardens	Garden	100	121,040	1,210
Calgary	Westwinds Village	Garden	180	137,815	766
Calgary	Willow Park Village	Garden	64	44,563	696
Calgary	Boardwalk Heights	Highrise	202	160,894	797
Calgary	Boardwalk Plaza	Highrise	109	80,424	738
Calgary	Brentview Towers	Highrise	240	151,440	631
Calgary	Centre Point West	Highrise	117	110,611	945
Calgary	Century Towers	Highrise	89	73,411	825
Calgary	Elbow Towers	Highrise	160	108,280	677
Calgary	Flintridge Apartments	Highrise	68	55,023	809
Calgary	Heritage Gardens	Highrise	95	64,250	676
Calgary	Leighton House	Highrise	40	27,352	684
Calgary	O'Neil Towers	Highrise	187	131,281	702
Calgary	Royal Park Plaza	Highrise	87	66,137	760
Calgary	Skygate Tower	Highrise	142	113,350	798
Calgary	The Chateau	Highrise	147	110,545	752
Calgary	Cedar Court Gardens	Townhouse	65	58,560	901
Calgary	Glamis Green	Townhouse	156	173,881	1,115
Calgary	Oakhill Estates	Townhouse	240	236,040	984
Calgary	Radisson A (III)	Townhouse	119	99,280	834
Calgary	Radisson I & II/Lynnridge	Townhouse	408	367,364	900
Calgary	Russet Court	Townhouse	207	213,264	1,030
Calgary subtotal			4,892	3,933,846	804
Edmonton	Alexander Plaza	Garden	252	203,740	808
Edmonton	Aspen Garden Apartments	Garden	80	68,680	859
Edmonton	Boardwalk Arms A & B	Garden	78	64,340	825
Edmonton	Breton Manor	Garden	66	57,760	875
Edmonton	Brookside Manor	Garden	50	51,225	1,024
Edmonton	Cambrian Place	Garden	104	105,008	1,010
Edmonton	Carmen & Camelot	Garden	128	109,250	854
Edmonton	Castle Court	Garden	89	93,950	1,056
Edmonton	Cedarville	Garden	142	122,120	860
Edmonton	Christopher Arms	Garden	45	29,900	664
Edmonton	Corian Apartments	Garden	152	167,400	1,101
Edmonton	Fairmont Village	Garden	424	362,184	854
Edmonton	Garden Oaks	Garden	59	47,250	801
Edmonton	Greentree Village	Garden	192	156,000	813

City	Project name	Building type	Number of units	Net rentable square footage	Average unit size
Edmonton	Leewood	Garden	141	129,375	918
Edmonton	Lorelei House	Garden	78	65,870	844
Edmonton	Maple Gardens	Garden	184	163,840	890
Edmonton	Marlborough Manor	Garden	56	49,582	885
Edmonton	Meadowside Estates	Garden	148	104,036	703
Edmonton	Meadowview Manor	Garden	348	284,490	818
Edmonton	Monterey Pointe	Garden	104	83,548	803
Edmonton	Morningside	Garden	216	165,562	766
Edmonton	Northridge Estates	Garden	180	103,270	574
Edmonton	Peace Grove	Garden	40	32,000	800
Edmonton	Pembrook	Garden	198	198,360	1,002
Edmonton	Pinetree Village	Garden	140	78,200	559
Edmonton	Primrose	Garden	153	151,310	989
Edmonton	Redwood Court	Garden	116	107,680	928
Edmonton	Riverview Manor	Garden	81	62,092	767
Edmonton	Sandstone Pointe	Garden	81	83,800	1,035
Edmonton	Sir William Place	Garden	224	126,940	567
Edmonton	Summerlea Place	Garden	39	43,297	1,110
Edmonton	Suncourt Place	Garden	62	55,144	889
Edmonton	Terrace Gardens	Garden	114	101,980	895
Edmonton	Victorian Arms	Garden	96	91,524	953
Edmonton	Village Acres	Garden	188	156,464	832
Edmonton	Warwick Apartments	Garden	60	49,092	818
Edmonton	West Edmonton Court	Garden	81	73,209	904
Edmonton	West Park Ridge	Garden	102	99,280	973
Edmonton	Westborough	Garden	60	50,250	838
Edmonton	Westmoreland Estates	Garden	56	45,865	819
Edmonton	Westridge "B"	Garden	90	56,950	633
Edmonton	Westridge "C"	Garden	90	56,950	633
Edmonton	Westwinds of Summerlea	Garden	48	53,872	1,122
Edmonton	Willowglen Apartments	Garden	88	71,800	816
Edmonton	Bristol Towers	Highrise	47	32,527	692
Edmonton	Boardwalk Centre	Highrise	598	471,871	789
Edmonton	Capital View Towers	Highrise	118	71,281	604
Edmonton	Deville Apartments	Highrise	67	47,700	712
Edmonton	Ermineskin Place	Highrise	226	181,788	804
Edmonton	Fontana	Highrise	62	40,820	658
Edmonton	Fort Garry House	Highrise	93	70,950	763
Edmonton	Galbraith House	Highrise	160	110,400	690
Edmonton	Imperial Tower	Highrise	138	112,050	812
Edmonton	Lansdowne Park	Highrise	62	48,473	782
Edmonton	Lord Byron	Highrise	160	133,994	837
Edmonton	Maureen Manor	Highrise	92	64,918	706
Edmonton	Palisades	Highrise	94	77,200	821
Edmonton	Parkside Towers	Highrise	180	162,049	900
Edmonton	Prominence Place	Highrise	92	73,310	797
Edmonton	Solano	Highrise	96	79,325	826
Edmonton	Southgate Tower	Highrise	171	153,385	897
Edmonton	Terrace Towers	Highrise	85	66,000	776
Edmonton	The Westmount	Highrise	133	124,825	939
Edmonton	Tower Hill Apartments	Highrise	82	46,150	563
Edmonton	Tower on the Hill	Highrise	100	85,008	850

PORTFOLIO

City	Project name	Building type	Number of units	Net rentable square footage	Average unit size
Edmonton	Viking Arms	Highrise	241	257,410	1,068
Edmonton	Wimbledon	Highrise	167	117,216	702
Edmonton	Boardwalk Village	Townhouse	255	258,150	1,012
Edmonton	Briarwynd Court	Townhouse	172	144,896	842
Edmonton	Brookside Terrace Townhomes	Townhouse	81	145,554	1,797
Edmonton	Castleridge Estates	Townhouse	108	124,524	1,153
Edmonton	Granville	Townhouse	48	53,376	1,112
Edmonton	Habitat Village	Townhouse	151	129,256	856
Edmonton	Kew Place	Townhouse	108	105,776	979
Edmonton	Lord Byron Townhomes	Townhouse	143	170,969	1,196
Edmonton	Parkview Estates	Townhouse	104	88,432	850
Edmonton	Pointe West Townhouses	Townhouse	69	72,810	1,055
Edmonton	Southwood Estates	Townhouse	236	226,560	960
Edmonton	Tamarack Village	Townhouse	133	212,486	1,598
Edmonton	Village Plaza	Townhouse	68	34,505	960
Edmonton	Westridge Manor	Townhouse	64	69,038	1,079
Edmonton	Willowdale	Townhouse	41	43,380	1,058
Edmonton subtotal			10,568	9,142,801	865
Other	Birchwood Manor	Garden	24	18,120	755
Other	Canyon Point	Garden	162	114,039	704
Other	Chanteclair	Garden	79	68,138	863
Other	Edelweiss Terrace Apts	Garden	32	27,226	851
Other	Granada	Garden	43	35,775	832
Other	Heatherton	Garden	23	16,750	728
Other	Hillside	Garden	30	21,248	708
Other	Inglewood Terrace	Garden	68	42,407	624
Other	Mallard Arms	Garden	37	30,497	824
Other	McMurray Manor	Garden	43	30,350	706
Other	Parkview Mgmt Portfolio	Garden	370	306,850	829
Other	Riverbend Village	Garden	150	114,750	765
Other	Taylor Heights	Garden	140	103,512	740
Other	Valencia	Garden	40	33,850	846
Other	Saratoga/Watson	Highrise	98	97,750	997
Other	Parkview Homes	Townhouse	32	30,210	944
Other	Westridge Estates	Townhouse	112	113,664	1,015
Other subtotal			1,483	1,205,136	813
Ontario					
London	Meadow Crest Apts	Garden	162	110,835	684
London	Noel Meadows	Garden	105	72,600	691
Kitchener	Kings Tower	Highrise	226	171,100	757
Kitchener	Westheights Place	Highrise	103	91,920	892
London	Bristol Towers	Highrise	137	109,059	796
London	Castlegrove Apartments	Highrise	144	126,420	878
London	Landmark Tower	Highrise	212	173,400	818
London	North Cliff Tower	Highrise	259	247,166	954
London	Sanford Apts	Highrise	96	77,594	808
London	Southdale Towers	Highrise	271	221,000	815
London	Topping Lane Towers	Highrise	190	177,880	936
London	Westmount Towers	Highrise	183	131,700	720
London	Abbey Estates	Townhouse	53	59,794	1,128

City	Project name	Building type	Number of units	Net rentable square footage	Average unit size
London	Ridgewood Estates	Townhouse	29	31,020	1,070
Windsor	Empress	Garden	40	28,250	706
Windsor	Randal Court	Garden	47	38,775	825
Windsor	Askin Tower	Highrise	60	39,675	661
Windsor	Buckingham Towers	Highrise	34	30,805	906
Windsor	Caron Towers	Highrise	47	36,947	786
Windsor	Forest Glade Apartments	Highrise	124	110,245	889
Windsor	Frances Tower Apartments	Highrise	53	43,906	828
Windsor	Glenwood Apartments	Highrise	33	25,619	776
Windsor	Janisse Tower	Highrise	75	45,000	600
Windsor	Karita Tower	Highrise	41	28,950	706
Windsor	Lauzon Towers	Highrise	184	137,784	749
Windsor	Marine Court	Highrise	68	49,206	724
Windsor	Rivershore Tower Apts	Highrise	96	63,300	659
Windsor	Sandilands Tower	Highrise	47	38,775	825
Windsor	Sandwich Tower	Highrise	66	40,650	616
Windsor	Seaway Tower	Highrise	153	112,037	732
Windsor	Sun Crest Tower	Highrise	58	43,100	743
Windsor	Sun Ray Manor	Highrise	41	29,950	730
Windsor	The Regency Colonade	Highrise	133	113,205	851
Windsor	University Towers	Highrise	50	36,100	722
Windsor	Riverdale Manor	Townhouse	97	77,850	803
Ontario subtotal			3,717	2,971,617	799
Saskatchewan					
Regina	Ashok Portfolio	Garden	164	95,000	579
Regina	Boardwalk Estates	Garden	688	467,696	680
Regina	Boardwalk Manor	Garden	72	60,360	838
Regina	Centennial West	Garden	60	46,032	767
Regina	Evergreen Estates	Garden	150	125,660	838
Regina	Green Briar Apts	Garden	72	57,600	800
Regina	Lockwood Arms	Garden	96	69,000	719
Regina	Qu'appelle Village I & II	Garden	154	133,200	865
Regina	Qu'appelle Village III	Garden	180	144,160	801
Regina	Southpointe Plaza	Highrise	140	117,560	840
Regina	Cavendish Estates	Townhouse	150	167,550	1,117
Regina	Centennial South	Townhouse	170	129,080	759
Regina	Grace Manor	Townhouse	72	69,120	960
Regina	Pines of Normanview	Townhouse	133	115,973	872
Regina	Wascanna Estates	Townhouse	320	307,200	960
Saskatoon	Palace Gate	Garden	206	142,525	692
Saskatoon	St. Charles Place	Garden	156	123,000	788
Saskatoon	Stonebridge Apartments	Garden	162	131,864	814
Saskatoon	The Court	Garden	140	105,750	755
Saskatoon	Carleton Towers	Highrise	158	155,138	820
Saskatoon	Dorchester Towers	Highrise	52	48,608	935
Saskatoon	Penthouse Apartments	Highrise	83	61,550	742
Saskatoon	Regal Towers	Highrise	160	122,384	765
Saskatoon	Wildwood and Stonebridge 1 & 2	Townhouse	154	179,447	1,165
Saskatoon	Heritage Pointe Estates	Townhouse	104	99,840	960
Saskatoon	Meadow Parc Estates	Townhouse	200	192,000	960
Saskatchewan subtotal			4,196	3,467,297	826
Combined total			24,856	20,720,697	834

our **value advantage**

management's discussion and analysis

The Management's Discussion and Analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the real estate industry. This discussion should not be considered all-inclusive as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which could affect the Corporation in the future. However, to obtain the best overall perspective, this discussion should be read in conjunction with material contained in other parts of this annual report and with the Corporation's audited consolidated financial statements for the seven months ended December 31, 2000 and years ended May 31, 2000 and 1999.

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

Effective December 31, 2000, the Corporation changed its fiscal period end to December 31 from May 31. As such, the discussion that follows focuses on the audited seven months ended December 31, 2000 compared to the audited results for the twelve months ended May 31, 2000. In order to facilitate a more informative comparison, we have, where possible, compared the information on a per unit basis. The reader is cautioned that the real estate industry is subject to seasonal fluctuation that will affect straight comparisons of these amounts.

Overview

Boardwalk Equities Inc. [hereafter "Boardwalk", "the Company", or "the Corporation"] is a fully-integrated, customer-oriented, multi-family residential real estate ownership and management company. It is Canada's largest publicly traded multi-family residential corporation and specializes in the acquisition, operation, value enhancement and selling of multi-family residential properties within Canada. Boardwalk's portfolio is located in western Canada and Ontario. The head office is situated in the City of Calgary, although the Company is progressively expanding across Canada. At year-end, December 31, 2000, Boardwalk recorded assets of approximately \$1.4 billion, and owned 100% interest in well over 200 properties comprising approximately 21 million net rentable square feet.

A commitment to value creation

Boardwalk's mission statement, "to be a leader in the multi-family housing industry, and to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction" defines its operational strategy. The Company believes that by following this strategy, it will continue to focus on enhancing value by generating substantial growth in its overall operating cash flows and create realizable appreciation in real estate values. Achieving this goal requires the application of fully-integrated core strategies of focused investing, superior property management, and the implementation and efficient use of technologies and strategic asset management to the following:

- *the strategic acquisition of existing multi-family residential properties throughout Canada;*
- *the review, and where required, upgrade of existing services and facilities to enhance property value to the customers' satisfaction;*
- *the maximization of cash flow from existing properties;*
- *the stabilization of acquired projects to increase their cash flows;*
- *the continuous culling of the Corporation's mature properties;*
- *the maintenance of a focused sales discipline;*
- *the reinvestment of all released equity back into the portfolio to assist in additional value added opportunities.*

With the implementation of these multi-dimensional strategies, Boardwalk will continue to enhance overall growth in the short, medium and long-term. In order to support the Corporation's overall operating strategy, management follows a disciplined financial strategy including:

- *ensuring ample capital is available at all times for acquisitions and value-added enhancements;*
- *utilizing suitable levels of leverage where appropriate;*

- *optimizing the use of National Housing Act [NHA] Insurance through CMHC to enhance leverage and access to lower financing rates;*
- *applying, where appropriate, long-term mortgage financing (5-20 years) on our real estate assets and maintaining a staggered maturity schedule;*
- *allocating capital to existing project enhancement and continuing new acquisition;*
- *actively managing the Corporation's exposure to interest rate and utility risk.*

In the following discussion, we will attempt to provide the reader with an understanding of how these strategies affect the operating results and shareholder value of the Corporation. We will also review the related risks, opportunities and trends, as well as possible impacts of these strategies on Boardwalk's future performance.

Results from operations

The fiscal period ending December 2000 was a strong period for Boardwalk. The Corporation continued to report solid financial results, which reflected the success of Boardwalk's growth strategy. Cash flow from operations for the seven months ended December 31, 2000 was \$34.7 million as compared to the \$54.9 million reported for the twelve months ended May 31, 2000. Net earnings for the same periods were \$15.6 million and \$10.4 million respectively. The increase in the reported earnings, given the current year represents only seven months, was mainly the result of an adjustment to the effective tax rate.

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

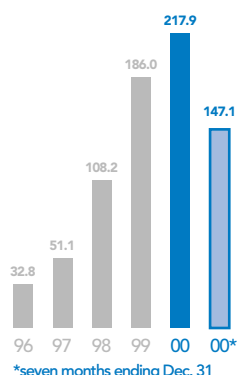
	7 Months ended December 31, 2000	12 Months ended May 31, 2000
Total revenue	\$ 147,082	\$ 217,971
Net earnings	\$ 15,565	\$ 10,445
Net cash flow from operations	\$ 34,724	\$ 54,928
Net earnings per share – Basic	\$ 0.32	\$ 0.21
Net cash flow per share – Basic	\$ 0.71	\$ 1.12
Total assets	\$ 1,443,834	\$ 1,398,028
Total liabilities	\$ 1,142,460	\$ 1,112,215
Total equity	\$ 301,374	\$ 285,813
Number of units	24,856	24,974
Net rentable square feet	20,720,697	20,808,914

Analysis of cash flow from operations

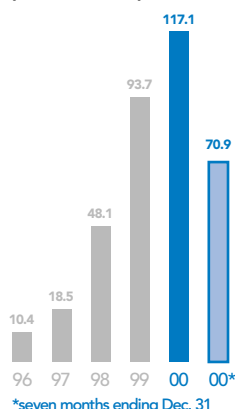
Boardwalk prepares its financial statements in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies ["CIPREC"] and the Canadian Institute of Chartered Accountants. CIPREC has adopted a measurement of cash flow from operations ["CFFO"] to supplement net income as a measure of operating performance. This is considered to be a meaningful and useful measure of real estate operating performance. Boardwalk's presentation of cash flow from operations prior to changes in non-cash working capital is consistent with the definition provided by CIPREC. This measure is not necessarily indicative of cash that is available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity. In the United States, the National Association of Real Estate Investment Trusts ["NAREIT"] has adopted a similar measurement known as Funds From Operations ["FFO"] to supplement net income as a measure of operating performance. FFO and CFFO do not represent cash flow from operations as defined by Canadian Generally Accepted Accounting Principles ["Canadian GAAP"]. The Corporation's and CIPREC's presentation of cash flow from operation does not reflect cash flows from operations as defined by the CICA handbook, and this measure is not necessarily indicative of cash available to fund cash needs of the Corporation and should not be considered as an alternative to cash flow as a measure of liquidity.

Boardwalk's net operating cash flows for the seven months ended December 31, 2000 was approximately \$34.7 million as compared to \$54.9 million reported for the twelve months ended May 31, 2000. Boardwalk's cash flow is generated from two separate revenue streams. Firstly, the Corporation's rental operations consisting of long-term ownership, operation of multi-family residential housing and secondly, the sale of properties held for development and resale which represent the properties which Boardwalk has selected for eventual sale. The property held for development and resale category focuses more on the culling of Boardwalk's portfolio. Mature multi-family properties that typically have the highest and best use beyond that of pure rental projects, or are in markets that have seen significant appreciation may be subject to the culling process. Although there is still some appreciation remaining, Boardwalk's view is that by divesting itself of these properties at this time, it can redeploy the excess equity into other properties with more upside potential.

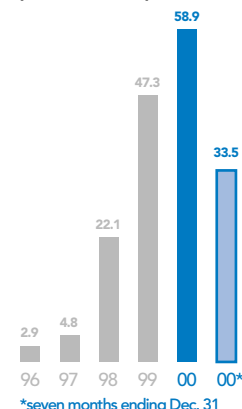
Total revenues
[CDN\$ MILLIONS]



Net rental operating income
[CDN\$ MILLIONS]



Net rental income
[CDN\$ MILLIONS]



Rental operations

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

	7 Months December 2000	Average per unit, per month	12 Months May 2000	Average per unit, per month	% Change
Rental revenue	\$ 110,771	\$ 637	\$ 178,147	\$ 620	3%
Operating expenses					
Revenue producing properties	\$ 14,121	\$ 81	\$ 22,471	\$ 78	4%
Utilities	\$ 14,713	\$ 82	\$ 18,431	\$ 64	27%
Property taxes	\$ 11,004	\$ 63	\$ 20,140	\$ 70	[10%]
	\$ 39,838	\$ 226	\$ 61,042	\$ 213	6%
Net operating income	\$ 70,933	\$ 411	\$ 117,105	\$ 408	1%
Financing costs	\$ 37,425	\$ 215	\$ 58,212	\$ 203	6%
Net rental income	\$ 33,508	\$ 193	\$ 58,893	\$ 205	[6%]

Boardwalk's most stable form of cash flow is generated through the leasing of high-rise, garden and townhouse type units. For the seven months ended December 31, 2000, Boardwalk's rental revenue totaled \$110.8 million as compared to the \$178.1 million recorded for the 12 months ended May 31. A more detailed analysis reports that average monthly rent per unit has increased by 3% to \$637 versus \$620 for the 12 months ended May 31, 2000. Overall monthly operating costs were up over 6% to \$226 per unit. The major source of this increase was the result of an increase in utility charges, in particular natural gas. The reader is cautioned here that since utilities are a seasonal operating expenditure, they tend to decrease on a per unit basis in the spring months.

Successful appeals of property tax re-assessments yielded property tax decreases of 10%. This assisted in the absorption of some of the utilities increases. Financing costs per month increased on a per unit basis to \$215, or 6% from the \$203 posted for the twelve months ended May 31, 2000. The increase was the direct result of an increase in the overall leverage of the Corporation.

Alberta

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

	7 Months December, 2000	Average per unit, per month	12 Months May, 2000	Average per unit, per month	% Change
Rental revenue					
Calgary	\$ 27,693	\$ 809	\$ 50,382	\$ 788	3%
Edmonton	\$ 44,508	\$ 603	\$ 71,937	\$ 575	5%
Other	\$ 6,533	\$ 664	\$ 10,338	\$ 615	8%
	\$ 78,734	\$ 668	\$ 132,657	\$ 644	4%
Operating expenses					
Calgary	\$ 8,075	\$ 236	\$ 13,588	\$ 212	11%
Edmonton	\$ 15,949	\$ 216	\$ 24,368	\$ 195	11%
Other	\$ 1,984	\$ 202	\$ 3,128	\$ 186	8%
	\$ 26,008	\$ 221	\$ 41,084	\$ 200	11%
Net operating income	\$ 52,726	\$ 447	\$ 91,573	\$ 445	1%
Financing costs	\$ 27,504	\$ 233	\$ 44,198	\$ 215	9%
Net rental income	\$ 25,222	\$ 214	\$ 47,375	\$ 230	[7%]
Number of units	16,920		17,330		

Boardwalk's Alberta holdings continue to represent the most significant portion of the overall portfolio. Rental revenues consisted of \$78.7 million for the seven months ended December 31, 2000, compared to \$132.7 million for the 12 months ended May 31, 2000. On a per unit basis, average monthly rents recorded were \$668 – a 4% improvement from the \$644 posted for the May 31 fiscal period.

Overall, Alberta operating expenditures of \$221 per unit per month rose 11% from the \$200 posted for the May 31, 2000 period. The main cause for this increase was the reported utility charge hikes that represented a 23% increase compared to those reported for the May 31, 2000 period. The reader is again cautioned as to the seasonality of this expenditure. The increase in utilities expenditures was somewhat offset by the decrease in reported property taxes expenditures, down 12% on a comparative basis, again the result of successful property tax appeals.

Saskatchewan

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

	7 Months December, 2000	Average per unit, per month	12 Months May, 2000	Average per unit, per month	% Change
Rental revenue					
Regina	\$ 9,947	\$ 542	\$ 17,085	\$ 543	0%
Saskatoon	\$ 6,947	\$ 630	\$ 11,346	\$ 600	5%
	\$ 16,894	\$ 575	\$ 28,431	\$ 565	2%
Operating expenses					
Regina	\$ 3,907	\$ 213	\$ 5,801	\$ 184	15%
Saskatoon	\$ 2,557	\$ 232	\$ 4,142	\$ 219	6%
	\$ 6,464	\$ 220	\$ 9,943	\$ 197	11%
Net operating income	\$ 10,430	\$ 355	\$ 18,488	\$ 367	[3%]
Financing costs	\$ 5,179	\$ 176	\$ 8,270	\$ 164	7%
Net rental income	\$ 5,251	\$ 179	\$ 10,218	\$ 203	[12%]
Number of units	4,196		4,196		

Boardwalk's Saskatchewan portfolio generated total rental revenue of \$16.9 million for the seven months ended December 31, 2000 versus \$28.4 million for the twelve months ended May 31, 2000. On a per unit basis, average monthly rent for the December 31, 2000 fiscal period was \$575, an increase of 2% over the average of \$565 reported for the May 31, 2000 fiscal period. Total monthly operating expenditures reported were \$220 per unit for the seven months ended December 31, 2000 as compared to \$197 for the May 31, 2000 fiscal period. The main reason for increase derived from property tax increases in Boardwalk's Regina portfolio. As with the discussion of Alberta holdings, the reader is cautioned as to the suitability of comparing two separate periods of operating costs.

Ontario

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

	7 Months December, 2000	Average per unit, per month	12 Months May, 2000	Average per unit, per month	% Change
Rental revenue					
London	\$ 6,409	\$ 473	\$ 7,352	\$ 459	3%
Windsor	\$ 7,230	\$ 679	\$ 8,612	\$ 656	3%
Kitchener	\$ 1,504	\$ 653	\$ 1,094	\$ 628	4%
	\$ 15,143	\$ 571	\$ 17,058	\$ 553	3%
Operating expenses					
London	\$ 3,360	\$ 248	\$ 3,797	\$ 237	4%
Windsor	\$ 3,323	\$ 312	\$ 3,664	\$ 279	12%
Kitchener	\$ 683	\$ 297	\$ 380	\$ 218	36%
	\$ 7,366	\$ 278	\$ 7,841	\$ 254	9%
Net operating margin	\$ 7,777	\$ 293	\$ 9,217	\$ 299	[2%]
Financing costs	\$ 4,742	\$ 179	\$ 5,744	\$ 186	[4%]
Net rental income	\$ 3,035	\$ 114	\$ 3,473	\$ 113	2%
Number of units	3,815		3,717		

Boardwalk's Ontario portfolio continued to stabilize. Revenues for the seven months ended December 31, 2000 totaled \$15.1 million, compared to \$17.1 million for the twelve months ended May 31, 2000. On a per unit basis for the December 31, 2000 period, monthly rents increased 3% to \$571 per unit from the \$553 average posted for the May 31, 2000 period. Operating costs on a per unit basis increased 9% to \$278 per unit per month from \$254 posted during the May 31, 2000 period. As with other regions, these increases derive from increased utilities and property taxes.

Financing costs

Boardwalk's overall strategy focuses on the acquisition of properties, deeply discounted relative to their replacement value. The renovation and upgrade of these facilities are undertaken and over a period of time, the Corporation will put a leverage ratio of 85% of purchase price along with the full financing of property improvements. Boardwalk obtains government backed insurance on these properties in the form of National Housing Act Insurance administered by the Canada Mortgage and Housing Corporation. With this backing, Boardwalk is able to obtain very favorable financing rates based on interest basis point spreads over related Government of Canada Bonds. On average, the range of these financings is 50 to 75 basis points over comparable Government of Canada Bond Yields. At December 31, 2000, Boardwalk's average rate of debt on its portfolio was 6.27%, similar to the 6.29% rate posted at May 31, 2000. Total financing costs reported for the seven-month period ended December 31, 2000 were \$37.4 million compared to \$58.2 million for the twelve month period ended May 31, 2000. On a per unit basis, the December 31, 2000 fiscal period reported a charge of \$215 per unit versus \$203 per unit – an increase of 6%. The increase is the direct result of increased leverage in the overall portfolio discussed below.

Stabilized portfolio

Boardwalk continues to benefit from the effects of its property revitalization process. Stabilized buildings in the portfolio are defined as properties that have been owned for a period of not less than 24 consecutive months. It is important to note that the definition of a stabilized building is one of a term of service, as Boardwalk provides ongoing value-added services to these properties, albeit not at the same intensity as during the first 24 months of ownership. The following will focus on comparing the stabilized units reported at December 31, 2000 to the same units for the 12 months ended May 31, 2000. The analysis will focus on the comparison on a per unit basis as this will provide a more meaningful disclosure.

Stabilized building analysis

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

December 31, 2000 – 7 months

	Calgary	Edmonton	Regina	Saskatoon	Other	Total	Per unit
Units	4,817	10,025	2,621	1,523	930	19,916	–
Rental revenue	\$ 27,317	\$ 42,328	\$ 9,947	\$ 6,710	\$ 4,418	\$ 90,720	\$ 651
Per unit	\$ 810	\$ 603	\$ 542	\$ 629	\$ 679	–	–
Operating expenses							
Revenue producing properties	\$ 3,196	\$ 4,727	\$ 1,263	\$ 723	\$ 454	\$ 10,363	\$ 74
Utilities	\$ 2,925	\$ 6,535	\$ 1,195	\$ 629	\$ 598	\$ 11,882	\$ 85
Property taxes	\$ 1,660	\$ 3,556	\$ 1,440	\$ 1,101	\$ 333	\$ 8,090	\$ 58
	\$ 7,781	\$ 14,818	\$ 3,898	\$ 2,453	\$ 1,385	\$ 30,335	\$ 218
Per unit	\$ 231	\$ 211	\$ 212	\$ 230	\$ 213	–	–
Net operating income	\$ 19,536	\$ 27,510	\$ 6,049	\$ 4,257	\$ 3,033	\$ 60,385	\$ 433
Return on asset	10.26%	8.72%	9.97%	9.08%	10.51%	9.40%	–
Operating margins	71.52%	64.99%	60.81%	63.44%	68.65%	66.56%	–
Financing costs	\$ 10,386	\$ 14,291	\$ 3,019	\$ 2,126	\$ 1,497	\$ 31,319	\$ 225
Net rental income	\$ 9,150	\$ 13,219	\$ 3,030	\$ 2,131	\$ 1,536	\$ 29,066	\$ 208
Purchase price	\$ 266,106	\$ 442,006	\$ 75,822	\$ 69,385	\$ 39,472	\$ 892,791	–
Property additions	\$ 60,410	\$ 98,828	\$ 28,186	\$ 11,008	\$ 9,990	\$ 208,422	–
	\$ 326,516	\$ 540,834	\$ 104,008	\$ 80,393	\$ 49,462	\$ 1,101,213	–
Mortgages	\$ 260,317	\$ 396,830	\$ 89,095	\$ 58,415	\$ 41,028	\$ 845,685	–
Net equity	\$ 66,199	\$ 144,004	\$ 14,913	\$ 21,978	\$ 8,434	\$ 255,528	–
Return on equity	24%	16%	35%	17%	31%	19%	–
Leverage ratio	80%	73%	86%	73%	83%	77%	–

[CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS]

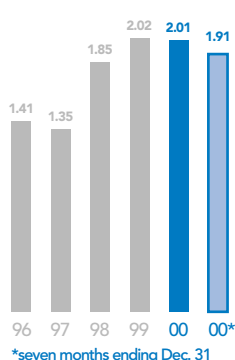
May 31, 2000 – 12 months

	Calgary	Edmonton	Regina	Saskatoon	Other	Total	Per unit
Units	4,817	10,025	2,621	1,523	930	19,916	–
Rental revenue	\$ 42,498	\$ 68,469	\$ 17,084	\$ 11,070	\$ 6,927	\$ 146,048	\$ 611
Per unit	\$ 735	\$ 569	\$ 543	\$ 606	\$ 621	–	–
Operating expenses							
Revenue producing properties	\$ 5,028	\$ 8,266	\$ 2,052	\$ 1,189	\$ 713	\$ 17,248	\$ 72
Utilities	\$ 3,646	\$ 8,798	\$ 1,794	\$ 987	\$ 785	\$ 16,010	\$ 67
Property taxes	\$ 3,163	\$ 6,488	\$ 2,088	\$ 1,829	\$ 709	\$ 14,277	\$ 60
	\$ 11,837	\$ 23,552	\$ 5,934	\$ 4,005	\$ 2,207	\$ 47,535	\$ 199
Per unit	\$ 205	\$ 196	\$ 189	\$ 219	\$ 198	–	–
Net operating income	\$ 30,661	\$ 44,917	\$ 11,150	\$ 7,065	\$ 4,720	\$ 98,513	\$ 412
Operating margins	72.15%	65.60%	65.27%	63.82%	68.14%	67.45%	–
Financing costs	\$ 14,527	\$ 22,716	\$ 4,741	\$ 3,502	\$ 2,220	\$ 47,706	\$ 200
Net rental income	\$ 16,134	\$ 22,201	\$ 6,409	\$ 3,563	\$ 2,500	\$ 50,807	\$ 213

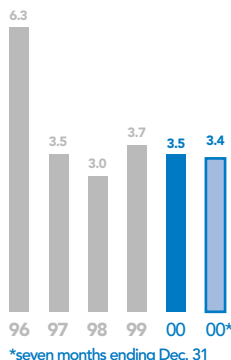
At December 31, 2000, 19,916 units, or approximately 80% of Boardwalk's total rental portfolio, were considered stabilized. This is up from the 72% for stabilized units at May 31, 2000. Boardwalk's stabilized portfolio continued to show strong improvement. For the seven months ended December 31, 2000 rental revenues were up approximately 7% compared to May 31, 2000. A good portion of this rental increase transcended its way to net operating income, which on a per unit basis increased 5%. Operating expenses increased 10% on a comparative unit basis. The majority of this increase came in the form of a utility fee increase of 27%. The Corporation was able to offset the greater portion of these increases through successful property tax appeals. Financing costs total \$225 per unit per month. This is an increase of 13% from the \$200 dollars recorded at May 31, 2000. The increase in these charges is directly related to the increased leverage placed on these buildings to finance their renovation and stabilization. While some mortgage amounts increased moderately, overall debt service coverage ratios maintained a level of approximately two times even taking into account the significant increase in financing costs and utility charges. On an overall basis Boardwalk's stabilized buildings returned 9.4% on assets and 19% on equity. These amounts are lower than those reported in previous years the result of large utilities expenditures the corporation encountered. Through the combination of continued rental adjustments, focus on streamlining operations and previously announced Alberta Provincial Government rebate plans, Boardwalk anticipates both of these ratios will improve in upcoming periods.

A more detailed review noted that overall operating margins on the stabilized portfolio have decreased to 66.56% as compared to the 67.45% rate on the May 31, 2000 comparable units. The reported decrease is mainly the result of increasing operating costs derived from utilities. As with Return on Asset and Return on Equity, the Corporation feels that these margins will also increase the result of the points mentioned above. It should be noted that these margins are reported based on rental levels that are still well below replacement value.

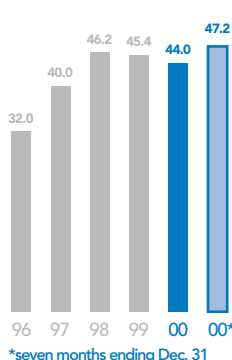
Rental interest coverage before corporate charges
[RATIO]



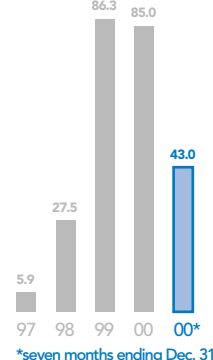
Debt to equity
[RATIO]



Average acquisition cost per unit
[CDN\$ THOUSANDS]



Capital upgrades
[CDN\$ MILLIONS]



Property held for development and resale

A major source of Boardwalk's overall operating income is generated from the sale of units that are classified as properties held for development and resale. For the most part, the units in this category are classified as mature properties, which implies limited capital appreciation remaining on a rental basis for these locations, in comparison to other more accretive investment opportunities. Once a property has reached this stage, it is sold in a single bulk sale transaction. The proceeds are then reinvested in the Corporation and used to either acquire other accretive multi-family properties, or to assist in value-added capital improvements. Sales recorded during for the seven months ended December 31, 2000 were \$36.3 million versus \$39.8 million reported for the twelve months ended May 31, 2000. On a per unit sold basis [438 – December 31, 2000; 689 – May 31, 2000] the average sale price was \$82,900 compared to \$57,800. The reader is cautioned that each property sale is unique. As such significant variations in average sale prices will occur. Net margins on a per unit sold basis of \$27,500 increased 20% from the \$22,900 reported during the May 2000 fiscal year. The sale of properties held for development and resale continues to play an important role in Boardwalk's overall operating strategy, the magnitude of which will diminish as Boardwalk grows its rental operations.

Corporate charges

Included in these costs is property administration, costs associated with Boardwalk's technological initiative, regional distribution center administration, the expansion of Boardwalk's associate base to assist in the acquisition and operation of these facilities. Other items may include corporate charges such as communications, supervisory and head office salaries. It is the Company's belief that allocating these recourses will add further value and performance. The amount reported for the seven months ended December 31, 2000 was \$8.9 million, or \$51 dollars per unit per month compared to \$16.9 million, or \$59 per unit per month to May 3, 2000. This represents a 14% decrease on a per unit basis. The decrease is the result of the efficiencies achieved from the roll-out of Boardwalk's Property Real Time Property Management Software, which transferred all property administration from head office to the site level.

Analysis of net earnings

Boardwalk's recorded net earnings for the seven-months ended December 31, 2000 were \$15.6 million compared to \$10.4 million for the twelve months ended May 31, 2000 fiscal period. This increase, despite the seven-month fiscal period ending December 31, 2000, is the direct result of an adjustment for effective change in the rate reflects the benefit from the reduction of the current federal income tax rate of 44% to the substantially enacted rate of 38%.

Balance sheet review

Over the seven months ended December 31, 2000, Boardwalk acquired a total of 322 units while disposing of a total of 438 units. This represents a slight decrease in total units, a deficit quickly redressed with the acquisition 711 units subsequent to period end. As it is part of Boardwalk's overall strategy to divest itself of selective mature properties and reinvest derived funds into operations or new acquisitions, the timing of these transactions may not be exact. As such, Boardwalk's overall portfolio numbers may fluctuate.

The total price of the 322 units acquired in the seven months ended December 31, 2000 fiscal period was \$15.2 million, or \$47,200 per unit. This price was in line with the \$143.6 million paid for the 3,283 units, or \$43,700 per unit, acquired during the May 31, 2000 fiscal year. The funding of acquisitions in the seven months ended December 31, 2000 was enabled through a combination of a cash expenditure of \$11.3 million and the assumption of \$3.9 million of existing debt.

Although growth did not occur at rates posted in previous years, it is believed that steady growth will occur in the future. The Boardwalk acquisition strategy remains focused on acquiring the right assets, for the right price through a detailed analysis of each project under consideration. At May 31, 2000, Boardwalk had \$6.4 million in properties held for development and resale compared to \$6.7 million at the end of period ended December 31, 2000.

Capital expenditures

Boardwalk's ongoing strategy is to enhance, where possible, the quality of products and services available to customers. Boardwalk continuously reviews its portfolio, and implements improvements designed to increase satisfaction for existing customers and enhance property values, increasing value for the properties, while at the same time increasing shareholder value. Improvements generally consist of both internal and external upgrades, modernization of common areas, and new appointments to suites or exteriors. The most recent phase of interior improvements is timed as units turn over, as it has been Boardwalk's experience that when a building is in an unstabilized mode, it experiences a higher level of turnover. Therefore, to stabilize the property, a higher level of capital improvement is required. Exterior improvements may vary from extensive repainting to complete refitting of the exterior, including alterations to the existing building lines. During the seven months ended December 31, 2000, Boardwalk expended approximately \$43 million on capital enhancements. This represents approximately \$2,967 per average unit for the current period compared to \$3,550 per average unit in the previous year. The reported decrease is consistent with the continued stabilization of our portfolio. Boardwalk will spend capital on its projects with the firm criteria of creating value and longer-term revenue growth. It will also continue to invest in its portfolio in ways designed to increase customer service and satisfaction, and in the long-term, to increase operational cash flows. The extent of deployment of the capital improvement program will vary according to the Corporation's overall growth and the type of units acquired in the future. Included in the December 31, 2000 capitalization is an amount of approximately \$3.5 million of internally capitalized, on-site wages. During May 31, 2000, \$7.8 million was recorded for the same initiative. This figure represents Boardwalk's best estimate as to the amount of capital improvement work that was performed during the year by Boardwalk's existing on-site operational staff. Capitalization does not include any administrative or supervisory salaries. This represents approximately 8% of total capital projects completed during the fiscal year. The decrease in this internal capitalization is also consistent with a stabilizing portfolio.

Technology initiative

Boardwalk continues to develop its technology initiative, Suite Systems Inc. (SSI). A wholly-owned subsidiary of Boardwalk, SSI consists of a bundled suite of telecommunications and entertainment products and services targeting the multi-family residential market. During the seven months ended December 31, 2000 and the year ended May 31, 2000, SSI was in the development stage, which involved the construction on the "central office" of its telephone and "head end" of its cable initiative. Included in the \$27 million reported at December 31, 2000 (May 31, 2000 – \$7.4 million) is land and buildings in the amount of \$6.7 million. Located in Calgary, this property comprises some 60,000 square feet of space, far more than required for current operations. Unused space is leased to outside tenants thereby offsetting the cost of operating the property. The majority of the remaining amounts to \$20.4 million (May 31, 2000 – \$0.8 million) represents costs associated with the development of the central office and head end.

Funding for this project has been from a number of sources. Included on the December 31, 2000 balance sheet are capital leases in the amount of \$8.4 million (May 31, 2000 – \$nil) with a weighted average interest rate of 10.1% (May 31, 2000 – n/a). At December 31, 2000 the Corporation had further commitments totaling \$4.0 million (May 31, 2000 – \$10 million), with various suppliers for the purchase and installation of certain equipment with a weighted average interest rate of 10.8% (May 31, 2000 – 10.7%), which call for equal monthly payments for five to six years. In addition, the Corporation has obtained a conventional mortgage on the SSI building in the amount of \$4.8 million. The remainder of the financing to date has been provided by Boardwalk.

Future income taxes

During fiscal May 31, 2000, the Corporation adopted the new CICA Handbook section 3465, Income Taxes. Under this method, the future income tax asset and liability method of accounting for income taxes is used, and future income tax liabilities and future income tax assets are recorded based on temporary differences between the carrying amount in the balance sheet item and the corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to valuation allowances. To the extent that it is more likely than not that such a loss will be ultimately utilized, these standards also require that future income assets and liabilities be measured using enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

Equity

As in the past, Boardwalk believes the best investments for an additional dollar earned are for reinvestment into property acquisitions or other value enhancing programs. As such, Boardwalk has no dividend payout policy. During the seven months ended December 31, 2000 Boardwalk continued to purchase its shares back on the open market through a normal course issuer bid. The Bid allowed Boardwalk to purchase up to 2,236,400 common shares, representing 10% of its public float, through the facilities of The Toronto Stock Exchange. The Bid continued on March 1, 2000 and will terminate on February 28, 2002. Boardwalk has extended the bid for an additional year. During the seven months ended December 31, 2000, the Corporation acquired a modest number of shares totaling 23,600 shares for a total price of \$245,000 or \$10.38 per common share. Through the program over the past three fiscal periods, Boardwalk has acquired a total of 825,400 shares for a total cost of \$8.6 million, or \$10.45 per common share. Management initiated this program as it feels that, at current market prices, an investment in Boardwalk's own high-quality portfolio will deliver strong returns for shareholders and represents an effective use of capital. At the same time, Boardwalk plans to continue its property acquisition and capital improvement programs. Boardwalk will purchase the common shares for cancellation with the intention of increasing the proportionate interest of all remaining shareholders. All shares acquired are earmarked for cancellation.

Leverage

Boardwalk continues to use its current leverage policy of optimizing debt levels, yet maintaining acceptable debt service coverage ratios on all its properties. This policy is enhanced through the use of NHA Insurance, a program initiated by the Government of Canada through CMHC, which allows individuals and corporations dealing in residential real estate to obtain mortgage default insurance for a premium on a selective property-by-property basis. The insurance lowers the risk of default to the lender, a benefit which has been passed down to the mortgagor in the form of lower interest rates. Current borrowing costs are approximately 50 to 75 basis points above government of Canada Bond yields. With this additional insurance, the Corporation has the ability to increase leverage to 85% of property value. Management is oriented towards retaining capital for reinvestment purposes and to expand business, as an alternative to substantially reducing mortgage debt. Boardwalk continues to review the overall interest rate environment and as demonstrated in its mortgage maturity schedule, has a substantial amount of its mortgage debt maturing subsequent to the year 2005. Boardwalk's present focus is long-term financing for five to 20 years, staggering the maturity dates of its existing mortgage debt. Expressed leverage ratio is a ratio of long-term debt or mortgage debt, as compared to total shareholders equity or capital. The results demonstrate the Corporation's overall increased ability to leverage existing assets at lower financing rates, thereby maximizing return on equity and increasing overall shareholder value while improving debt service coverage ratios.

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, with the maturity dates of this debt staggered to lower the Corporation's overall interest rate risk. The Corporation's current mortgage payable of approximately \$1.034 billion at December 31, 2000 has increased from the \$1.010 billion recorded at May 31, 2000. This difference is mainly the result of the growth of the Corporation, the assumption of existing financing on acquisitions, or the arranging of new financing on acquired or maturing buildings. While Boardwalk's debt level has increased on a per unit basis to \$41.6 thousand as compared to \$40.3 thousand at May 31, 2000 as well as on a square footage basis, from \$49 to \$50, the overall quality and condition of the portfolio, as well as its ensuing market value, has also increased. During the stabilization period, Boardwalk continues to add value to its properties, which enables new mortgage proceeds to be obtained on this increased property value. Although there has been an increase in debt per unit, Boardwalk's overall weighted average interest cost has decreased dramatically over prior periods. Amounts recorded on revenue producing properties have decreased to 6.27% from 6.29% recorded in May of 2000. To better maintain cost effectiveness and flexibility of capital, Boardwalk continuously monitors short and long-term interest rates. If the environment warrants, the Corporation will take its limited short-term floating rate and lock it into a longer-term fixed rate. Active management of the mortgage portfolio shows dramatic results, as evidenced in the 2001 debt maturity review. The majority of Boardwalk's debt matures subsequent to the year 2005, with approximately \$87 million maturing in fiscal 2001. As such, the Company will evenly space maturity of its debt, focusing on locking in mortgage rates for longer-terms at advantageous rates. Boardwalk plans to meet these maturing obligations by replacing the maturing debt with new financing on the same properties. Given the fact that Boardwalk's portfolio is NHA insured and there is a strong demand for mortgage-backed securities, this is not expected to pose a problem.

Liquidity

At December 31, 2000, the Corporation holds an untapped operating and demand facility. This facility is secured by a pledge of specific assets. The amount varies with the value of pledged assets to a maximum not to exceed \$100 million [May 31, 2000 – \$100 million] This facility carries an interest rate of prime plus 0.5 % per annum and has no fixed repayment terms. The facility is reviewable annually by the Bank. Currently there is approximately \$21 million available through this facility. When combined with existing cash and pre-committed mortgage funding, the Corporation has available liquid capital of approximately \$75 million.

Boardwalk's objective is to ensure, in advance, that there are ample cash resources to allow the execution of its business plan. Capital resources are defined as the combination of mortgage debt, share capital equity and internally generated equity. Significant liquidity provides greater certainty as to execution, which in turn gives the Corporation a competitive advantage in its negotiation and acquisition of properties. The conversion of lower yielding mature properties into cash for deployment into higher yielding investments supports this objective.

Outlook, risks and opportunities

The performance of Boardwalk's rental operations is affected directly by the supply of and demand for multi-family residential units. In macro-economic conditions such as those currently prevailing and with the expected slowdown in the economy, business and consumer confidence and employment levels constitute the key drivers of demand. Any significant amount of new construction will result in an imbalance in supply and cause downward price pressure on rents to be exerted. No signs of new rental construction are currently evident in areas where Boardwalk holds properties. It has been shown that to justify new construction in these areas will necessitate increases in existing rental rates of hundreds of dollars.

With Boardwalk's continued expansion into the eastern Canadian market, particularly in Ontario, one additional risk that must be addressed is existing rent-control legislation. Under the existing provincial government, the new legislation is actually referred to as vacancy de-control. While a landlord can set any rent for a vacated unit, controls limit the landlord's ability to increase an existing tenant's rent by setting a pre-determined ceiling that increases on an annual incremental basis, even if the rent adjustment is not actually passed on to the tenant. There are additional allowances for upward rent adjustments, which are the direct result of a focused capital improvement program, or an adjustment designed to catch up to existing rental ceilings.

To respond to these issues, Boardwalk applies its unique approach by complementing the Corporation's proven knowledge and technology with local expertise covering geography, local markets and regional legislation. With Boardwalk's continued focus on efficiency through the increased use of technology, it will continue to experience a further rationalization of its administration expenditures.

Risk management

Boardwalk's overall performance continues to be affected by supply and demand for multi-family residential real estate in Canada. Macro-economic conditions as previously discussed will dictate or drive the demand for continued broad-based improvement. Net absorption and lower costs have also assisted the Corporation in improving performance. The potential for reduced rental revenue exists in the event that Boardwalk is not able to maintain its properties at a high level of occupancy, or in the event of a downturn in the economy which would result in lower rents. Boardwalk has minimized these risks by taking the following steps:

- *Increasing customer satisfaction;*
- *Diversifying its portfolio across Canada, particularly with the recent development of expansion into the eastern market, and thus lowering exposure to 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 multi-family building types including high-rise, townhouse, garden and walkups, each with their own market niche;*

- *Maintaining a wide variety of suite mix including bachelor suites, 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 stable commodity;*
- *Developing a specific rental program characterized by rental adjustments that are the result of enhanced service and superior product;*
- *Developing a management team in Ontario with experience in this local marketplace, and combining this experience with Boardwalk's existing operations and management expertise.*

Interest rate risk

Financing terms for real estate continued to improve during fiscal 2000. Boardwalk has realized benefits from the improvement in overall real estate markets. Management believes that recent economic information will put downward pressure on financing rates over the short-term allowing Boardwalk to continue renewing maturing financing at much improved rates and exert downward pressure on the Corporation's overall weighted average interest rates. Boardwalk does not believe in speculating on interest rate fluctuations and has therefore taken a long-term view, locking in rates and terms for periods of between five and 20 years, where deemed appropriate. In addition, Boardwalk has a strong working relationship with CMHC, resulting in the majority of the Corporation's mortgages being insured under the NHA mortgage program. This added level of assurance offered to lenders 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 call the loan prematurely. The NHA insurance is further protection against any possible failure of the lending institution. The Corporation is also able to obtain additional financing on existing buildings in excess of conventional amounts, and therefore increase return on equity to shareholders.

Utilities and property tax risk

Over the past few years Boardwalk has experienced significant increases in these less controllable operating expenses.

Property taxes overall have increased as a result of revaluations of municipal properties and their adherent tax rates. These revaluations have documented significant increases in property values based on enhancements which are not represented on Boardwalk's Balance Sheet as such representations are contrary to existing reporting standards. To address this risk, Boardwalk has compiled a specialized team of property reviewers who, with the assistance of outside authorities, constantly review property assessments and, where warranted, appeal them. This program recovered in excess of \$500,000 through such appeals.

Utility expenses, consisting mainly of natural gas and electricity service fees, have seen unprecedented increases. These are expected to continue. Natural gas, traditionally costing \$2.50 per gigajoule, has recently been priced as high as \$12.00 per gigajoule. This increase is the direct result of an imbalance in demand versus supply. Boardwalk is vulnerable to fluctuations in utilities charges and limited to recouping these losses through rental rate adjustments. To address this problem, Boardwalk has developed an affirmative utilities cost reduction and value-enhancement plan consisting of the following:

1. Where available, economical electrical sub metering devices designed to pass this risk on to the customer will be installed;
2. Existing federal and provincial utilities rebate programs will be applied. It is estimated that the current rebate programs will flow approximately \$5 million back to Boardwalk in the 2001 fiscal year. Although the noted rebates will assist Boardwalk, they do not sufficiently offset the increased cost;

3. Rents will be adjusted upward to cover these increased costs;
4. Boardwalk will seek to more actively administer supply. Through existing providers, Boardwalk participated in the Alberta electrical power auction, purchasing contracts designed to lock in the price of power for Boardwalk in Alberta for the next 3 to 5 years at rates that are far below existing market rates;
5. Boardwalk has separated itself from the existing incumbent provider of natural gas in Alberta to better leverage metrics of supply and demand and lock in prices based on market information;
6. The continued improvement of Boardwalk's properties result in the installation of many energy efficient structures and systems;

Through these measures Boardwalk believes it can manage the risk of these operating expenses.

Property valuation

It is Boardwalk's policy to continually review the value of its assets in order to ensure the amounts recorded are in accordance with generally accepted accounting principles. Those assets, which are held for investment purposes, are reported via the lower of cost and net recoverable value. Cost includes all amounts relating to the acquisition and improvement of these properties. Net recoverable amounts represent the undiscounted estimated future cash flow expected 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 probable set of economic conditions anticipated in the prevailing market. It is Boardwalk's belief that the overall replacement value of its assets is in excess of \$2.5 billion.

A look ahead

Generally, the Canadian economy continues to improve. CMHC estimates overall vacancy rates for Canada to continue to trend downward. Boardwalk estimates there are approximately two million multi-family residential units across the country and, as such, Boardwalk controls approximately 1% of the entire overall market in Canada. Alberta, Saskatchewan and Ontario account for approximately 1.3 million of these units and only a minimum amount of new rental construction is expected in these markets. Boardwalk commenced operations as a public company in April of 1994, and has since witnessed substantial growth and diversification. As a result of Boardwalk's strategy of acquiring under-performing 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 product that is then positioned for positive adjustment. Boardwalk's overall strategy will continue to focus on both product and service enhancement for existing tenants, with the goal of achieving the utmost customer satisfaction while attempting to limit the upward pressure on the short-term spikes in selective operating expenses such as property taxes and utilities. Although Boardwalk does not anticipate real estate growth rates like those experienced in prior years, there remains a significant opportunity for expansion and diversification.

Summary

Boardwalk's current seven months, ended December 31, 2000 continued a trend of success. Although challenged with increasing operating costs, most of which are uncontrollable variables, the Corporation was still able to achieve increased operational growth. Boardwalk will continue to focus on its customer mandate and look forward to providing non-traditional real estate services to its customers in upcoming periods – further enhancing shareholder value. With the Corporation currently experiencing a strong liquidity, it is well positioned to take advantage of upcoming opportunities. Boardwalk's challenge for the future is the continued creation of value-added products and services to meet customer needs, while at the same time, keeping operations as efficient as possible. With Boardwalk's existing and new markets experiencing strong economic advancement, further improvements to service and strategic capital enhancement, the Company is well positioned for appreciation in shareholder value.

To the Shareholders of Boardwalk Equities Inc.: The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the consolidated financial statements. In the opinion of management, the consolidated 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 consolidated 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 consolidated financial statements.

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



Sam Kolia
President and Chief Executive Officer

March 6, 2001



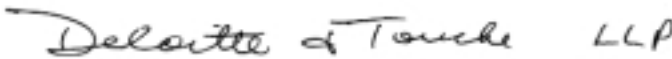
Roberto A. Geremia
Vice President and Chief Financial Officer

auditors' report

To the Shareholders of Boardwalk Equities Inc.: We have audited the consolidated balance sheets of Boardwalk Equities Inc. as at December 31, 2000, May 31, 2000 and 1999, and the consolidated statements of earnings and retained earnings and cash flows for the seven months ended December 31, 2000 and the years ended May 31, 2000 and 1999. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000, May 31, 2000 and 1999 and the results of its operations and its cash flows for the seven months ended December 31, 2000 and the years ended May 31, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

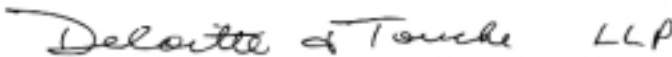


Chartered Accountants
Calgary, Alberta

March 6, 2001

comments by auditors for U.S. readers on Canada-U.S. reporting differences

To the Shareholders of Boardwalk Equities Inc.: In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) outlining changes in accounting principles that have been implemented in the financial statements. During the seven-month period ended December 31, 2000 the Corporation changed, on a retroactive basis, to the treasury stock method for calculating earnings per share figures to conform with the Canadian Institute of Chartered Accountants Handbook Section 3500. In the year ended May 31, 2000, the Corporation changed, on a retroactive basis, to the liability method for calculating income taxes to conform to the Canadian Institute of Chartered Accountants Handbook Section 3465. The impact of these changes in accounting policies are as set out in Note 1 to the consolidated financial statements.



Chartered Accountants
Calgary, Alberta

March 6, 2001

consolidated balance sheets

[CDN\$ THOUSANDS]

As at	December 31 2000	May 31 2000	May 31 1999
			restated Note 1[g]
Assets			
Revenue producing properties [NOTE 2]	\$ 1,325,715	\$ 1,318,658	\$ 1,113,876
Properties held for development and resale [NOTE 2]	6,692	6,365	29,771
Mortgages and accounts receivable [NOTE 3]	17,230	26,506	23,513
Other assets [NOTE 4]	14,637	7,586	8,829
Deferred financing costs	31,460	30,337	24,811
Technology initiative [NOTE 5]	27,045	7,441	–
Cash and cash equivalents	21,055	1,135	–
	\$ 1,443,834	\$ 1,398,028	\$ 1,200,800
Liabilities			
Mortgages payable [NOTE 6]	\$ 1,034,444	\$ 1,009,526	\$ 867,757
Accounts payable and accrued liabilities	24,795	17,769	14,779
Refundable security deposits and other	9,953	8,494	6,382
Capital lease obligations [NOTE 5]	8,404	–	–
Future income taxes [NOTE 8]	64,864	75,673	70,338
Income taxes payable	–	753	1,170
Bank indebtedness	–	–	4,388
	1,142,460	1,112,215	964,814
Shareholders' equity			
Share capital [NOTE 7]	253,586	253,472	210,628
Retained earnings	47,788	32,341	25,358
	301,374	285,813	235,986
	\$ 1,443,834	\$ 1,398,028	\$ 1,200,800

See accompanying notes to the consolidated financial statements.

Approved by the Board:



Sam Kolias
Director



David V. Richards
Director

consolidated statements of earnings

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	7 Months ended December 31 2000	Year ended May 31 2000	Year ended May 31 1999
			restated Note 1[g]
Revenue			
Rental income	\$ 110,771	\$ 178,147	\$ 140,590
Sales – properties held for development and resale	36,311	39,824	45,382
	\$ 147,082	\$ 217,971	\$ 185,972
Expenses			
Revenue producing properties:			
Operating expenses	\$ 14,121	\$ 22,471	\$ 20,050
Utilities	14,713	20,140	14,595
Property taxes	11,004	18,431	12,285
Cost of sales – properties held for development and resale	24,258	24,017	28,532
Administration	8,924	16,891	10,444
Financing costs	37,425	58,212	46,401
Amortization	27,811	38,177	26,545
	\$ 138,256	\$ 198,339	\$ 158,852
Earnings before income taxes	\$ 8,826	\$ 19,632	\$ 27,120
Large corporations taxes	1,913	2,881	2,414
Income taxes [recovery] [NOTE 8]	[8,652]	6,306	10,221
Net earnings	\$ 15,565	\$ 10,445	\$ 14,485
Earnings per share			
Basic	\$ 0.32	\$ 0.21	\$ 0.31
Fully diluted [NOTE 1[h]]	\$ 0.31	\$ 0.21	\$ 0.31

See accompanying notes to the consolidated financial statements.

consolidated statements of retained earnings

[CDN\$ THOUSANDS]

	7 Months ended December 31 2000	Year ended May 31 2000	Year ended May 31 1999
			restated NOTE 1[g]
Retained earnings, as previously stated	\$ 32,341	\$ 26,581	\$ 11,774
Adjustment for retroactive adoption of future income taxes [NOTE 1[g]]	–	[1,223]	[901]
Retained earnings, beginning of period as restated	32,341	25,358	10,873
Net earnings	15,565	10,445	14,485
Premium on share repurchases [NOTE 7]	[118]	[3,462]	–
Retained earnings, end of period	<u>\$ 47,788</u>	<u>\$ 32,341</u>	<u>\$ 25,358</u>

consolidated statements of cash flows from operations

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	7 Months ended December 31 2000	Year ended May 31 2000	Year ended May 31 1999
			restated NOTE 1[g]
Net earnings	\$ 15,565	\$ 10,445	\$ 14,485
Items not affecting cash			
Amortization	27,811	38,177	26,545
Income taxes [recovery]	[8,652]	6,306	10,221
Cash flows from operations prior to changes in non-cash working capital	<u>\$ 34,724</u>	<u>\$ 54,928</u>	<u>\$ 51,251</u>
Per share – basic	<u>\$ 0.71</u>	1.12	1.11
Per share – fully diluted [NOTE 1[h]]	<u>\$ 0.70</u>	1.12	1.10

See accompanying notes to the consolidated financial statements.

consolidated statements of cash flows

[CDN\$ THOUSANDS]

	7 Months ended December 31 2000	Year ended May 31 2000	Year ended May 31 1999
		restated Note 1[,m]	restated Note 1[g],,m]
Cash obtained from [used in]:			
Items from operations			
Cash flows from operations	\$ 34,724	\$ 54,928	\$ 51,251
Net change in non-cash working capital	6,179	3,547	[13,472]
Decrease [increase] in properties held for development and resale	22,789	[611]	25,751
	\$ 63,692	\$ 57,864	\$ 63,530
Financing activities			
Issue of common shares [net of issue costs]	\$ 242	\$ 45,295	\$ 4,934
Repurchase of common stock	[245]	[6,885]	[1,492]
Financing of revenue producing properties	113,771	314,238	339,222
Repayment of debt on revenue producing properties	[92,701]	[219,020]	[190,879]
Deferred financing costs	[2,809]	[8,810]	[11,558]
	\$ 18,258	\$ 124,818	\$ 140,227
Investing activities			
Purchases of revenue producing properties net of debt on acquisitions of \$3.9 million [May 31, 2000 – \$58.8 million; May 31, 1999 – \$75.3 million] and shares issued \$nil [May 31, 2000 – \$nil; May 31, 1999 – \$1.6 million]	\$ [11,367]	\$ [84,784]	\$ [96,068]
Project improvement to revenue producing properties	[42,957]	[84,934]	[86,318]
Technology initiative	[7,706]	[7,441]	–
Payments on property acquisitions	–	–	[42,813]
	\$ [62,030]	\$ [177,159]	\$ [225,199]
Increase [decrease] in cash and cash equivalents during the period	\$ 19,920	\$ 5,523	\$ [21,442]
Cash and cash equivalents [bank indebtedness], beginning of period	1,135	[4,388]	17,054
Cash and cash equivalents [bank indebtedness], end of period	\$ 21,055	\$ 1,135	\$ [4,388]
Taxes paid	\$ 2,841	\$ 2,912	\$ 2,163
Interest paid	\$ 37,321	\$ 57,098	\$ 45,765

See accompanying notes to the consolidated financial statements.

notes to the consolidated financial statements

For the seven months ended December 31, 2000, and the years ended May 31, 2000, and May 31, 1999.

[TABULAR AMOUNTS IN CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

1 SIGNIFICANT ACCOUNTING POLICIES

[a] Operations

Boardwalk Equities Inc. [the "Corporation"] is a real estate corporation that specializes in multi-family residential housing.

[b] Basis of presentation and principles of consolidation

The Corporation's accounting policies and its standards of financial disclosure conform with the recommendations of the handbook of the Canadian Institute of Chartered Accountants ["CICA Handbook"] and with the recommendations of the Canadian Institute of Public Real Estate Companies ["CIPREC"]. These principles differ in certain respects from those generally accepted in the United States of America ["U.S. GAAP"] and to the extent that they affect the Corporation, these differences are described in Note 10 "Differences from United States Accounting Principles".

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"] 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.

The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries, and Shop HomeXpress Inc., a public company of which the Company owns 63% (at this time minority interest is insignificant). All material inter-company transactions have been eliminated.

During 2000, the Corporation changed its fiscal year end from May 31 to December 31. The consolidated financial statements presented are for the seven months ended December 31, 2000 and for the years ended May 31, 2000 and May 31, 1999. Readers should be cautioned that partial periods may not be representative of results expected for full years due to seasonality.

[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 the rental property. Rental revenue includes rents, parking and other sundry revenues. All residential leases are for one year terms or less, consequently, the Corporation accounts for leases with its tenants as operating leases;
- ii. Revenue from the sales of 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 collectibility of any 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 amortization 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 Corporation projects the cash flows over a maximum of 10 years and includes the proceeds from the estimated residual sale at the end of that period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area;

- 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
Parking lots	8%	Declining-balance
Appliances and cabinets	10%	Declining-balance
Project improvements	10%	Declining-balance
Suite improvements	20%	Declining-balance
Equipment	20%	Declining-balance

In the prior year, the Corporation revised the rates of amortization for project improvements [which include building exteriors and major hallway renovations] and appliances and cabinets as of June 1, 1999, in order to more closely reflect their estimated remaining useful lives. The effect of the revision of rates reduced amortization by \$12.7 million and increased net earnings for the year ended May 31, 2000 by \$7.0 million.

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.

[f] Deferred financing costs

Insurance premiums paid to Canada Mortgage and Housing Corporation to obtain insurance through the National Housing Act are amortized over 25 years on a straight-line basis. Costs of refinancing are amortized on a straight-line basis over the life of the new loan.

[g] Income taxes

Effective June 1, 1999, the Corporation adopted the new CICA Handbook Section 3465, Income Taxes. Under this method, the future income tax asset and liability method of accounting for income taxes is used, and future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax basis. In addition, the future benefits of income tax assets including unused tax losses are recognized to the extent that it is more likely than not that such losses will be ultimately utilized. These new standards also require that future income tax assets and liabilities be measured using enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be either settled or realized. The Corporation has applied this accounting policy retroactively.

The following table illustrates the change on the balance sheets and earnings statements as a result of the Corporation adopting the new CICA Handbook Section 3465 for the years ended May 31, 2000 and May 31, 1999:

May 31, 2000	As stated	Prior method	Effect of adoption increase / (decrease)
Change in balance sheet			
Revenue producing properties	\$ 1,318,658	\$ 1,266,227	\$ 52,431
Deferred/future income tax liability	75,673	22,649	53,024
Retained earnings	32,341	32,934	[593]
Change in income statement			
Amortization expense	38,177	37,618	559
Deferred/future income tax expense	6,306	7,495	[1,189]
Net earnings	\$ 10,445	\$ 11,075	\$ [630]

May 31, 1999	As restated	Prior method	Effect of adoption increase / (decrease)
Change in balance sheet			
Revenue producing properties	\$ 1,113,876	\$ 1,061,774	\$ 52,102
Properties held for development	29,771	28,882	889
Deferred/future income tax liability	70,338	16,126	54,212
Retained earnings	25,358	26,581	[1,223]
Change in income statement			
Amortization expense	26,545	26,082	463
Deferred/future income tax expense	10,221	10,362	[141]
Net earnings	\$ 14,485	\$ 14,807	\$ [322]

[h] Per share calculation

Basic net earnings and cash flows 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 flows from real estate operations per share on a fully diluted basis considered the potential exercise of outstanding share purchase options to the extent each option was dilutive. During the current period, the Corporation retroactively adopted the new CICA Handbook Section 3500. Under this method, fully diluted earnings per share and cash flows from operations per share are calculated using the 'treasury stock' method, replacing the previous method of "imputed earnings per share". The effect on fully diluted earnings per share and the effect on fully diluted cash flows from operations per share is as follows:

Fully diluted earnings per share

	Treasury method	Imputed method
December 31, 2000	0.31	0.32
May 31, 2000	0.21	0.21
May 31, 1999	0.31	0.31

Fully diluted cash flows from operations per share

	Treasury method	Imputed method
December 31, 2000	0.70	0.71
May 31, 2000	1.12	1.12
May 31, 1999	1.10	1.11

The following table sets forth the computation of basic and diluted earnings per share with respect to income from continuing operations.

	December 31 2000	May 31 1999	May 31 1998
Numerator			
Net income	\$ 15,565	\$ 10,445	\$ 14,485
Denominator			
Denominator for basic earnings per share – weighted average shares	49,253,171	48,947,811	46,087,896
Effect of dilutive stock options	409,673	31,947	606,740
Denominator for diluted earnings per share adjusted for weighted average shares and assumed conversion	49,662,844	48,979,758	46,694,636
Basic earnings per share	\$ 0.32	\$ 0.21	\$ 0.31
Diluted earnings per share	\$ 0.31	\$ 0.21	\$ 0.31

[i] 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 periodic review of its operating facility and mortgage portfolio. If market conditions warrant, the Corporation has the ability to convert its existing demand debt to fixed rate debt. At December 31, 2000, the Corporation had demand debt outstanding of \$nil [May 31, 2000 – \$5.0 million; May 31, 1999 – \$46.0 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 December 31, 2000 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 December 31, 2000 are as follows:

	Carrying value	Fair market value
Mortgages and accounts receivable	\$ 17,230	\$ 15,934
Mortgages payable	\$ 1,034,444	\$ 1,136,086

The fair value of the Corporation's mortgages payable exceeds the recorded value by approximately \$101.6 million at December 31, 2000 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.

[j] 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 amortization 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 Canadian generally accepted accounting principles as discussed in Note 1[d];
- iii. Amount of capitalized on site wages which relate to project improvements, as discussed in Note 2.

Actual results may differ from these estimates.

Management periodically reviews the useful lives of its properties to determine the adequacy of its amortization policy. Also, economic indicators are monitored to ensure that current information is used in projections of cash flows.

[k] Cash and cash equivalents

The Corporation considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

[l] Statement of cash flows

The Corporation adopted, effective June 1, 1999, 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.

[m] Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation, or as a result of accounting changes.

2 REAL ESTATE PROPERTIES

	December 31 2000	May 31 2000	May 31 1999
Land	\$ 91,063	\$ 92,152	\$ 93,252
Building and equipment	1,329,852	1,299,785	1,061,237
Total revenue producing properties	\$ 1,420,915	\$ 1,391,937	\$ 1,154,489
Less: accumulated amortization	[95,200]	[73,279]	[40,613]
	1,325,715	1,318,658	1,113,876
Properties held for development and resale	6,692	6,365	29,771
	\$ 1,332,407	\$ 1,325,023	\$ 1,143,647

Included in revenue producing properties is \$3.5 million [May 31, 2000 – \$7.8 million; May 31, 1999 – \$9.7 million] of capitalized wages relating to project improvements. Included in the cost of properties held for development and resale are capitalized financing costs of \$0.2 million [May 31, 2000 – \$0.3 million; May 31, 1999 – \$1.5 million] less net operating revenue of \$nil [May 31, 2000 – \$0.9 million; May 31, 1999 – \$1.6 million]. Real estate assets are pledged as security against mortgages payable.

During the seven months ended December 31, 2000, the Corporation acquired 322 units for the aggregate consideration of \$15.2 million, consisting of \$11.3 million in cash and \$3.9 million in debt financing. A total of 438 units were sold during the period for gross proceeds of \$36.3 million, consisting of cash and assumed debt.

During the year ended May 31, 2000, the Corporation purchased 3,283 units for the aggregate consideration of \$143.6 million, consisting of \$84.8 million cash and \$58.8 million in debt financing. A total of 689 units were sold in the year ending May 31, 2000 for gross proceeds of \$39.8 million, consisting of \$24.7 million in cash and assumed debt and \$15.1 million in receivables.

During the year ended May 31, 1999, the Corporation purchased 3,809 units for the aggregate consideration of \$173 million, consisting of \$96.1 million cash, \$75.3 million in debt financing and \$1.6 million of issued common shares at \$15.95 per share. A total of 849 units were sold in the year ending May 31, 1999 for gross proceeds of \$45.4 million consisting of \$33.4 million in cash and assumed debt, and \$12.0 million in receivables.

3 MORTGAGES AND ACCOUNTS RECEIVABLE

The mortgages and accounts receivable comprise an aggregate amount of \$17.2 million [May 31, 2000 – \$26.5 million; May 31, 1999 – \$23.5 million] of which mortgages receivable arising on sales of property represents \$12.3 million [May 31, 2000 – \$22.2 million; May 31, 1999 – \$14.5 million] of this amount which come due periodically up to May 15, 2003. The Corporation is currently earning a weighted average interest rate of 3.78% [May 31, 2000 – 5.10%; May 31, 1999 – 6.29%] on these amounts.

4 OTHER ASSETS

	December 31 2000	May 31 2000	May 31 1999
Funds held in trust	\$ 6,992	\$ –	\$ –
Head office building and warehouses	3,227	3,278	3,007
Deposits on properties	600	50	2,925
Inventory	1,704	2,207	2,270
Prepaid and other	2,114	2,051	627
	\$ 14,637	\$ 7,586	\$ 8,829

5 TECHNOLOGY INITIATIVE

Technology initiative includes costs associated with the construction of the Corporation's technological central office of its wholly-owned subsidiary Suite Systems Inc. ["SSI"]. The amounts consist of the following:

	December 31 2000	May 31 2000	May 31 1999
Land and building	\$ 6,663	\$ 6,623	\$ –
Capitalized costs	20,382	818	–
	\$ 27,045	\$ 7,441	\$ –

During the seven months ended December 31, 2000, and the year ended May 31, 2000, SSI was in the development stage which involved the construction of the 'head end' of its telephone and cable initiative. SSI entered into capital leases totaling \$8.4 million [May 31, 2000 – \$nil; May 31, 1999 – \$nil] with a weighted average interest rate of 10.1% [May 31, 2000 – n/a; May 31, 1999 – n/a]. At December 31, 2000 the Corporation had further commitments totaling \$4.0 million [May 31, 2000 – \$10 million; May 31, 1999 – \$nil] with various suppliers for the purchase and installation of certain equipment with a weighted average interest rate of 10.8 % [May 31, 2000 – 10.7%; May 31, 1999 – n/a] which call for equal monthly payments for five to six years.

Future minimum payments under capital leases together with the balance of the obligation due under capital leases are as follows for the year ending in:

2001	\$ 1,851
2002	1,851
2003	1,851
2004	1,851
2005	1,485
Subsequent	1,118
Total	10,007
Less amount representing interest	[1,603]
Total net obligation	<u>\$ 8,404</u>

6 MORTGAGES PAYABLE

	<u>December 31 2000</u>	<u>May 31 2000</u>	<u>May 31 1999</u>
[a] Revenue producing properties			
Mortgages payable bearing interest at a weighted average rate of 6.27 % [May 31, 2000 – 6.29%; May 31, 1999 – 6.33%] per annum, payable in monthly principal and interest installments totaling \$7.5 million [May 31, 2000 – \$7.2 million; May 31, 1999 – \$5.8 million]; mature from demand to 2020 and are secured by specific charges against specific properties	\$ 1,032,551	\$ 1,008,902	\$ 850,520
[b] Properties held for development and resale			
Mortgages payable bearing interest at a weighted average rate of 7.92 % [May 31, 2000 – 8.88%; May 31, 1999 – 7.09%] per annum, payable in monthly principal and interest installments totaling \$15,000 [May 31, 2000 – \$6,000; May 31, 1999– \$120,000]; mature in 2010 and are secured by specific charges against specific properties.	1,893	624	17,237
	\$ 1,034,444	\$ 1,009,526	\$ 867,757

[c] Demand facilities

The Corporation has a demand facility in the form of an acquisition and operating line. This demand facility is secured by pledge of specific assets. The maximum varies with the value of pledged assets to a maximum not to exceed \$100 million [May 31, 2000 – \$100 million; May 31, 1999 – \$102.5 million], an amount of \$nil was outstanding as at December 31, 2000 [May 31, 2000 – \$5 million; May 31, 1999 – \$46 million]. This facility carries an interest rate of prime plus 0.5 % per annum, and has no fixed terms of repayment. The facility is reviewable annually by the Bank.

Estimated principal payments required to meet mortgage obligations as at December 31, 2000 are as follows:

	<u>Revenue producing properties</u>	<u>Properties held for development and resale</u>	<u>Total</u>
2001	\$ 86,940	\$ 28	\$ 86,968
2002	160,653	30	160,683
2003	113,923	33	113,956
2004	96,272	36	96,308
2005	53,167	38	53,205
Subsequent	521,596	1,728	523,324
	\$ 1,032,551	\$ 1,893	\$ 1,034,444

7 SHARE CAPITAL

[a] Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

Issued:

Preferred shares

The Corporation issued 5,604,956 preferred shares, with a face value of \$1.00 per share and a face rate of 0%, in conjunction with the acquisition of certain properties. These preferred shares are offset by a non-interest bearing note receivable from the holder for the equivalent amount. Both the preferred shares and the note receivable are retractable at either parties initiative and have been offset for the consolidated financial statement presentation.

Common shares

	Shares	Amount
December 31, 2000	49,258,899	\$ 253,586
May 31, 2000	49,240,242	\$ 253,472
May 31, 1999	46,555,143	\$ 210,628

Details of shares issued are as follows:

	Shares	Amount
May 31, 1998	45,459,999	\$ 205,551
On acquisition of assets	278,066	4,435
On exercise of stock options	930,878	2,134
Share buy-back	[113,800]	[1,492]
May 31, 1999	46,555,143	\$ 210,628
On exercise of stock options	268,099	1,224
Share buy-back	[688,000]	[3,423]
On equity offering	3,105,000	46,264
Less expenses relating to issue of equity, net of income taxes of \$970,000	-	[1,221]
May 31, 2000	49,240,242	\$ 253,472
On exercise of stock options	42,257	241
Share buy-back	[23,600]	[127]
December 31, 2000	49,258,899	\$ 253,586

The Corporation continued their normal course issuer bid on March 1, 2000 allowing it to purchase up to 2,236,400 common shares for cancellation until its termination on February 28, 2001 or such earlier time as the bid is complete. Management has renewed this bid. During the period, the Corporation acquired and cancelled 23,600 [May 31, 2000 – 688,000; May 31, 1999 – 113,800] common shares at a cost of \$0.3 million [May 31, 2000 – \$6.9 million; May 31, 1999 – \$1.5 million]. The excess of the cost over stated value of the shares acquired of \$0.1 million [May 31, 2000 – \$3.5 million; May 31, 1999 – \$nil] has been charged to retained earnings.

[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 7,795,822 [May 31, 2000 – 7,795,822; May 31, 1999 – 4,000,000] common shares. As at December 31, 2000, there are a total of 4,399,288 [May 31, 2000 – 4,043,402; May 31, 1999 – 3,684,277] options outstanding to directors, officers and associates. The exercise prices range from \$1.50 to \$22.92. These options expire up to December 22, 2010. All options are issued at market price.

	December 31, 2000		May 31, 2000		May 31, 1999	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of period	4,043,402	\$ 12.71	3,684,277	\$ 13.05	2,832,270	\$ 8.74
Granted	765,575	11.85	1,655,620	11.88	2,162,420	14.62
Exercised	[41,357]	6.08	[268,099]	4.57	[930,880]	2.46
Forfeited	[368,332]	13.41	[1,028,396]	14.66	[379,533]	15.81
Outstanding at end of period	4,399,288	\$ 12.37	4,043,402	\$ 12.71	3,684,277	\$ 13.05

Options exercisable at period end

The following table summarized information about the options outstanding at December 31, 2000:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$1.50 to \$2.25	10,352	0.2	\$ 2.10	10,352	\$ 2.10
\$3.83 to \$4.50	250,000	0.7	3.83	250,000	3.83
\$9.11 to \$13.67	2,849,450	7.7	11.16	675,045	10.94
\$14.05 to \$21.08	1,182,486	6.1	16.27	380,217	16.90
\$22.24 to \$22.92	107,000	2.3	22.51	53,500	22.51
	4,399,288	6.67	\$ 12.37	1,369,114	\$ 10.98

8 FUTURE INCOME TAXES

The Corporation has tax losses of approximately \$130 million available to reduce future taxable income, the benefit of which has been accounted for in computing future income taxes. The majority of these losses begin to expire in 2005. The adjustment for change in the effective tax rate reflects the benefit from the reduction of the current substantially enacted Federal rate resulting in a combined Federal and Provincial rate of 44% reducing to 38%.

	December 31 2000	May 31 2000	May 31 1999
Tax expense based on expected rate of 44%	\$ 3,938	\$ 8,760	\$ 12,101
Non-taxable portion of capital gain	[2,689]	[748]	[1,880]
Adjustment for change in effective tax rate	[9,901]	[1,706]	–
Future income tax expense [recovery]	\$ 8,652	\$ 6,306	\$ 10,221

The future income tax liability is calculated as follows:

As at	December 31 2000	May 31 2000	May 31 1999
Tax assets related to operating losses	\$ 49,992	\$ 41,411	\$ 24,111
Tax liabilities related to differences in tax and book basis	[114,856]	[117,084]	[94,449]
Future income tax liability	\$ [64,864]	\$ [75,673]	\$ [70,338]

9 RELATED PARTY TRANSACTIONS

During the period there were no related party transactions. During the year ended May 31, 2000, the Corporation advanced loans to two of its senior officers. The total amount of the advances were \$1.46 million and were interest bearing at the prime bank rate of the Bank plus 1%. Interest in the amount of \$56 thousand was received on these balances. At May 31, 2000, all amounts outstanding were repaid to the Corporation.

10 DIFFERENCES FROM UNITED STATES ACCOUNTING PRINCIPLES

Canadian GAAP varies in many respects from the principles that the Corporation would follow if its consolidated financial statements were prepared in accordance with U.S. GAAP. The effects of significant accounting differences on the Corporation's consolidated balance sheets and consolidated statements of earnings, retained earnings and cash flows are quantified and described in the accompanying notes.

Under Canadian GAAP, companies in the real estate industry provide supplementary measures of cash flows from operating activities and cash flows per share in the consolidated financial statements, provided that these measures are not given greater prominence than reported net earnings or earnings per share. For the purpose of reporting under U.S. GAAP, companies would not provide supplementary measures of cash flows per share and cash flows from operations in the consolidated financial statements.

Statement of Earnings Differences

The incorporation of the significant differences in accounting principles in the Corporation's income statements for the period ended December 31, 2000, under U.S. GAAP, would result in net earnings after extraordinary item of \$1.3 million [May 31, 2000 – \$2.7 million; May 31, 1999 – \$6.2 million]. The main differences between Canadian GAAP and U.S. GAAP are summarized in the following table:

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]			
Net earnings under Canadian GAAP	\$ 15,565	\$ 10,445	\$ 14,485
Adjustments			
Increase in amortization of revenue producing properties [a]	[10,138]	[16,091]	[14,020]
Decrease in amortization of deferred financing costs [b]	391	1,060	460
Decrease in operating expenses due to property held for development capitalized revenues [c]	206	600	100
Increase gain on sales due to increased amortization [d]	1,700	1,036	664
Decrease in future income taxes as a result of foregoing adjustments [e]	3,417	7,677	5,709
Difference in substantially enacted rates [e]	[9,901]	[1,706]	–
Reclass extinguishment of debt [f]	136	–	–
Net earnings under U.S. GAAP before extinguishment of extraordinary item	1,376	3,021	7,398
Extraordinary item – extinguishment of debt less applicable taxes of \$59 [May 2000 – \$247; May 1999 – \$914]	[76]	[320]	[1,182]
Net earnings under U.S. GAAP after extraordinary item	\$ 1,300	\$ 2,701	\$ 6,216
Net earnings per share before extraordinary item, basic and fully diluted	0.03	0.06	0.16
Net earnings per share after extraordinary item, basic and fully diluted	0.03	0.06	0.13

The significant differences in each category between Canadian GAAP and U.S. GAAP are as follows:

[a] Revenue producing properties amortization

Under Canadian GAAP, revenue producing properties have been amortized using the sinking fund method over 50 years. Under U.S. GAAP, revenue producing properties have been amortized on a straight-line basis over a 40-year period. In recomputing amortization on a straight-line basis, the additional amortization expense for the seven months ended December 31, 2000 would be \$10.1 million [years ended May 31, 2000 – \$16.1 million; May 31, 1999 – \$14.0 million].

[b] Deferred financing

Under U.S. GAAP, the amortization taken under Canadian GAAP for specific costs relating to mortgage prepayment penalties must be added back to earnings. The full amount of the mortgage prepayment penalties are fully charged to income as documented in note 10[f]. This results in a decrease in amortization expense for the seven months ended December 31, 2000 by \$0.4 million [years ended May 31, 2000 – \$1.1 million; May 31, 1999 – \$0.5 million].

[c] Capitalization of revenues for property held for development

Under U.S. GAAP, operating revenue, net of its expenses, for property held for development would be recorded as income when incurred. For the seven months ended December 31, 2000, this would increase net income for the seven months ended December 31, 2000 by \$0.2 million [years ended May 31, 2000 – \$0.6 million; May 31, 1999 – \$0.1 million].

[d] Increased gain on sales

Under U.S. GAAP, amortized properties will have a lower net book value than under Canadian GAAP due to increased annual amortization. The increased gain for the seven months ended December 31, 2000 is \$1.7 million [years ended May 31, 2000 – \$1.0 million; May 31, 1999 – \$0.7 million].

[e] Future income taxes

Under Canadian and U.S. GAAP, income taxes are accounted for using the liability method. For the seven months ended December 31, 2000, a reduction of future income tax expense of \$3.4 million [years ended May 31, 2000 – \$7.7 million; May 31, 1999 – \$5.7 million] would be recorded due to the tax effect of the stated differences between Canadian and U.S. GAAP. Under U.S. GAAP, Statements of Financial Accounting Standards ["SFAS"] No. 109 does not allow the use of substantially enacted tax rates to calculate income tax expense. Hence, under U.S. GAAP, the substantially enacted reduction in tax rates will be effective over the course of the next four years, where-as Canadian GAAP recognized the benefit in the current period, resulting in a decrease of future income tax expense of \$9.9 million [years ended May 31, 2000 – \$1.7 million; May 31, 1999 – \$nil].

[f] Extinguishment of debt

Under U.S. GAAP, all costs associated with the extinguishments of existing mortgage debt are charged to the period incurred, these are to be disclosed as extraordinary items and reported net of applicable taxes. For the seven months ended December 31, 2000, this would decrease net earnings after extraordinary item by \$.08 million [years ended May 31, 2000 – \$0.3 million; May 31, 1999 – \$1.2 million]. For the current period, these charges were recorded in financing costs. For U.S. GAAP, these need to be reclassified to extraordinary item, net of tax, which will increase earnings before extraordinary item by \$0.1 million for the seven months ended December 31, 2000 [years ended May 31, 2000 – \$nil; May 31, 1999 – \$nil]. In previous periods, these charges were capitalized in Deferred Financing Costs.

Comprehensive income

Financial Accounting Standards Board ["FASB"] issued SFAS No. 130 "Reporting Comprehensive Income." Comprehensive income, which incorporates net income, includes all changes in equity during the period. The Corporation's comprehensive income was equal to net earnings for all periods presented.

Segmentation

The Corporation operates in the multi-family residential market and exclusively serves this segment. Other segment's are not significant at this time.

Earnings per share

Earnings per share amounts are based on earnings in accordance with U.S. GAAP and computed in accordance with SFAS No. 128, Earnings Per Share. Under this U.S. standard, fully diluted earnings per share is determined using the weighted average number of shares outstanding during the period, adjusted to reflect the application of the treasury stock method for the Corporation's outstanding options. There is no significant difference between basic and fully diluted under this method. The numbers of shares outstanding for basic and fully diluted net earnings per share for U.S. GAAP purposes were 49,253,171 [May 31, 2000 – 48,947,811; May 31, 1999 – 46,087,896] and 49,662,844 [May 31, 2000 – 48,979,758; May 31, 1999 – 46,694,636] respectively which are the same as used for Canadian purposes.

Stock options expense

Under Canadian GAAP, no compensation expense has been recorded in respect of stock options granted during the year. Under U.S. GAAP, the Corporation has adopted the recommendations of SFAS No. 123, which is entitled, "Accounting for Stock-Based Compensation", which establishes financial accounting and reporting standards for stock-based employee compensation plans. The Corporation has elected to follow Accounting Principles Board "APB" No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for its employee stock options. Due to the fact that the exercise price of the underlying stock equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

SFAS No. 123 requires the use of a fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. However, SFAS No. 123 allows the Corporation to continue to measure compensation costs in accordance with Accounting Principles Board ["APB"] Opinion No. 25, "Accounting for Stock Issued to Employees". The weighted average fair value of options granted during the period were \$9.28 [May 31, 2000 – \$9.50; May 31, 1999 – \$10.13].

The following two pro forma financial information tables presents the pro forma net operating results for the period and the pro forma basic and fully diluted earnings [loss] per share, before and after extraordinary item, had the Corporation adopted the fair value method specified in SFAS No. 123 for all stock options issued to employees and directors.

	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]			
(Loss) earnings before extraordinary item			
Pro forma net earnings [loss] before extraordinary item under U.S. GAAP	\$ [6,357]	\$ [3,841]	\$ 3,628
Pro forma basic earnings [loss] before extraordinary item per share	[0.13]	[0.08]	0.08
Pro forma fully diluted earnings [loss] before extraordinary item per share	[0.13]	[0.08]	0.08
(Loss) earnings after extraordinary item			
Pro forma net earnings [loss] after extraordinary item under U.S. GAAP	\$ [6,433]	\$ [4,161]	\$ 2,447
Pro forma basic earnings [loss] after extraordinary item per share	[0.13]	[0.09]	0.05
Pro forma fully diluted earnings [loss] after extraordinary item per share	[0.13]	[0.09]	0.05

Balance sheet differences

The incorporation of the significant differences in accounting principles in the Corporation's consolidated financial statements as at December 31, 2000, May 31, 2000 and May 31, 1999, would result in the following balance sheet presentation under U.S. GAAP:

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS]			
Assets			
Revenue producing properties	\$ 1,274,955	\$ 1,275,235	\$ 1,085,606
Properties held for development and resale	6,692	6,365	29,073
Mortgages and accounts receivable	17,230	26,506	23,513
Other assets	14,637	7,586	8,829
Deferred financing costs	26,944	25,430	19,410
Technology initiative	27,045	7,441	–
Cash and short-term investments	21,055	1,135	–
Total assets under U.S. GAAP	\$ 1,388,558	\$ 1,349,698	\$ 1,166,431

Liabilities and shareholders' equity

Mortgages payable	\$ 1,034,444	\$ 1,009,526	\$ 867,757
Accounts payable and accrued liabilities	24,795	17,768	14,595
Refundable security deposits and other	9,953	8,494	6,382
Bank indebtedness	–	–	4,388
Payable on property acquisitions	–	–	182
Capital lease obligations	8,404	–	–
Income taxes payable	–	753	1,170
Future income taxes	49,081	53,223	54,107
	\$ 1,126,677	\$ 1,089,764	\$ 948,581
Share capital	253,586	253,473	210,628
Retained earnings	8,295	6,461	7,222
Total liabilities and equity under U.S. GAAP	\$ 1,388,558	\$ 1,349,698	\$ 1,166,431

The significant differences in each category between Canadian GAAP and U.S. GAAP are as follows:

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS]			
Revenue producing properties			
Revenue producing properties under Canadian GAAP	\$ 1,325,715	\$ 1,318,658	\$ 1,113,876
Additional accumulated amortization under U.S. GAAP [a]	[54,414]	[45,171]	[29,081]
Additional gains on sold assets [b]	3,546	1,846	811
Capitalization of net operating revenues reversed under U.S. GAAP [c]	108	[98]	–
Revenue producing properties under U.S. GAAP	\$ 1,274,955	\$ 1,275,235	\$ 1,085,606

[a] Accumulated amortization

The difference between Canadian GAAP and U.S. GAAP affecting the carrying value of revenue producing properties relates to U.S. GAAP requiring straight-line amortization to be applied to depreciable assets rather than the sinking fund method of amortization. At December 31, 2000, this would result in a cumulative adjustment of \$54.4 million [May 31, 2000 – \$45.2 million; May 31, 1999 – \$29.1 million].

[b] Additional gains on sold assets

As a result of increased amortization on sold assets under U.S. GAAP, at December 31, 2000, an increase to revenue producing properties to \$3.5 million [May 31, 2000 – \$1.8 million, May 31, 1999 – \$0.8 million] is required to offset the lower cost of sale.

[c] Capitalization of net operating revenues reversed

Under U.S. GAAP, the Corporation is required to consider net operating income of in-service properties as period revenue rather than capitalizing them. This accumulated adjustment at December 31, 2000, a decrease of \$0.1 million [May 31, 2000 – \$0.1 million; May 31, 1999 – \$nil], represents the capitalized costs of properties transferred to revenue producing from property held for development.

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS]			
Property held for development			
Property held for development under Canadian GAAP	\$ 6,692	\$ 6,365	\$ 29,771
Reversal of net operating income capitalized under Canadian GAAP	–	–	[698]
Property held for development under U.S. GAAP	<u>\$ 6,692</u>	<u>\$ 6,365</u>	<u>\$ 29,073</u>

Under U.S. GAAP, operating revenue, net of expenses, for property held for development would be recorded as income when incurred for properties “in service”. At May 31, 1999, the accumulated net revenue capitalized amounted to \$0.7 million. There were no such capitalized revenues at December 31, 2000 and May 31, 2000.

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS]			
Deferred financing costs			
Deferred financing costs under Canadian GAAP	\$ 31,460	\$ 30,337	\$ 24,811
Reversal of debt penalty amortization	2,434	2,043	982
Write off of debt penalty fees	[6,950]	[6,950]	[6,383]
Deferred financing costs under U.S. GAAP	<u>\$ 26,944</u>	<u>\$ 25,430</u>	<u>\$ 19,410</u>

The reversal of debt penalty amortization incurred under Canadian GAAP is described above in Note 10[b] under Statement of Earnings Differences. This reversal in amortization increases the deferred financing assets by \$2.4 million [May 31, 2000 – \$2.0 million; May, 1999 – \$1.0 million]. The second difference requiring the write-off of debt penalty fees for U.S. GAAP, is described above in Note 10[f] under Statement of Earnings Differences. At December 31, 2000, this would result in a cumulative adjustment of \$7.0 million [May 31, 2000 – \$7.0 million; May, 1999 – \$6.4 million].

Income taxes

Under U.S. GAAP, the Corporation has a future income tax liability of \$49.1 million [May 31, 2000 – \$53.2 million; May, 1999 – \$54.1 million]. The major corresponding balances created by this adjustment are increases to revenue producing properties by \$52.6 million [May 31, 2000 – \$54.6 million; May, 1999 – \$53.7 million], and changes to property held for development by \$nil [May 31, 2000 – \$nil; May 31, 1999 – \$0.9 million] to offset purchase discrepancies.

The future income tax liability under U.S. GAAP is calculated as follows:

As at	December 31 2000	May 31 2000	May 31 1999
[CDN\$ THOUSANDS]			
Tax assets related to operating losses	\$ 56,870	\$ 41,411	\$ 24,111
Tax liabilities related to differences in tax and book basis	[105,951]	[94,634]	[78,218]
Future income tax liability under U.S. GAAP	\$ [49,081]	\$ [53,223]	\$ [54,107]

Recent accounting pronouncements

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and supplemented by SFAS No. 138, effective for fiscal periods on or after June 15, 2000. The Corporation has reviewed all of its material contracts to consider whether such contracts are required to be accounted for under SFAS No. 133. The Corporation has determined that the adoption of SFAS No. 133 effective January 1, 2001 will not have a material impact on the Corporation's earnings, financial position or cash flows based on the status of the Corporation's outstanding contracts at this time. The Corporation will not record a transaction adjustment upon adoption of SFAS No. 133.

11 COMMITMENTS

The Corporation has entered into long-term supply arrangements with two electrical utility companies to supply the Corporation with its electrical power needs for Alberta for the next three to five years at a blended rate of approximately \$0.07/kwh. The agreements provide that the Corporation purchase its power for all properties under contract for the upcoming years based on an approximation of the current year's demand levels.

The Corporation has no retirement plan for its employees and therefore no obligation or potential obligations exist with respect to a retirement plan.

12 SUBSEQUENT EVENTS

[a] Property acquisitions

Subsequent to December 31, 2000, the Corporation has contracted to acquire 711 residential units and 41,000 square feet of commercial space for an aggregate purchase price of \$27.4 million. The acquisitions were financed through cash of \$1.3 million, common shares issued of \$7.1 million, preferred shares issued of \$3.4 million [offset by a receivable from the vendor of same value], and the balance in the form of a combination of vendor mortgages and the assumption of existing mortgages.

[b] Property disposition

Pursuant to an Offer to Purchase dated February 22, 2001, the Corporation has agreed to sell to an arm's length party a total of 236 units in Edmonton, Alberta. The terms of the agreement include a total sale price of \$18.0 million to be paid through cash and vendor take back mortgages. It is anticipated that this transaction will close early in fiscal 2001 and will result in a gain of approximately \$7.3 million prior to income taxes.

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Stock Exchanges

The Toronto Stock Exchange

The New York Stock Exchange

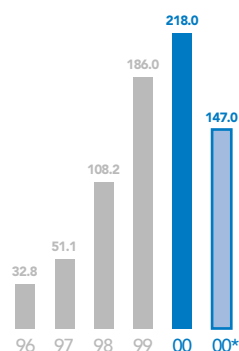
[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	7 Months ending December 31 2000	Years ended May 31				
		2000	1999	1998*	1997*	1996*
Total revenues	147,082	217,971	186,000	108,200	51,100	32,800
Revenue producing properties						
Rental income	110,771	178,147	140,590	75,407	29,078	14,434
Rental guarantee income	–	–	–	–	–	1,584
	110,771	178,147	140,590	75,407	29,078	16,018
Operating expenses						
Revenue producing properties	14,121	22,471	20,050	12,716	4,201	2,349
Property taxes	11,004	18,431	12,285	6,747	3,437	1,632
Utilities	14,713	20,140	14,595	7,813	2,994	1,650
Financing costs	37,425	58,212	46,401	26,055	13,683	7,392
Amortization	27,811	38,177	26,545	11,169	3,481	1,780
	105,074	157,431	119,876	64,500	27,796	14,803
Earnings from rental properties	5,697	20,716	20,714	10,907	1,282	1,215
Cash flow before corporate charges	33,508	58,893	47,259	22,076	4,763	2,995
Sales of properties held for development and resale						
Revenue	36,311	39,824	45,382	32,768	22,031	16,735
Cost of sales	24,258	24,017	28,532	21,273	14,892	14,899
Income from sales of properties	12,053	15,807	16,850	11,495	7,139	1,836
Corporate charges						
Administration	8,924	16,891	10,444	6,844	2,325	226
Large corporations tax	1,913	2,881	2,414	1,878	1,089	474
Income taxes [recovery]	[8,652]	6,306	10,221	5,693	2,703	1,253
	2,185	26,078	23,079	14,415	6,117	1,953
Net earnings	15,565	10,445	14,485	7,987	2,304	1,098
Earnings per share – basic	0.32	0.21	0.31	0.20	0.08	0.05
Cash flow from operations	34,724	54,928	51,251	24,849	8,488	4,131
Cash flow per share – basic	0.71	1.12	1.11	0.63	0.30	0.16

*Amounts reported have not been adjusted to reflect the change in accounting for future income taxes.

Revenue

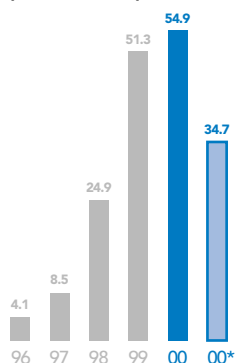
[CDN\$ MILLIONS]



*seven months ending Dec. 31

Cash flow from operations

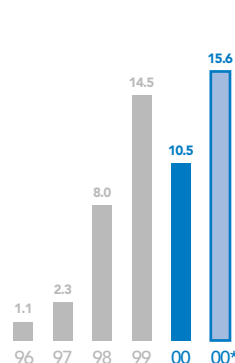
[CDN\$ MILLIONS]



*seven months ending Dec. 31

Net earnings

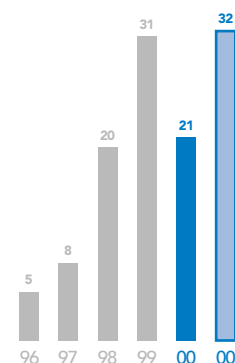
[CDN\$ MILLIONS]



*seven months ending Dec. 31

Earnings per share

[CENTS]



*seven months ending Dec. 31

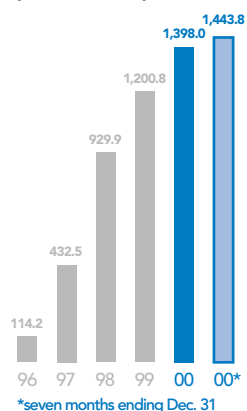
balance sheets

BOARDWALK AT-A-GLANCE

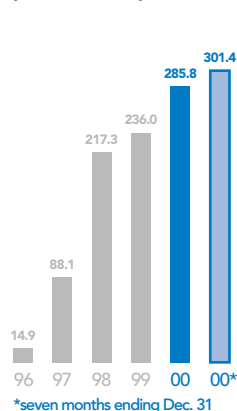
[CDN\$ THOUSANDS, EXCEPT AS NOTED]

	December 31 2000	2000	1999	1998	1997	1996
Assets						
Revenue producing properties	1,325,715	1,318,658	1,113,876	856,427	344,634	99,263
Properties held for development and resale	6,692	6,365	29,771	30,819	18,338	6,820
	1,332,407	1,325,023	1,143,647	887,246	362,972	106,083
Other assets	111,427	73,005	57,153	42,640	69,491	8,138
Total assets	1,443,834	1,398,028	1,200,800	929,886	432,463	114,221
Mortgage payable	1,034,444	1,009,526	867,757	645,652	310,342	94,651
Other liabilities	108,016	102,689	97,057	66,909	33,982	4,646
	1,142,460	1,112,215	964,814	712,561	344,324	99,297
Shareholder's equity	301,374	285,813	235,986	217,325	88,139	14,924
Total liabilities and shareholders' equity	1,443,834	1,398,028	1,200,800	929,886	432,463	114,221
Common shares outstanding [000s]	49,259	49,240	46,555	45,500	31,628	26,780
Share price year end, [\$]	11.50	12.55	16.00	22.00	9.88	3.75
Market capitalization [\$Mm]	0.566	0.618	0.745	1.001	0.312	0.100
Number of units	24,856	25,070	22,467	19,507	8,810	2,383
Real estate asset value per unit	53	53	49	45	41	45
Mortgage payable per unit	42	40	39	33	35	40
Net rentable square feet [000s]	20,721	20,762	18,810	16,500	7,590	1,871
Real estate asset value per square foot	64	64	58	54	48	57
Mortgage payable per square foot	50	49	46	39	41	51
Average net rentable SF per unit	834	828	837	846	862	785
Mortgage weighted average interest rate	6.27%	6.29%	6.33%	6.45%	6.92%	7.98%

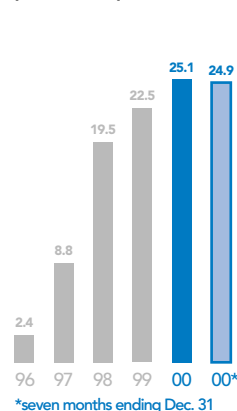
Total assets
[CDN\$ MILLIONS]



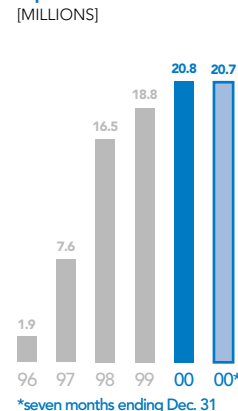
Shareholders' equity
[CDN\$ MILLIONS]



Number of units
[THOUSANDS]



**Net rentable
square feet**
[MILLIONS]



[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	7 Months ending December 31 2000	Q2	Q1
Revenue producing properties			
Rental income	110,771	47,605	46,664
Operating expenses			
Revenue producing properties	14,121	5,614	6,359
Property taxes	11,004	4,646	4,716
Utilities	14,713	5,568	4,497
Financing costs	37,425	15,940	16,223
Amortization	27,811	12,045	11,589
	105,074	43,813	43,384
Earnings from rental properties	5,697	3,792	3,280
Cash flow before corporate charges	33,508	15,837	14,869
Sales of properties held for development and resale			
Revenue	36,311	36,311	–
Cost of sales	24,258	24,263	–
Income from sales of properties	12,053	12,048	–
Corporate charges			
Administration	8,924	3,746	4,004
Large corporations tax	1,913	888	732
Income taxes [recovery]	[8,652]	2,566	[306]
	2,185	7,200	4,430
Net earnings	15,565	8,640	[1,150]
Earnings per share – basic	0.32	0.17	[0.02]
Cash flow from operations	34,724	23,251	10,133
Cash flow per share – basic	0.71	0.47	0.21

Annual Meeting

The Annual General Meeting of the Shareholders of Boardwalk Equities Inc. will be held in the Calgary Petroleum Club, 319 – 5 Avenue SW, Calgary, Alberta, at 3:00 pm [Calgary time] on Monday, April 30, 2001.

Shareholders are encouraged to attend and those unable to do so, are requested to complete the Form of Proxy and forward it a their earliest convenience.

Stock Exchange Listings

Common shares of Boardwalk Equities Inc. are listed on The Toronto Stock Exchange and The New York Stock Exchange under the trading symbol BEI.

Trading Profile

TSE: June 1, 2000 to

December 31, 2000

High: \$14.25

Low: \$9.50

Volume Traded: 8.3 million

NYSE: December 19, 2000 to

December 31, 2000

High: \$8.00 [U.S. dollars]

Low: \$7.44 [U.S. dollars]

Volume Traded: 570,000

Registrar and Transfer Agent

Our Transfer Agent can help you with a variety of shareholder related services, including: change of address, lost share certificates and transfer of stock.

You can write them at:

Computershare Investor Services Inc. (formerly The Montreal Trust Company of Canada)

600, 530 – 8 Avenue SW

Calgary, Alberta T2P 3S8

You can call them at:

1-403-267-6800

Shareholders of record who receive more than one copy of this annual report can contact our Transfer Agent and arrange to have their accounts consolidated.

Shareholders who own Boardwalk shares through a brokerage firm can contact their broker to request consolidation of their accounts.

Online Information

Anyone with access to the Internet can view this annual report electronically at investor.bwalk.com.

Quarterly Updates

If you would like to receive quarterly report but are not a registered shareholder, please write or call us with your name and address. To receive our news releases by fax, please forward your fax number to us. To receive our news releases by e-mail, please email Investor Relations at: investor@bwalk.com to be placed on our list.

Published Information

If you wish to receive copies of the 2000 Renewal Annual Information Form, or additional copies of the annual report, please contact:

Corporate Secretary

Boardwalk Equities Inc.

First West Professional Building

Suite 200, 1501 – 1 Street SW

Calgary, Alberta T2R 0W1

Telephone: [403] 531-9255

Facsimile: [403] 531-9565

Website: www.bwalk.com

officers and management



Sam Kolias
President & Chief Executive Officer (BEI)



George J. Reti
Executive Vice President (BEI)



Roberto A. Geremia
Vice President & Chief Financial Officer (BEI)



Alan Ring
Vice President, Business Development (SSI)



Shaun Renneberg
Vice President, Capital Projects (BEI)



Greg H. Rowland
Vice President, Financial Reporting (BEI)



R. Douglas Biggs
Vice President, Legal Affairs (BEI)



Michael Guyette
Vice President, Operations (SSI)



Mark Kornak
Vice President & Chief Information Officer (BEI)
Executive Vice President & Chief Technology Officer (SSI)



John Dill
Vice President, Eastern Acquisitions (BEI)



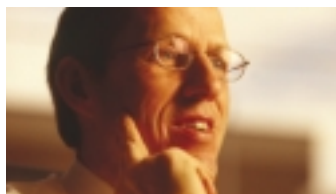
Mike Hough
Vice President, Finance (BEI)



Stuart M. Olley
Corporate Secretary (BEI)



Kevin P. Screpnechuk
Vice President,
Rental Operations & Mortgages (BEI)



William Chidley
Senior Vice President,
Corporate Development (BEI)



Van Kolias
Vice President, Quality Control (BEI)



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