

# ensuring value



Third Quarter Report – September 2001

Q3

Boardwalk is pleased to report that our core real estate operations continue to show strong and improving results through the third quarter of 2001. We are optimistic, despite the current slowdown in the economy, that we will continue to perform well for the balance of the year as we remain committed to our goal of **ensuringvalue**.

## financial highlights

**Rental revenues of \$51.5 million**, an increase of 10% compared to \$46.7 million for the three-month period ended August 31, 2000.

**Total revenues of \$51.7 million**, compared to \$46.7 million for the three-month period ended August 31, 2000.

**Net operating income of \$36.0 million**, representing a 16% increase from \$31.1 million for the three-month period ended August 31, 2000.

**Funds from operations [FFO] of \$14.9 million**, up 54% compared to \$9.7 million for the three-month period ended August 31, 2000.

**FFO per share of \$0.30 on a diluted basis**, an increase of 58% from the \$0.19 for the three-month period ended August 31, 2000.

**Net loss of \$17.3 million**, compared to a loss of \$1.2 million for the three-month period ended August 31, 2000. A one-time write-down of \$27.5 million [\$18.0 million after-tax] on technology investments was recorded in the Company's third quarter, fiscal 2001.

**Loss per share of \$0.34**, compared to a loss of \$0.02 per share for the three-month period ended August 31, 2000. In the current quarter, the write-down on technology investments amounted to \$0.36 per share after-tax.

**Stabilized properties reported a net operating income year-over-year growth of 11.9%** for the first nine months of 2001, with stabilized revenues increasing by 8.2%.

We are pleased to report that we achieved record results from our core rental operations for the third quarter of 2001. The Company reported total revenues of \$51.7 million, funds from operations [FFO] of \$14.9 million and FFO per share of \$0.30. For the nine months ended September 30, 2001, the Company reported total revenues of \$170.0 million, FFO of \$45.9 million and FFO per share of \$0.92.

Effective December 31, 2000, the Company changed its fiscal period end to December 31 from May 31. Due to this change, an identical period for comparative purposes is not available. For illustrative purposes only, where applicable, we have presented the Company's results for the three-month and nine-month periods ended August 31, 2000. Readers are cautioned that the real estate industry is subject to seasonal fluctuations that will affect straight comparisons of these amounts.

Highlights of the Company's third quarter 2001 financial results include:

- Rental revenues of \$51.5 million, an increase of 10% compared to \$46.7 million for the three-month period ended August 31, 2000;
- Total revenues of \$51.7 million, compared to \$46.7 million for the three-month period ended August 31, 2000;
- Net operating income of \$36.0 million, representing a 16% increase from \$31.1 million for the three-month period ended August 31, 2000;
- FFO of \$14.9 million, up 54% compared to \$9.7 million for the three-month period ended August 31, 2000;
- FFO per share of \$0.30 on a diluted basis, an increase of 58% from the \$0.19 for the three-month period ended August 31, 2000;
- Net loss of \$17.3 million, compared to a loss of \$1.2 million for the three-month period ended August 31, 2000. A one-time write-down of \$27.5 million [\$18.0 million after-tax] on technology investments was recorded in the Company's third quarter, fiscal 2001;
- Loss per share of \$0.34, compared to a loss of \$0.02 per share for the three-month period ended August 31, 2000. In the current quarter, the write-down on technology investments amounted to \$0.36 per share after-tax;
- Stabilized properties reported a net operating income year-over-year growth of 11.9% for the first nine months of 2001, with stabilized revenues increasing by 8.2%.

We are pleased to report that our core real estate operations continue to show strong and improving results. The fundamentals for the multi-family rental sector remain healthy.

As stated above, Boardwalk's core rental operations posted record quarterly results. This was driven by continued improvement in the performance of the Company's portfolio. The average vacancy rate across the Company's portfolio for the third quarter of 2001 was 4.6%, down from 5.85% in the three-month period ended August 31, 2000, and down from 6.2% in the second quarter of 2001. For the nine-month period, the vacancy rate was 5.2%, down from 5.84% for the nine months ended August 31, 2000. As of October 2001, the portfolio vacancy rate had declined further to 4.0%.

Average monthly rents realized in the nine months ended September 30, 2001, were \$658 per unit,

up \$40, or 6%, from \$618 per unit for the nine months ended August 31, 2000. At the end of September 2001, Management estimates that market rents for its properties averaged \$748, which compares to an average in-place rent per occupied unit of \$702. This indicates an estimated “loss-to-lease” on the portfolio of approximately \$14.3 million on an annualized basis.

The Company’s net income in the quarter was affected by a one-time write-down on technology investments of \$27.5 million, or \$18.0 million after-tax. The bulk of this write-down is associated with the assets of our Suite Systems subsidiary. In October, Management announced its decision to curtail Suite Systems operations.

With a narrower focus, we have eliminated ventures that dilute our strong rental operations cash flow. We are focusing all of our attention and resources on driving revenues and efficiencies higher. We are better positioned to continue to deliver even stronger results going forward.

The Company continues to be in excellent financial shape. Never in the Corporation’s history have we had access to as much capital to expand our holdings through external acquisitions and/or for buying more of our shares back. With the current economic contraction and uncertainty, we believe we will see some exciting opportunities ahead. Currently, we have access to approximately \$60 million of investment capital. With mortgage rates at all-time lows, this would allow us to acquire an additional \$240 million of assets at only 75% loan to purchase price, 10% below our allowable 85% loan to purchase price ratio.

In the upcoming quarters, we will be introducing an alternative senior executive compensation plan. The plan is being designed to ensure that the Corporation can retain and attract talented individuals. Although this program will place upward pressure on reported administrative expenses, we believe that this investment in our people will bear fruit for years to come.

**Outlook and Summary.** Boardwalk remains well positioned to continue to show improved results. Despite the slowdown in the economy, we are seeing continued solid performance in our portfolio. With our portfolio heavily weighted in strong geographic markets, we believe we can continue to deliver solid results through internal growth over the next several years.

We remain committed to serving all stakeholders with a focus on enhancing shareholder value over the longer term.



**Sam Kolias**  
President and Chief Executive Officer



**Mike Hough**  
Senior Vice President

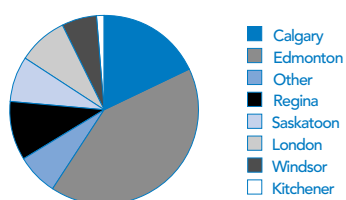
## management's discussion and analysis

Certain statements in this report 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.

The following should also be read in conjunction with the Management's Discussion and Analysis included in the Company's December 31, 2000, Financial Statements and the Notes thereto.

**Review of Rental Operations.** The first nine months of fiscal 2001 continued to demonstrate strength in Boardwalk's rental portfolio. Effective December 31, 2000, Boardwalk changed its fiscal year end to December 31 from May 31. The effect of this change will continue to impact the remainder of the 2001 fiscal year from a comparative standpoint. The following analysis, unless specifically stated, will compare the current operating results to those reported for the nine months and three months ended August 31, 2000. Readers are cautioned that this comparison is not for identical periods and is therefore subject to seasonal fluctuations.

### Current Portfolio



Boardwalk continues to have a diversified portfolio located in 10 different cities, and as such does not rely heavily on one specific municipal location. The majority of Boardwalk's units are located in Alberta, a province whose economy continues to lead the nation in most economic categories.

### Rental Operations

	<b>9 Months September 30, 2001</b>	9 Months August 31, 2000	% Change	<b>3 Months September 30, 2001</b>	3 Months August 31, 2000	% Change
	[unaudited]	[unaudited]		[unaudited]	[unaudited]	
<small>[CDNS THOUSANDS, EXCEPT PER UNIT AMOUNTS]</small>						
Rental revenue	<b>\$ 151,804</b>	\$ 139,702	9%	<b>\$ 51,490</b>	\$ 46,664	10%
Expenses:						
Operating expenses	<b>17,242</b>	17,650	[2%]	<b>5,154</b>	6,359	[19%]
Utilities	<b>21,239</b>	16,886	26%	<b>5,428</b>	4,497	21%
Utilities rebate	<b>[4,060]</b>	-	-	<b>[327]</b>	-	-
Property taxes	<b>14,883</b>	14,041	6%	<b>5,205</b>	4,716	10%
	<b>\$ 49,304</b>	\$ 48,577	1%	<b>\$ 15,460</b>	\$ 15,572	[1%]
Average rent per month	<b>\$ 658</b>	\$ 618	6%			
Occupied rental levels	<b>702</b>					
Estimated market rent levels	<b>748</b>					
Estimated loss-to-lease <small>[ANNUALIZED]</small>	<b>\$ 14,257</b>					

**Rental Revenues.** Included in rental revenues are amounts pertaining to revenue generated directly from the leasing of residential locations as well as revenue generated from interest on invested cash. The amount reported as interest income represents less than 1% of total rental revenue and as such, has not been reported separately. All amounts reported on a per unit basis exclude interest income.

Overall, Boardwalk's rental revenues have increased by 9% and 10%, respectively, for the nine months and three months ended September 30, 2001, versus the comparative periods. The increase is mainly the result of increased rental rates and an increase in the size of the portfolio.

Boardwalk's estimated reported loss-to-lease, representing the difference between the estimated market rents and those occupied rents at September 30, 2001, totalled \$14.3 million on an annualized basis, representing approximately 7% of annualized rental revenue generated during this period. This number is of significance as loss-to-lease is an indicator of future rental performance assuming consistent economic conditions.

**Portfolio Occupancy Performance.** The third quarter of fiscal 2001, as expected, demonstrated an overall decrease in vacancy rates. The vacancy level for the third quarter of 2001, in isolation, was 4.63% as compared to 6.17% and 4.85%, respectively, for the second and first quarters of fiscal 2001. The decrease is the combined result of focused leasing, completion of renovated suites and seasonal factors. As shown in the table below, vacancy rates for October 2001 continued to trend downward, declining to 4.01%.

#### Vacancy Rates

[PERCENT]

Vacancy Rate City Summary	Q1 2001	Q2 2001	Q3 2001	9-Month Average	October 2001
Calgary	5.23	4.58	3.65	4.49	3.12
Edmonton	3.94	5.20	5.00	4.71	4.75
Other	3.54	5.59	4.75	4.63	4.64
Regina	6.09	9.26	4.56	6.63	2.90
Saskatoon	5.02	11.48	5.40	7.30	4.45
Kitchener	2.74	2.63	2.63	2.67	1.82
London	9.33	7.85	4.87	7.24	3.78
Windsor	4.02	5.01	4.36	4.46	2.90
<b>Grand Total</b>	<b>4.85</b>	<b>6.17</b>	<b>4.63</b>	<b>5.22</b>	<b>4.01</b>

**Operating Expenses.** Operating expenses are made up of costs directly associated with the operations of the rental portfolio. Overall, operating expenses are consistent with those reported for the nine- and three-month comparative periods. The most significant increase was noted in utility charges which increased by 26% and 21%, respectively, for the nine- and three-month periods in the current year ended versus the comparative periods. The increase is due to rising energy prices. To help offset these increasing prices, the Alberta government introduced two separate rebate programs. These rebates are volume driven and as such, the first quarter of 2001 represents a disproportionate share of this volume. Upcoming quarters are not expected to report rebates of the same magnitude as the natural gas rebate program expired in April 2001 and the electrical rebate program is scheduled to expire on December 31, 2001. Given the current energy pricing environment, we do not anticipate an extension of these programs in 2002. Furthermore, due to the continued effectiveness of Boardwalk's building improvement program, the Company's overall energy usage is down from prior periods. No rebate program was in effect during the comparative periods.

Boardwalk also experienced a decrease of 2% and 19%, respectively, for the nine- and three-month periods this year on its rental operating expenses versus comparative periods. Expenses in this category include direct costs associated with rental producing properties such as repairs and maintenance, insurance and bad debt expense. The reported decrease is mainly the result of a decrease in repairs and maintenance consistent with the continued investment in and stabilization of our existing properties. Overall, property taxes have increased by 6% and 10%, respectively, for the nine- and three-month periods versus comparative periods due to property tax rebates received in the prior year upon successful property tax appeals.

**Same-store Results.** Boardwalk continued to show solid improvement in its stabilized properties [defined as properties owned for over 24 months]. A total of 22,549 units were classified as stabilized at September 30, 2001, representing 87% of

Boardwalk's total portfolio. The table below compares the "same-store" results for the nine months ended September 30, 2001, to the nine months ended September 30, 2000.

### Stabilized Properties

PERCENTAGE CHANGE [9 MONTHS – SEPTEMBER 30, 2001]

	Rental Revenues	Rental Expenses	NOI	% of Stabilized NOI
Edmonton	9.56	[0.68]	14.23	45
Calgary	5.19	[5.37]	8.14	26
Other Alberta	9.42	[8.71]	14.13	7
Ontario	14.40	6.53	32.38	7
Saskatoon	8.51	0.30	5.60	6
Regina	3.33	7.68	1.30	9
<b>Total Stabilized</b>	<b>8.20</b>	<b>0.88</b>	<b>11.91</b>	<b>100</b>

As the table indicates, same-store results for the Company's stabilized portfolio show continued improvement with rental revenue growth of 8% and NOI growth of 12% versus the comparable period. For the nine-month period ended September 30, 2001, Boardwalk's stabilized portfolio showed a simple annualized return on equity of 22% and a simple annualized return on assets of 9.74%.

**Administration.** Boardwalk's administrative expenses continue to trend downward. The recorded amount of \$11.5 million and \$3.7 million, for the nine- and three-month periods ended September 30, 2001, represent an 8% and 7% reduction, respectively, over the comparable nine- and three-month periods ended August 31, 2000. The decrease is the result of increased efficiencies now being experienced due to the rollout of the Company's on-site, real-time property management systems. Boardwalk is currently experiencing increased administrative wage pressure and increased executive salary expense due to the shift of senior executive compensation from a stock option basis to cash based compensation model. Both of these factors will result in upward pressure on administrative expenses in the upcoming quarters.

**Financing Costs.** Overall, financing costs have increased 7% to \$50.3 million from \$47.2 million for the comparable nine-month period ended August 31, 2000. The main reason for the increase is the portion of amortization of deferred financing charges that is disallowed as a cash flow add-back when calculating FFO. For the current nine-month period, this amortization represents \$1,395,000 as compared to \$400,000 for the comparative period.

**Amortization.** Overall, amortization reported for the nine-month period has increased approximately 32% to \$38.6 million as compared to \$29.2 million for the comparative period. For the three-month comparative periods, the reported amortization of \$13.3 million is 18% higher than the \$11.2 million recorded in the comparative period. The increase in the three-month period amortization is due to increased amortization on Boardwalk's buildings [the result of using the sinking fund method] and increased amortization on project improvements. An additional reason for the increase in the nine-month period is during the first quarter of the nine-month comparative period, the Corporation revised the amortization of project improvements to more closely reflect their estimated remaining useful lives. This revision resulted in a period reconciliation for the year ended May 31, 2000, which affects the nine-month comparative period amortization charge.

**Asset Write-down.** During the third quarter of 2001, the Company took a one-time write-down of \$27.5 million associated with the technology asset reported on its balance sheet. The write-down was the result of the Company's continued valuation of its assets and in particular, the specific assets related to the Suite Systems initiative. During the quarter, after numerous assessments of alternative business models, it became clear that the current economic and capital market environment, combined with delays in obtaining access rights in our target markets and the high cost of capital, placed the current value of this reported asset in question.

**Income Taxes.** In the nine-month period ended September 30, 2001, the Company reported an income tax recovery of \$10.7 million. The recovery is due to a combination of the future income tax liability being adjusted to reflect the reduced income tax rates substantially enacted as a result of the Provincial and Federal budget proposals and release of draft legislation, as well as the impact of the reported asset write-down as noted above.

**Financial Position.** Total assets at September 30, 2001, were \$1.46 billion as compared to \$1.44 billion at December 31, 2000. During these nine months, cash reserves decreased to \$1.5 million from \$21 million. The decrease was the result of paying down an existing secured demand facility which remains available for future draw, the investment in new apartment units and technology investments.

**Acquisition and Disposition Activity.** During the past nine months, the Company completed the acquisition of 1,242 units located primarily in Edmonton, Saskatoon and London. In aggregate, the acquisition cost of the properties totalled \$51.3 million or approximately \$41,300 per unit, representing an amount well below replacement cost. The details of the transaction involved Boardwalk assuming approximately \$29.6 million of existing mortgage debt, the issuance of 649,125 shares for \$7.1 million and the payment of \$14.5 million in cash. The anticipated going-in unleveraged return on the properties is in excess of 9.5%. Management believes that it will be able to enhance these returns through its proven property management and repositioning techniques and achieve very attractive returns on its equity investment in the projects.

During the first quarter of 2001, the Company completed the sale of a project in Edmonton totalling 236 units. The project was sold for \$18.0 million, or \$76,300 per unit, with a pre-tax profit of \$7.5 million, or \$0.15 per share. The profit that was realized on the sale of the property is an illustration of the Company's ability to acquire, reposition and enhance returns and values significantly. In the third quarter of 2001, the Company completed the sale of excess land at one of its properties in Edmonton. This land was sold for \$0.2 million and resulted in a pre-tax profit of \$0.1 million.

**Normal Course Issuer Bid.** Under the Company's normal course issuer bid, Boardwalk bought back a total of 49,700 shares in the third quarter of 2001 at an average price of \$11.84. Subsequent to the end of the third quarter through to November 14, 2001, Boardwalk acquired a further 242,900 shares at an average price of \$11.16 per share. For the year-to-date and the current normal course issuer bid-to-date [which began March 1, 2001], Boardwalk has acquired a total of 293,100 shares at an average price of \$11.28 per share.

**Liquidity and Capital Resources.** The Company's financial position continues to be a strength of the Corporation. With the overall mortgage level reported at 77% of depreciated book value and with the portfolio over 90% CMHC insured, we have the ability to obtain additional capital through leverage. The Company also has cash and available credit facilities in excess of \$46 million as at September 30, 2001. The weighted average interest rate on the Company's mortgages was 6.24% as at September 30, 2001. For the current nine-month period, the Company had a cash to interest coverage ratio of 1.96 versus 1.75 times for the comparative period last year.

#### Mortgage Schedule

Fiscal Year	Maturing Amount [CDN\$ THOUSANDS]	Weighted Average—Year [PERCENT]
2001	\$ 21,837	6.68
2002	126,023	6.33
2003	127,939	5.96
2004	98,633	5.87
2005	47,132	6.98
2006	50,182	6.35
2007	36,619	6.35
2008	239,598	6.16
2009	163,825	6.08
2010	57,063	6.78
2011	44,282	6.30
Subsequent	51,347	6.59
<b>Total</b>	<b>\$ 1,064,480</b>	<b>6.24</b>

**Financial Outlook.** In the second and third quarter of 2001, the Company posted two consecutive record rental operating quarters. The Company is now in the fourth quarter of fiscal 2001 and due to normal seasonal factors, an upward pressure on operating costs is anticipated, particularly utility charges. This trend is also anticipated to continue into the first quarter of 2002. Current market estimates for funds from operations from core rental operations for the fourth quarter are \$0.17 to \$0.25 per share. Annualized market estimates for FFO per share are \$0.92 to \$0.96 and \$1.09 to \$1.19 when including funds generated on the sales of properties. Management continues to be comfortable with the existing ranges given current information available.

**Subsequent Events. Property Acquisitions.** Subsequent to September 30, 2001, the Corporation has contracted to acquire 120 units for a purchase price of \$7.0 million. The acquisition was financed through cash of \$3.0 million and the assumption of an existing mortgage. The deal is scheduled to close in the fourth quarter of fiscal 2001.

*Property Dispositions.* Subsequent to September 30, 2001, the Corporation sold a total of 71 units to unrelated parties for an aggregate purchase price of \$3.8 million. These transactions were completed on November 1, 2001, and will result in a \$0.5 million gain.

**Special Note Regarding Forward-looking Statements.** Certain statements in this discussion constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words "believe", "expect", "anticipate", "intend", "estimate", "assume", "project" and other similar expressions, that predict or indicate future events and trends or that do not relate to historical matters.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements made in this discussion and in the materials incorporated herein by reference are based on assumptions and judgments of management regarding future events and results. These assumptions and judgments may prove to be inaccurate as a result of a number of factors, many of which are beyond our control and our actual results may differ materially from the results contemplated in such forward-looking statements. Such factors include, but are not limited to, the following:

- Changes in national, international or regional economic conditions that affect the real estate market, which is cyclical in nature and highly sensitive to such changes including, among other factors, levels of employment, discretionary disposable income, consumer confidence, available financing and interest rates;
- We may be unsuccessful in managing our current growth in the number of properties and the related growth of our business operations;
- Our previous and possible future expansion into new geographic market areas may not produce financial results that are consistent with our historical performance;
- We may not be able to locate suitable property acquisitions;
- We may have additional compliance costs due to changes in any environmental, or other laws and regulations that govern the acquisition, sale of real estate and various aspects of our financing operation or our failure to comply with any law or regulation;
- Renovation costs may exceed our original estimates;
- We may not lease-up properties under renovation on schedule, resulting in a lower than expected return on asset and return on equity;
- Market forces may change and the anticipated loss-to-lease amounts may not materialize as anticipated;
- Loss of key management may result in a significant increase in administrative expenses due to the current compensation plan for senior executives being modeled on a pure option basis;
- Occupancy rates and market rents may be adversely affected by local economic and market conditions, which are beyond our control;
- We may be unable to locate external sources of liquidity on favorable terms to support our operations, acquisition and renovation strategies, or satisfy our debt and other obligations;
- Our cash flow may be insufficient to meet required payments of principal and interest and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- Our sales and marketing techniques may not be successful, may not be accepted by consumers, may impose limitations on our operations, or may be adversely impacted by legal or other requirements.

We disclaim any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.



**Roberto A. Geremia**  
Chief Financial Officer and Vice President Finance

## consolidated balance sheets

[CDN\$ THOUSANDS]

As at	<b>September 30, 2001</b>	December 31, 2000
	[unaudited]	[audited]
<b>Assets</b>		
Revenue producing properties	<b>\$ 1,378,958</b>	\$ 1,328,702
Properties held for development and resale	<b>6,537</b>	6,692
Mortgages and accounts receivable	<b>18,616</b>	17,230
Other assets	<b>15,804</b>	14,637
Deferred financing costs	<b>32,133</b>	31,460
Technology [NOTE 4]	<b>7,109</b>	24,058
Cash and short-term investments	<b>1,445</b>	21,055
	<b>\$ 1,460,602</b>	\$ 1,443,834
<b>Liabilities</b>		
Mortgages payable	<b>\$ 1,064,480</b>	\$ 1,034,444
Accounts payable and accrued liabilities	<b>18,276</b>	24,795
Refundable security deposits and other	<b>10,289</b>	9,953
Capital lease obligations	<b>8,929</b>	8,404
Future income taxes [NOTE 5]	<b>60,813</b>	64,864
	<b>\$ 1,162,787</b>	\$ 1,142,460
<b>Shareholders' equity</b>		
Share capital [NOTE 6]	<b>262,364</b>	253,586
Retained earnings	<b>35,451</b>	47,788
	<b>297,815</b>	301,374
	<b>\$ 1,460,602</b>	\$ 1,443,834

## consolidated statements of [loss] earnings

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS] [UNAUDITED] FOR THE THREE AND NINE MONTHS ENDED

	9 Months September 30, 2001	9 Months August 31, 2000	3 Months September 30, 2001	3 Months August 31, 2000
<b>Revenue</b>				
Rental income	\$ 151,804	\$ 139,702	\$ 51,490	\$ 46,664
Sales – properties held for development and resale	18,244	21,044	232	–
	<b>\$ 170,048</b>	<b>\$ 160,746</b>	<b>\$ 51,722</b>	<b>\$ 46,664</b>
<b>Expenses</b>				
Revenue producing properties:				
Operating expenses	\$ 17,242	\$ 17,650	\$ 5,154	\$ 6,359
Utilities	21,239	16,886	5,428	4,497
Utility rebate	[4,060]	–	[327]	–
Property taxes	14,883	14,041	5,205	4,716
Cost of sales – properties held for development and resale	10,622	16,827	121	–
Administration	11,549	12,607	3,720	4,004
Financing costs	50,311	47,171	16,773	16,633
Amortization [NOTE 3]	38,611	29,208	13,329	11,179
	<b>\$ 160,397</b>	<b>\$ 154,390</b>	<b>\$ 49,403</b>	<b>\$ 47,388</b>
Operating earnings [loss] before the following:	\$ 9,651	\$ 6,356	\$ 2,319	\$ [724]
Provision for loss on technology investments [NOTE 4]	27,515	–	27,515	–
Operating [loss] earnings before income taxes	[17,864]	6,356	[25,196]	[724]
Large corporations taxes	2,333	2,343	755	732
Future income taxes [NOTE 5]	[10,689]	586	[8,672]	[306]
<b>Net [loss] earnings for the period</b>	<b>\$ [9,508]</b>	<b>\$ 3,427</b>	<b>\$ [17,279]</b>	<b>\$ [1,150]</b>
<b>Net [loss] earnings per share [NOTE 7]</b>				
Basic	\$ [0.19]	\$ 0.07	\$ [0.34]	\$ [0.02]
Diluted	\$ [0.19]	\$ 0.07	\$ [0.34]	\$ [0.02]

## consolidated statements of retained earnings

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS] [UNAUDITED] FOR THE NINE MONTHS ENDED

	<b>September 30, 2001</b>	August 31, 2000
Retained earnings, as previously stated	<b>\$ 47,788</b>	\$ 32,726
Adjustment for retroactive adoption of future income taxes accounting standard	-	[1,500]
Retained earnings, beginning of period as restated	<b>\$ 47,788</b>	\$ 31,226
Net [loss] earnings	<b>[9,508]</b>	3,427
Dividends paid	<b>[2,496]</b>	-
Premium on share repurchases	<b>[333]</b>	[3,462]
Retained earnings, end of period	<b>\$ 35,451</b>	\$ 31,191

## consolidated statements of cash flows

[CDN\$ THOUSANDS, EXCEPT PER SHARE AMOUNTS] [UNAUDITED] FOR THE THREE AND NINE MONTHS ENDED

	9 Months September 30, 2001	9 Months August 31, 2000	3 Months September 30, 2001	3 Months August 31, 2000
		[restated NOTE 2]		[restated NOTE 2]
<b>Cash flow obtained from [applied to]:</b>				
<b>Operating activities</b>				
Net [loss] earnings	\$ [9,508]	\$ 3,427	\$ [17,279]	\$ [1,150]
Future income taxes	[10,689]	586	[8,672]	[306]
Amortization	38,611	29,208	13,329	11,179
Provision for loss on technology investments [NOTE 4]	27,515	–	27,515	–
Funds from operations	45,929	33,221	14,893	9,723
Net change in operating working capital	[8,637]	17,443	1,936	[1,630]
Net change in properties held for development and resale	9,657	3,228	[87]	[259]
Total operating cash flows	\$ 46,949	\$ 53,892	\$ 16,742	\$ 7,834
<b>Financing activities</b>				
Issue of common shares [net of issue costs]	\$ 1,941	\$ 3,104	\$ 486	\$ 88
Stock repurchase program	[613]	[6,885]	[608]	–
Dividends paid	[2,496]	–	–	–
Financing of revenue producing properties	96,583	113,905	25,146	42,947
Repayment of debt on revenue producing properties	[96,188]	[63,701]	[25,066]	[24,416]
Capital lease payments	[1,023]	–	[79]	–
Deferred financing costs	[1,542]	[1,950]	95	[1,677]
	\$ [3,338]	\$ 44,473	\$ [26]	\$ 16,942
<b>Investing activities</b>				
Purchases of revenue producing properties [NOTE 8]	\$ [14,542]	\$ [33,836]	\$ [7,804]	\$ [7,313]
Project improvements to revenue producing properties	[39,349]	[51,133]	[10,667]	[15,373]
Technology	[9,330]	[8,825]	[4,486]	[1,384]
	\$ [63,221]	\$ [93,794]	\$ [22,957]	\$ [24,070]
<b>[Decrease] Increase in cash balance during the period</b>	<b>\$ [19,610]</b>	<b>\$ 4,571</b>	<b>\$ [6,241]</b>	<b>\$ 706</b>
<b>Cash and cash equivalents [indebtedness], beginning of period</b>	<b>21,055</b>	<b>[2,730]</b>	<b>7,686</b>	<b>1,135</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,445</b>	<b>\$ 1,841</b>	<b>\$ 1,445</b>	<b>\$ 1,841</b>
<b>Funds from operations per share</b>				
Basic	\$ 0.92	\$ 0.67	\$ 0.30	\$ 0.20
Diluted	\$ 0.91	\$ 0.66	\$ 0.30	\$ 0.19
Taxes paid	\$ 2,670	\$ 2,414	\$ 846	\$ 1,186
Interest paid	\$ 48,833	\$ 46,223	\$ 16,539	\$ 16,047

# notes to the consolidated financial statements

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001

## 1 BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] and are consistent with those used in the audited consolidated financial statements as at and for the seven months ended December 31, 2000, except for the adoption of a new Canadian Institute of Public and Private Real Estate Companies ["CIPPREC"] requirement. The new standard requires the use of a funds from operations ["FFO"] calculation, versus the traditional cash flow from operations calculation. As a result of this change, the Corporation will now calculate funds from operations per share instead of cash flow per share.

The interim financial statements should be read in conjunction with the audited financial statements. As a result of the Corporation changing its year end from May 31 to December 31, comparative figures for the quarter are August 31, 2000.

Due to seasonality, the operating results for the three months and nine months ended September 30, 2001, are not necessarily indicative of the results that may be expected for the full year ended December 31, 2001.

## 2 CHANGES IN ACCOUNTING POLICY

Effective June 1, 2000, the Corporation retroactively adopted the new CICA Handbook Section 3500. Under this section, diluted earnings per share and funds from operations per share are calculated using the "treasury stock" method, replacing the previous method of "imputed earnings per share". There was no effect on diluted earnings per share and diluted funds from operations per share for the three months and nine months ended August 31, 2000.

## 3 AMORTIZATION OF CAPITAL ITEMS

During the nine-month comparative period ending August 31, 2000, the Corporation revised the amortization of project improvements to more closely reflect their estimated remaining useful lives. The revision was applied for the entire 2000 fiscal year ended May 31, 2000, and as such a period reconciliation was required for the first six months of the nine-month comparative period. This resulted in the reduced amortization charge of \$29.2 million for the nine months ended August 31, 2000, versus \$38.6 million for the present period.

## 4 PROVISION FOR LOSS ON TECHNOLOGY INVESTMENTS

During the third quarter ended September 30, 2001, the Corporation provided for a loss on technology investments of \$27.5 million due to the following investments:

In the third quarter of 2001, the Corporation decided to cease its telecommunication initiative subsequent to a process review. This review highlighted low returns on investment capital when compared to core real estate operations, the high cost of capital given current market conditions and the conclusion that the Corporation would be unable to reach partnership agreements for rights of way or access rights in target markets in the near future. On October 18, 2001, the Corporation formally announced the ceasing of the initiative. A provision of \$26.7 million before tax [\$17.2 million net of tax] has been recorded in the consolidated statement of loss for the period ended September 30, 2001. This provision represents the write-down of capital assets and estimated closure costs. Included in accounts payable at September 30, 2001, is \$3.1 million in outstanding commitments reflecting the amount of cost necessary to cease the initiative. In addition, the Corporation ceased its investment in HomeXpress and as a result a loss of \$800,000 was recorded in the quarter.

The technology balance remaining at September 30, 2001, reflects net book values of technology anticipated in the ongoing operations of the Corporation including hardware, software and software development, system installations and other related costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001

**5 FUTURE INCOME TAXES**

The recovery of income taxes is computed as follows [THOUSANDS]:

	<b>9 Months ended September 30, 2001</b>	9 Months ended August 31, 2000
Tax expense based on expected rate of 36% [2000 – 44%]	<b>\$ [6,431]</b>	\$ 2,772
Adjustment for change in effective tax rate	<b>[3,279]</b>	[1,629]
Non-taxable portion of capital gains and other	<b>[979]</b>	[557]
	<b>\$ [10,689]</b>	\$ 586

The future income tax liability is calculated as follows [THOUSANDS]:

As at	<b>September 30, 2001</b>	December 31, 2000
Tax assets related to operating losses	<b>\$ 58,806</b>	\$ 49,992
Tax liabilities related to differences in tax and book basis	<b>[119,619]</b>	[114,856]
Future income tax liability	<b>[60,813]</b>	[64,864]

**6 SHARE CAPITAL**

**a) Share Capital**

	<b>September 30, 2001</b>		December 31, 2000	
	Number	Amount	Number	Amount
Common Shares outstanding [THOUSANDS]	<b>50,217</b>	<b>\$ 262,364</b>	49,259	\$ 253,586

**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 [December 31, 2000 – 7,795,822] common shares. As at September 30, 2001, there are a total of 3,721,539 [December 31, 2000 – 4,399,288] options outstanding to directors, officers and associates. The exercise prices range from \$9.11 to \$22.92 [December 31, 2000 – \$1.50 to \$22.92]. These options expire up to March 27, 2011. All options are issued at market prices.

	<b>September 30, 2001</b>		December 31, 2000	
	Options Weighted- Average	Exercise Price	Options Weighted- Average	Exercise Price
Outstanding at beginning of period	<b>4,399,288</b>	<b>\$ 12.37</b>	4,043,402	\$ 12.71
Granted	<b>205,000</b>	<b>10.48</b>	765,575	11.85
Exercised	<b>[355,482]</b>	<b>5.44</b>	[41,357]	6.08
Forfeited	<b>[527,267]</b>	<b>14.50</b>	[368,332]	13.41
Outstanding at end of period	<b>3,721,539</b>	<b>\$ 12.62</b>	4,399,288	\$ 12.37

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001

### Options Exercisable at Period End

The following table summarized information about the options outstanding at September 30, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$9.01 to \$11.00	960,875	7.56	\$ 9.54	836,620	\$ 9.51
\$11.01 to \$13.00	1,743,800	7.42	11.91	1,013,040	11.61
\$13.01 to \$15.00	295,764	6.88	14.37	85,053	14.43
\$15.01 to \$17.00	421,400	6.38	16.08	176,560	16.13
\$17.01 to \$19.00	93,700	1.45	17.92	65,275	17.98
\$19.01 to \$21.00	128,000	1.39	20.12	96,000	20.12
\$21.01 to \$23.00	78,000	1.59	22.53	58,500	22.53
	3,721,539	6.82	\$ 12.62	2,331,048	\$ 12.10

## 7 PER SHARE CALCULATIONS

The following table sets forth the computation of basic and diluted earnings and FFO per share with respect to [loss] earnings [thousands except per share amounts].

	9 Months September 30, 2001	9 Months August 31, 2000	3 Months September 30, 2001	3 Months August 31, 2000
Net [loss] earnings	\$ [9,508]	\$ 3,427	\$ [17,279]	\$ [1,150]
Funds from operations	\$ 45,929	\$ 33,221	\$ 14,893	\$ 9,723
Denominator for basic per share – weighted average shares	50,038	49,718	50,204	49,816
Effect of dilutive stock options	190	439	267	501
Denominator for diluted per share adjusted for weighted average shares and assumed conversion	50,228	50,157	50,471	50,317
Basic [loss] earnings per share	\$ [0.19]	\$ 0.07	\$ [0.34]	\$ [0.02]
Diluted [loss] earnings per share	\$ [0.19]	\$ 0.07	\$ [0.34]	\$ [0.02]
Basic FFO per share	\$ 0.92	\$ 0.67	\$ 0.30	\$ 0.20
Diluted FFO per share	\$ 0.91	\$ 0.66	\$ 0.30	\$ 0.19

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001

### 8 PURCHASES OF REVENUE PRODUCING PROPERTIES

	<b>9 Months September 30, 2001</b>	9 Months August 31, 2000	<b>3 Months September 30, 2001</b>	3 Months August 31, 2000
Cash	<b>\$ 14,542</b>	\$ 33,836	<b>\$ 7,804</b>	\$ 7,313
Debt assumed	<b>29,641</b>	35,880	<b>15,586</b>	3,848
Shares issued	<b>7,116</b>	–	–	–
Total purchase price	<b>\$ 51,299</b>	\$ 69,716	<b>\$ 23,390</b>	\$ 11,161
Number of units	<b>1,242</b>	1,306	<b>531</b>	241

### 9 COMMITMENTS

As disclosed in the June 30, 2001, quarterly report, the Corporation has entered into a one year supply arrangement with a natural gas utility company to supply the Corporation with 80% of its natural gas requirements in Alberta for the 12 month period ending April 30, 2002. The agreement provides that the gas utility company supplies the commodity at \$7.90 per gigajoule. The remaining 20% supply for November 2001 to March 2002 has been contracted at \$6.60 per gigajoule.

As disclosed in the December 31, 2000 annual report, the Corporation has entered into long-term supply arrangements with two 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. These 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.

### 10 COMPARATIVE FIGURES

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

### 11 SUBSEQUENT EVENTS

**Property Acquisitions.** Subsequent to September 30, 2001, the Corporation has contracted to acquire 120 units for a purchase price of \$7.0 million. The acquisition was financed through cash of \$3.0 million and the assumption of an existing mortgage.

**Property Dispositions.** Subsequent to September 30, 2001, the Corporation sold a total of 71 units to unrelated parties for an aggregate purchase price of \$3.8 million. These transactions were completed on November 1, 2001, and will result in a \$0.5 million gain.

## corporate information

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**George J. Reti**, *Calgary, AB*  
**Van Kalias**, *Calgary, AB*  
**Kevin P. Screpnechuk**, *Calgary, AB*  
**Ernest Kapitza**, *Calgary, AB*  
**Paul J. Hill**, *Regina, SK*  
**David V. Richards**, *Calgary, AB*  
**Michael D. Young**, *Dallas, TX*

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### Registrar & Transfer Agent

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### Stock Exchanges

The Toronto Stock Exchange  
The New York Stock Exchange



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