

BOARDWALK EQUITIES INC.



1996 Annual Report

FOCUS

LOCATION

INFORMATION

OPPORTUNITY



B O A R D W A L K E Q U I T I E S I N C .

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Notice of Annual Meeting

The Annual General Meeting of the Shareholders of Boardwalk Equities Inc. will be held in the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta at 3:00 p.m. (Calgary time) on Monday, November 18th, 1996.

BOARDWALK EQUITIES INC.



Focus

LOCATION

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L E T T E R T O O U R S H A R E H O L D E R S

A remarkable year for Boardwalk, results surpassed expectation and culminated in acquisitions closing subsequent to year end which will generate increasing returns for years to come. Boardwalk doubled its size and not only achieved a pre-eminent position in the multi-family rental market of western Canada, but is positioned for continued, profitable growth. Most important, Boardwalk's strategies and mission statement are as appropriate today as they were when the Company was a fraction of its current size and capability.

With this report, we review our progress and reconfirm the underlying approach to business we will continue to follow to ensure maximum increase in shareholder value.

1996 Reflects Strength of Strategies

- ▶ Revenue for fiscal 1996 was \$32.8 million, compared to \$8.0 million in fiscal 1995.
- ▶ Cash flow was \$4.1 million (\$0.33 per share) in 1996 compared to \$1.3 million (\$0.11 per share) for fiscal 1995, evidence of the year's exponential growth.
- ▶ Net income was \$1.1 million versus \$0.4 million in 1995.
- ▶ Book value of assets at year end was \$106 million, compared to \$118 million at year end 1995. This does not reflect the \$79 million in assets acquired subsequent to year end.

- ▶ Strategic financing allowed for accelerated growth and resulted in an appropriately leveraged and manageable balance sheet that is offset by the asset quality, stability of income and value appreciation potential represented by the portfolio.
- ▶ Financing costs were considerably reduced through the year with the low cost, long term fixed rate financing reduced to an average rate of 8 percent from 8.5 percent — saving approximately \$0.5 million in debt servicing costs per year and reflected in proportionate reduction of financing costs in relation to revenue from 41 percent in 1995 to 23 percent in 1996.

Strategic Direction Confirmed

Boardwalk was able to complete a series of transactions culminating in a significant market position and a doubling of square footage and number of units to more than 4,800. In addition to significantly increasing the revenue base, the asset portfolio was diversified in five western Canadian cities. The diversification is a key feature by providing exposure to new and growing centres such as Red Deer, Regina and Saskatoon, as well as increasing the established positions in maturing markets like Edmonton and Calgary. Boardwalk will therefore realize the benefit of a larger asset base but also one that is less vulnerable to external forces in any one area.



L E T T E R T O O U R S H A R E H O L D E R S

The acquisitions met predetermined criteria in terms of location and value enhancement opportunities. All of the properties acquired are well positioned in and around existing infrastructure and amenities. Each property provides the opportunity for immediate cash flow increases through upgrading and/or expansion within the existing zoning regulations.

Financing was primarily through mortgage debt with one equity issue raising \$4.95 million. In total, \$79 million of acquisitions were financed with the support of \$74 million in additional mortgage debt. The properties acquired represent 175 acres of land and an additional 2.3 million rentable square feet, translating to a base cost of only \$34.51 per net rentable square foot.

As Boardwalk takes its position as the leading rental property owner in western Canada, based on the 4.2 million square feet of total residential rental square footage, it achieves a new critical mass and capability. The size of the asset base represents a significant barrier to entry, as the replacement cost of the assets would be more than twice their book value.

We also have a substantial competitive edge as a result of in-house expertise supported by custom designed and applied information systems. Evidence of this advantage for Boardwalk is the fact that the doubling of rental units was absorbed into the management and information systems seamlessly, allowing Boardwalk to immediately focus on increasing efficiencies and improving the assets. Our information systems are supporting our growth comfortably, con-

tinually providing opportunities to expand services and improve communication with our customers, as well as contributing to better, more expedient management decisions. We believe we are the only rental real estate company in North America with the expertise and systems applications which support the organization so effectively.

Although the asset base is substantially larger and more diverse, focus will be maintained in the multi-family rental market, creating opportunities to participate profitably at any point in the cycle of real estate values. As economic conditions motivate a switch to home ownership, Boardwalk participates by committing appropriate rental properties to homeowner condominiums to serve market demand. At the opposite end of the cycle, when rental rates fall and limit profitability for other participants, Boardwalk is positioned to step in and add to its portfolio.

By focusing within a defined niche, supporting the business with advanced information systems, and building on asset strength and market position, Boardwalk continues to create many opportunities for growth and financial performance. Increasingly, the Company's position is resulting in unsolicited opportunities which afford Boardwalk the enviable position of selectivity and negotiating strength. We will continue to focus our activity to ensure we maintain and strengthen this position, and only take advantage of opportunities which will add immediate and longer term shareholder value.



L E T T E R T O O U R S H A R E H O L D E R S

What's Next for Boardwalk?

For the 1997 fiscal year, Boardwalk will continue to take advantage of strategic growth opportunities, but top priority will be given to improving efficiencies at newly acquired properties, renovating units and adding units to existing properties as part of the renovations. Growth in terms of revenue and cash flow will remain the objective and is in hand with or without additional acquisitions. The extent to which acquisitions will be a component of the 1997 fiscal year will be entirely market driven.

An attribute that we take very seriously at Boardwalk - whether a small or large player in the market - is to be a strong supporter of the communities in which we are active. Our primary contribution to the community is inherent in our business focus. The emphasis on value enhancement of affordable housing results in an improvement in the appearance and quality of central, often inner-city, neighborhoods. In a majority of cases, this results in a rejuvenation of long neglected properties. As a result, Boardwalk's investment directly benefits the communities in which we participate.

Indirectly, we work to earn our "good neighbour" status by communicating openly and responsively with our customers and those adjacent to our properties. Outside of our day-to-day business, we participate as sponsors and financial supporters of community based programs. As we grow and continue to perform for our shareholders, we will expand our support in the community appropriately.

It is popular for management to talk about team effort, it is a reality at Boardwalk. Perhaps because of our extensive use of technological tools for communication and support, we have a relatively small number of employees at Boardwalk. Each member of our team was recruited because he or she was the very best at what they do. Our employees make a phenomenal contribution to the company and I thank them for their efforts and dedication. Although I cited our information systems as a significant barrier to entry, it is unimaginable that other companies could put together as strong a team as we have at Boardwalk.

I look forward to reporting to shareholders throughout the year as we target another year of exemplary performance.

On behalf of the Board,

Sam Koliass

President and Chief Executive Officer

October 3, 1996

BOARDWALK EQUITIES INC.



FOCUS

Location

INFORMATION

OPPORTUNITY



Focus

Location

November 1996

Listing on
The Toronto
Stock Exchange

Trading symbol
BEI



2

January 1996

First mortgage financing secured in the amount of \$34 mm at 7.2 percent fixed interest rates (1 year term) and 7.5 percent (2 year term) from a major Canadian bank.

Private placement fully subscribed. Proceeds of \$4.95 mm generated through 1.5 million common shares.

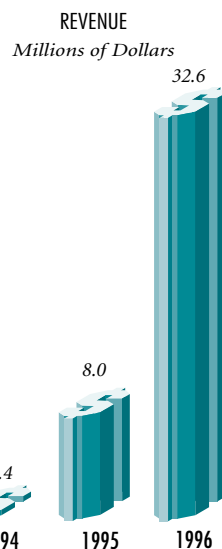
Purchase agreement for 428 townhome units in western Canada for \$16.0 mm consideration.

3

January 1996

Sale of 299 non-core assets in four transactions to four purchasers

Total consideration: \$10.2 mm

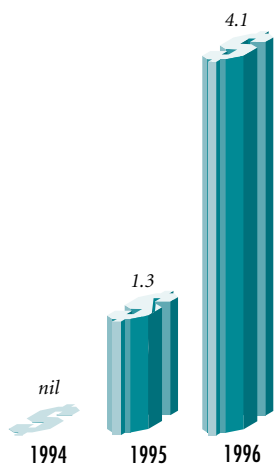




Information

Opportunity

CASH FLOW
Millions of Dollars



4

March 1996

Purchase agreement for 637 units in Regina for \$17.4 mm

5

May, 1996

246 units purchased for \$10 mm
Total units at year end: 2,320

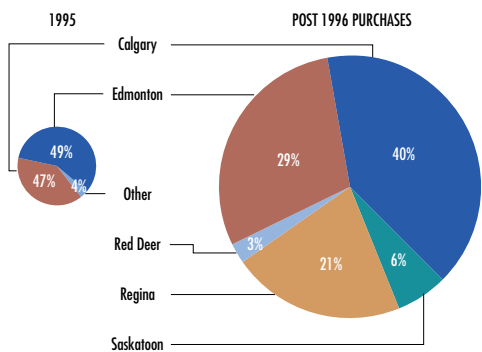
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June 1996

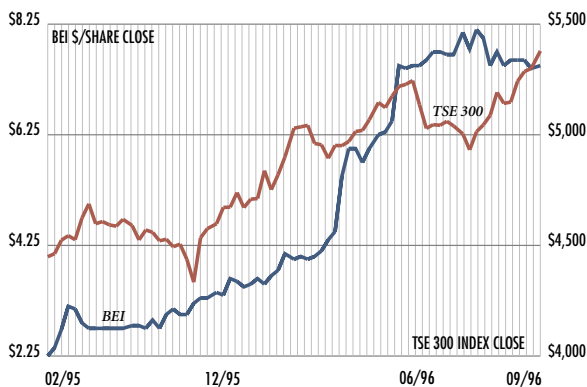
Closing of 2,237 unit purchases based in Calgary, Red Deer, Edmonton, Regina and Saskatoon, with 288 units under purchase agreement and ability to add up to 3,000 units through increased density on existing properties, within existing zoning regulations

Total units: 4,875

PROPERTY PORTFOLIO



STOCK TRADING HISTORY
Trading Symbol: BEI





REVIEW OF ACTIVITY

Boardwalk's growth through 1995/96 was dramatic. Including post-year end transactions, 4,845 units are under Boardwalk's ownership and management, in five western Canadian cities. The expansion has been substantial, but controlled, generating excellent results and establishing a strengthened relationship with customers and the communities where we are active.

Defined Strategy and a Solid Business Approach

The real estate sector is made up of many different businesses with very different influences and cycles. Boardwalk is focused exclusively on the multi-family rental market, with geographical focus in western Canada. The Company's strategic single-mindedness is an important factor in understanding past successes and future potential.

Opportunities at Each Stage of the Market Cycle

An outside investor is vulnerable to market cycles but an active participant in the market takes the opportunities created through each phase of market cycles.

Boardwalk's opportunities to perform in any market cycle are implemented in a number of ways:

- ▶ excess capacity drives participants out of the market: the

participants motivated to sell provide Boardwalk opportunities to expand its asset base at low cost; sellers typically struggle with low rents and high operating costs which Boardwalk can improve through enhancing properties and applying its established information and management systems

- ▶ increasing rents generate greater margins for Boardwalk, which is effectively the base of Boardwalk's cash flow

- ▶ mature housing cycles motivate renters into buyers: Boardwalk is positioned to supply these customers by transforming appropriate properties into condominiums and adding "condo cash" incentives to its renter customers to be used towards a condominium purchase

- ▶ increasing returns draw new participants to the market, who either construct or buy properties: higher cost, new construction reinforces the market niche of affordable, centrally located properties owned by Boardwalk; many of the new market players who are attracted to the cyclical high are likely to become motivated sellers when the cycle turns

- ▶ balance sheet management follows the same cycles: opportunities to buy new assets are funded by long term, fixed, low cost financing, accessing the equity markets or a combination depending on what is most prudent given economic conditions; a continual asset base improvement process results in selling assets which no longer fit the strategic or geographic focus, releasing equity for reinvestment or reducing leverage

"[Boardwalk's] applications today are regarded by many industry experts as the most advanced property management software available, even compared to that of landlords with holdings 10 times as large."

Microsoft Corporation



R E V I E W O F A C T I V I T Y

Information Tools Optimize Capability

The business world and everyday life is awash with information. Having information is no longer an advantage. Using information - selectively, effectively and with purpose - is the key. Boardwalk's information systems have evolved with the Company, always gathering, sorting, compiling and redistributing information to expedite well-founded management decisions, to optimize purchasing capability for property management on an individual as well as portfolio-wide basis, and to communicate with customers and shareholders via

the internet. In every step of Boardwalk's business, the ability to access or compile complete and accurate information allows for improved efficiency and effectiveness. The fundamental utility of the system creates limitless opportunities to apply to new business ventures, to new geographical regions or to create business by supporting related businesses with Boardwalk's system. Whether opening the door to a new strategic alliance or creating specialized information services within customer communities, Boardwalk's familiarity with and utilization of information is a core value of the Company's approach.

The change in information gathering, manipulation and applications has been revolutionary - affecting virtually everyone's work and home life. Like most change, the advances can be as much of a threat for some people and businesses as they are an opportunity for others. Boardwalk is perhaps in one of the few industries which can't be replaced by computers. While work and recreation have altered significantly because of computers, people will always need a place to live.





R E V I E W O F A C T I V I T Y

Significantly, the systems have evolved with the Company and have only required investment in readily available computer hardware and software, expandable as needed to manage additional uses. As an indication of the uniqueness of Boardwalk's computer applications, Microsoft Corporation chose to highlight Boardwalk's information systems in an issue of its business development newsletter.

As an opportunity, Boardwalk has made the most out of custom programming, using very accessible technology. In fact, it is a fundamental component of operating the business. Everything we do requires an enhanced ability to gather and manage a large quantity of information - communicating with customers, controlling costs, monitoring the market and the economy; the list of uses is endless. And the larger and more geographically expanded our asset base, the more we maximize the opportunity through computers.

Sweating the Details

Boardwalk's property management capability generates improved profit margins from its rental portfolio. The approach is to continually evaluate efficiency at every level from the smallest of details to larger portfolio-wide decisions. For example, all maintenance or purchases made are catalogued in the computer system offering many opportunities to achieve lower operating costs and better response for customers. Analysis of all purchasing leads to opportunities

for bulk buying, to uncover unnecessary or unusual expenses and to anticipate pending costs. As the network becomes larger, the ability to realize cost savings from centralized and bulk purchasing increases. For customers, the detailed information ensures Boardwalk stays in tune with tenants' experiences with Boardwalk properties and property management.

Boardwalk's unique and extensive use of its detailed cataloging has proven effective for reducing operating costs, most notably on properties acquired. There

are numerous opportunities to expand the application of the system to generate new sources of revenue.

Home Base: WESTERN CANADA

Western Canada is Boardwalk's backyard. It is the region where

Boardwalk's founders and key personnel have learned the business. With a regional focus, there are opportunities to maximize efficiencies, to

concentrate activity and to intimately understand the impact of market dynamics. It is important to realize, however, that strong business principles and effective practises can be applied to any region. Boardwalk, more than any other participant in the real estate sector, has developed systems, practises and tools that are universal rather than regional. As opportunities arise, and as appropriate within Boardwalk's strategic focus and financial capability, expansion to regions outside of Western Canada, on either side of the 49th parallel, will be pursued.



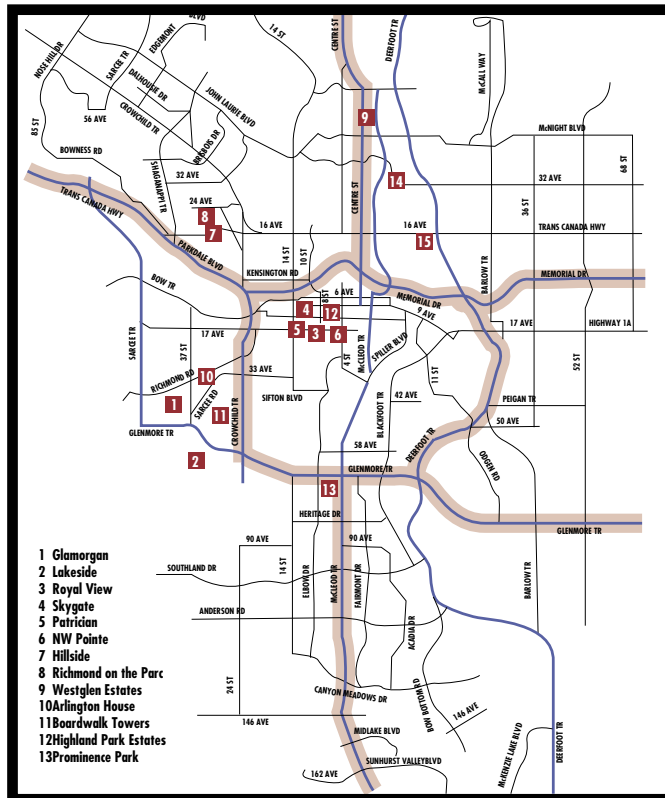


REVIEW OF ACTIVITY

Calgary remains the core of Boardwalk's portfolio. Following the same strategy in other western Canadian cities has significantly expanded the Company's holdings.

Location

CALGARY

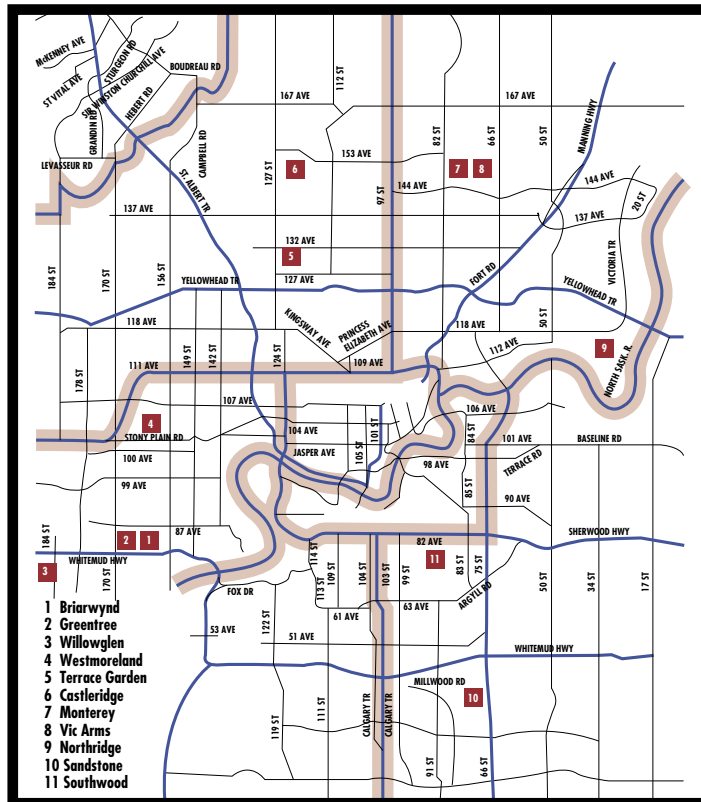




The Edmonton market has lagged Calgary with a less buoyant economy. Boardwalk's quality of management and renovations provides some insulation against less dynamic conditions.

Location

EDMONTON





Evidence of western Canada's economic boom is the vibrancy of smaller centre economies. Red Deer is one of the more notable beneficiaries of the growth trend across the regions.

Location

RED DEER





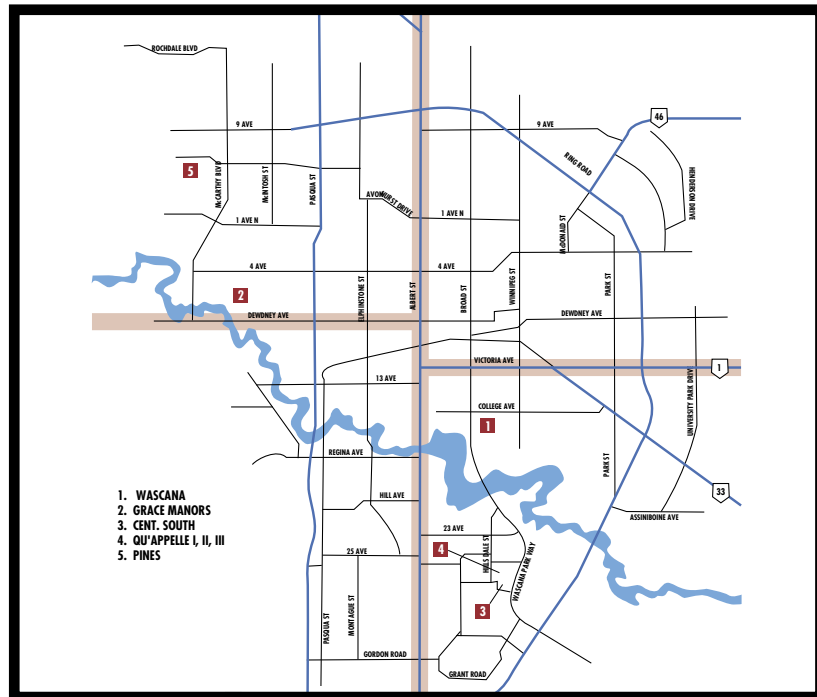
REVIEW OF ACTIVITY

After a number of years of weak economic conditions, Regina is feeling the effects of western Canada's immigration. Vacancy rates are decreasing in Regina, with the trend expected to continue in 1997.

Location



REGINA





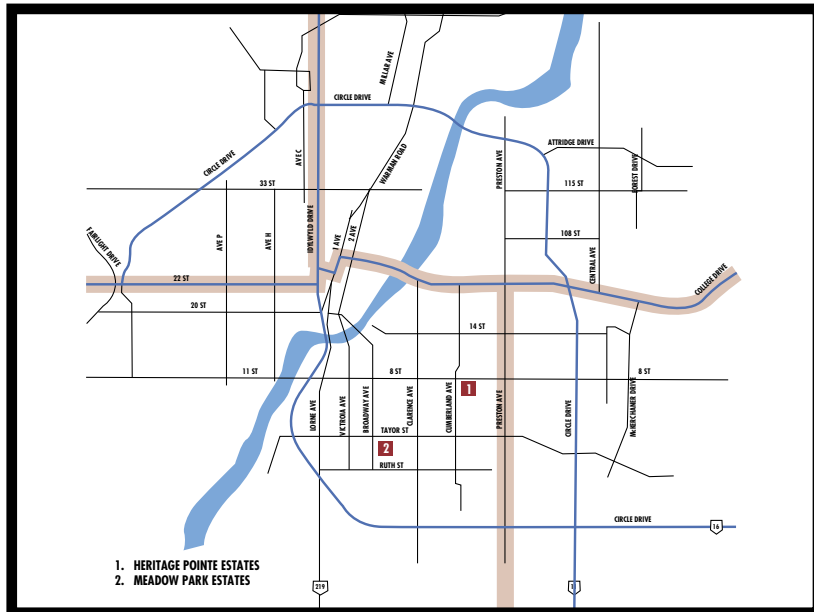
REVIEW OF ACTIVITY

Saskatoon has enjoyed a relatively steady and healthy economy, even while other areas of the province have had ups and downs. A distinct growth trend is strengthening the city's economy.

Location



SASKATOON





R E V I E W O F A C T I V I T Y

THE BOARDWALK PORTFOLIO

Building	Calgary	Edmonton	Red Deer	Regina	Saskatoon	Other	Number of Units	Square Footage
Victorian Arms	—	96	—	—	—	—	96	91,524
Lakeside Estates	90	—	—	—	—	—	90	77,732
Pyramid	—	36	—	—	—	—	36	44,400
Skygate Towers	142	—	—	—	—	—	142	113,350
Castleridge Towers	—	108	—	—	—	—	108	124,524
Monteray Pointe	—	104	—	—	—	—	104	83,584
Sandstone Pointe	—	81	—	—	—	—	81	83,800
Briarwynd Courts	—	172	—	—	—	—	172	144,896
Westmoreland	—	56	—	—	—	—	56	45,865
Glamorgan Manor	87	—	—	—	—	—	87	63,510
Prominence	—	92	—	—	—	—	92	73,310
Quail Pointe	37	—	—	—	—	—	37	26,500
Greentree Village	—	192	—	—	—	—	192	156,000
Hillside Terrace	76	—	—	—	—	—	76	58,900
Royal Park Plaza	87	—	—	—	—	—	87	64,553
Northwest Pointe	150	—	—	—	—	—	150	102,750
Patrician Village	392	—	—	—	—	—	392	295,600
Royal View	192	—	—	—	—	—	192	152,295
North Ridge Estates	—	180	—	—	—	—	180	103,270
Terrace Gardens	—	114	—	—	—	—	114	101,980
Willowglen Apartments	—	88	—	—	—	—	88	71,800
Forest Garden Estates	—	—	—	—	—	104	104	79,981
Highland Terrace Red Deer	—	—	66	—	—	—	66	49,770
Gladmer/Housing	544	236	124	392	304	—	1,600	1,566,000
Harvard	—	—	—	637	—	—	637	522,413
Marlborough/Churchill	246	—	—	—	—	—	246	198,222
Arlington	42	—	—	—	—	—	42	30,525
	2,085	1,555	190	1,029	304	104	5,267	4,527,054
Building Sales	124	128	66	0	0	104	422	338,514
May 31, 1994	319	653	—	—	—	—	972	873,185
May 31, 1995	1,253	1,319	—	—	—	104	2,676	2,160,124
May 31, 1996	1,129	1,191	—	—	—	—	2,320	1,871,380
Post-1996 Purchases	1,961	1,427	124	1,029	304	—	4,845	4,188,540

Through the 1996 fiscal year, Boardwalk’s portfolio has grown dramatically. While the number of units has reached a “critical mass” for the Company, there is more to Boardwalk property maps than the number of locations. All of the properties are similarly positioned - convenient to community amenities and infrastructure. What the maps do not show is the opportunity for expansion, with a virtual doubling of units possible within existing zoning regulations. Whether or not this expansion is under-



R E V I E W O F A C T I V I T Y

taken is dependent on the demand. However, if fully implemented, the Company's holdings could expand from 4,800 to 7,800 units without further acquisitions.

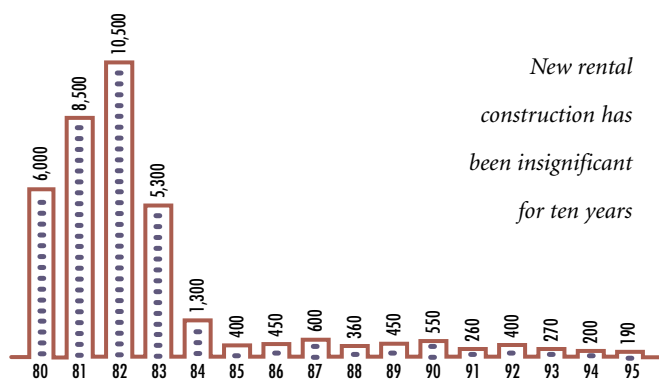
Business Environment and Market Dynamics

Early 1996 reflected the end of one phase of the market cycle as a number of participants chose to divest of properties after an extended period with flat rental and low occupancy rates. With competitors motivated to sell, Boardwalk was able to take the opportunity to add to its portfolio.

Towards the end of 1996, there were initial indications that occupancy rates were approaching a cyclical high suggesting an imminent shortage of supply relative to demand. This is an indicator that rent increases should follow. With Boardwalk currently realizing average rent of \$550 per month per unit, a \$50 increase would translate to an additional \$2.9 million in annual cash flow or \$0.22 cash flow per share.

TOTAL INDUSTRY RENTAL CONSTRUCTION

Number of Units for Calgary & Edmonton



Boardwalk's investment in western Canadian cities will benefit from the national trend which reflects significantly greater growth in the west region of the country compared to central and eastern Canada. Over the next year to 18 months, there are expected to be differing rates of economic growth in each of the five cities where Boardwalk owns property, although the trend is for growth in each city. Calgary is experiencing the strongest economy, evidenced by the increasing house sales, full occupancy of rentals and the number of corporate head office relocations to Calgary from other provinces.

Because Boardwalk holds 40 percent of its asset base in Calgary, the Company is well positioned to realize a positive impact. Calgary is benefitting from a more general trend, witnessing a relocation of population from the more expensive urban areas in the country to choose less expensive cities and mid-size communities, generally in western Canada. All of these trends indicate that Boardwalk is positioned to realize value enhancement through the strategic locations of its properties.

SENSITIVITY TO MARKET RENTAL RATE

Number of Units - 4,845 @ Average \$550/month

Monthly increase (\$)	25	50	75	100
Annual increase in rental income per unit (\$)	300	600	900	1,200
Increase in pre-tax cash flow (\$000)	1,500	2,900	4,400	5,800
Increase in pre-tax cash flow per share (\$)	0.11	0.22	0.33	0.43



REVIEW OF ACTIVITY

A Case Study: Richmond on the Parc, Calgary

“To efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction” is Boardwalk’s mission. Each sentiment within that mission is exemplified at a property located 5 minutes from downtown Calgary, in the southwest quadrant of the city. The townhomes, at this location, numbering 160 units, are positioned on over 14 acres.

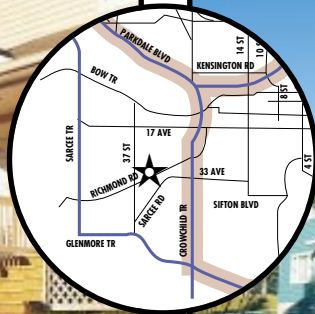
The property was purchased in June 1996 with renovations beginning in August 1996. The townhomes were originally constructed in 1954 and are typical of the period: the functional layout reflects good room sizes, excellent structural components but a dated appearance. The renovations are transforming sound, but dated structures into desirable, contemporary living spaces.

Features include open layouts which maximize living space, new, double-glaze windows including expansive bay windows, and modernized construction and insulation materials throughout the homes. The rejuvenation adds significant market value to the locations but, importantly, offers less costly housing than if the project was constructed from the ground up. For our customers, the combination of well serviced, centrally located housing with reasonable associated costs represents unmatched value.

For Boardwalk, this project is one of many opportunities to respond to customer needs with value. Throughout our portfolio, Boardwalk is building relationships with its customers by focusing on value. The combination of quality and affordability is an example of how Boardwalk is fulfilling its mission.

Richmond on the Parc - “After”

Richmond on the Parc - “Before”



BOARDWALK EQUITIES INC.



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LOCATION

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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

Introduction

The following discussion and analysis should be read in conjunction with the financial statements and notes pertaining thereto.

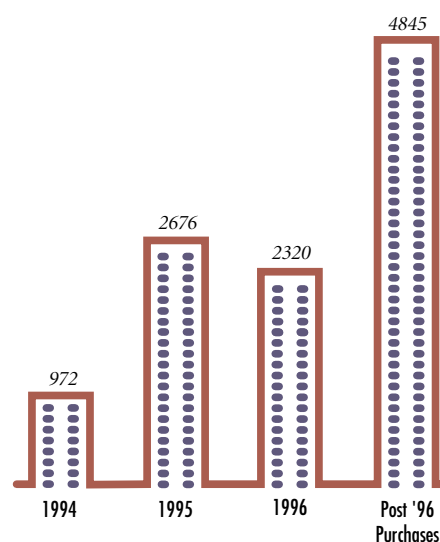
Corporate Overview

The strong growth demonstrated by Boardwalk in the 1996 fiscal year is a direct result of increased income generated from the Corporation's two separate asset categories. These include revenue producing property characterized by their stable and long term cash flow potential, and properties held for development and value added resale — either as individual condominiums or on a "bulk" basis. In order to ensure appropriate classification of these assets, management continually reviews its portfolio in relation to prevailing market conditions, and periodically transfers properties in recognition of shifting market forces. At all times, those properties with the greatest potential for asset appreciation and cash flow are given priority over other assets with a more limited appreciation horizon. Real estate properties that appear to be approaching their value threshold may be viewed as expendable in exchange for replacement properties having more potential and upside. This constant "culling" of the real estate portfolio is a Boardwalk trademark, and represents an ongoing aspect of the Corporation's business strategy. In this context, despite the disposition of certain non-core assets, the Corporation significantly increased its presence through the closing on an additional 2,483 units, which are projected to have a significant positive impact on future revenues and cash flows for years to come.

PORTFOLIO

Number of Units

Boardwalk grows its portfolio while also selling less strategic sites.



Review of Operations

Current year's operations generated revenues of approximately \$32.8 million, in comparison to the 1995 revenues of \$8 million. This significant increase, of approximately 300 percent, reflects improved performance of properties in both the revenue producing and held for development and resale categories. With ownership of an additional 2,483 units, as a result of acquisitions subsequent to year end, the company expects a significant improvement in revenues in 1997 and beyond.

REVENUE PRODUCING ASSETS

Boardwalk's most stable source of cash flow is generated through the leasing of apartment or townhouse units. In terms of occupancy, the year began on a positive note, with rates increasing in both Calgary and Edmonton. This trend continued in Calgary, which showed an all time high occupancy rate in excess of 99 percent in September of 1995.



M A N A G E M E N T ' S D I S C U S S I O N & A N A L Y S I S
O F F I N A N C I A L C O N D I T I O N & R E S U L T S O F O P E R A T I O N S

The same cannot be said of Edmonton, Boardwalk's still maturing market. The trend of occupancy decreased significantly in the first eight months of the year, primarily due to the poor economic conditions in the Edmonton market. On a more promising note, this trend appears to have reversed itself, as the last quarter has shown a continued improvement in the Edmonton occupancy rate. In August of 1996, Edmonton's occupancy rate increased to 90 percent, while Calgary's rate exceeds the 98 percent level. The impact of Edmonton's occupancy on the overall rental portfolio has been lessened significantly due to recent acquisitions in other, more stable markets. August 1996 occupancy rates for the entire rental portfolio are approximately 94 percent.

The Edmonton market has shown strong signs of economic improvement through the influx of capital and attention focused on the natural resource and petrochemical sectors. This increase in economic activity is now beginning to overcome the prior years' difficulties associated with provincial government cutbacks. Federal expenditures in this area are also scheduled to increase significantly through the creation of a new "super" armed forces base, which will be located in proximity to some of Boardwalk's projects. These positive developments appear to be kickstarting the Edmonton economy, and as a result, the Corporation views its position in this market as a longer term, strategic opportunity.

Recent acquisitions have greatly diversified the Corporation's risk, mitigating vulnerability to any particular market. With this increased diversity and Boardwalk's ownership in selective strong economic markets, the Corporation believes there are many additional opportunities in under-performing markets such as Edmonton.

The following table demonstrates Boardwalk's strategic diversification of project locations over the past three years, as well as the impact of subsequent acquisitions.

PORTFOLIO BY REGION - *Number of Units/%*

	1994	%	1995	%	1996	%	Post '96 Purchases	%
Calgary	319	33	1,253	47	1,129	49	1,961	40
Edmonton	653	67	1,319	49	1,191	51	1,427	29
Red Deer	—	—	—	—	—	—	124	3
Regina	—	—	—	—	—	—	1,029	21
Saskatoon	—	—	—	—	—	—	304	6
Other	—	—	104	4	—	—	—	—
Totals	972	100	2,676	100	2,320	100	4,845	100

Future growth strategy involves the continued exploration of local markets in which Boardwalk has a significant presence, in order to ensure continued benefits associated with economies of scale and local market knowledge. Once the Corporation has reached the necessary sheer magnitude in any given centre, it may look further afield for new investment opportunities.

RELATED PARTY CONTRACTS

At the time Boardwalk acquired certain of its initial assets, it negotiated two significant contracts with two related parties, Panarcadia Investment Company Limited (PICL) and Boardwalk Properties Company Limited (BPCL). The first contract related to specific rental guarantees from the vendors, designed to assist BEI in the transition of the properties to new ownership. These guarantees were building specific and were fixed for a twelve month period. As of April 30, 1996, all guarantees have expired. The amount recorded as rental guarantee income correlates to the difference between



M A N A G E M E N T ' S D I S C U S S I O N & A N A L Y S I S
O F F I N A N C I A L C O N D I T I O N & R E S U L T S O F O P E R A T I O N S

the actual revenue generated by the particular building which was subject to the guarantee and the amount that was guaranteed. The majority of the guarantee amount recorded related to the Edmonton properties, where the market underperformed. Prior year's amounts were significantly lower than those recorded in the current year, primarily due to the fact that prior year's amounts were based on a more positive forecast of performance for the Edmonton market. It is the Corporation's view, that even with the expiry of this revenue source, it will be replaced in the upcoming years through increased performance of these properties, especially in the Edmonton market. Management is attempting to accelerate this process by focusing more of its attention to these softer markets. This increased attention has already shown results through increased occupancy rates and decreasing rental incentives.

The second related party agreement concerns management of the rental portfolio. The Corporation had negotiated the management of its rental portfolio to be undertaken by BPCL, which was again designed to assist in a smooth ownership transition. The agreement stipulated that a fee of 2.0 percent of the rental income generated would be paid to BPCL. In return, BPCL would employ all required administrative staff and incur expenses as required. An option was available to BPCL to waive the fee at their discretion, and the fees for both the 1996 and 1995 fiscal years have been waived accordingly.

OPERATING EXPENSES

Overall, operating expenses from revenue-producing properties of \$5.6 million (1995 - \$2.2 million) equate to approximately 35 percent of rental income. This is up slightly from the prior year's amount, and is attributed to a combination of increased utility costs due to the unusually long and cold winter experienced in Alberta in 1996, as well as the lower than anticipated occupancy levels in the Edmonton portfolio. The Corporation also took a pro active approach in reducing operating incentives such as cable television in markets where they were not required. The annualized savings of the removal of these incentives is estimated to be \$245,000.

PROPERTY HELD FOR DEVELOPMENT AND RESALE

A significant source of income for the Corporation arises from the sale of units which are classified as property held for development and resale. The units in this category are classified as mature properties, implying there is limited capital appreciation remaining at these locations in comparison to other, more lucrative investment opportunities. Once a property has reached this stage, it is either sold as individual condominium units or as a single transaction (bulk) property sale. The proceeds which are generated from these sales are then reinvested into other selected properties which demonstrates superior value appreciation potential.

In the current year, a total of 422 units were sold to third parties. The margins generated from these sales, as a percentage of revenue, were lower than those recorded in 1995, mainly due to the nature of these transactions. Current year's results include a larger number of mature project sales, which typically generate lower margins and higher volume



MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

sales, whereas 1995 sales comprise primarily individual condominium sales — which are characterized by higher margins but lower overall volumes.

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

CASH FLOW FROM OPERATIONS

Cash flow from operations increased substantially by approximately 215 percent to \$4.1 million compared to 1995's \$1.3 million. This dramatic increase can be attributed to strong growth resulting from effective management of costs, the rental guarantees and the profitable sale of properties held for development and resale. Both cash flows and revenues are anticipated to increase significantly in the upcoming years due to unit acquisitions subsequent to year end. The Corporation has taken control of these new assets and cash flows are now increasing commensurately.

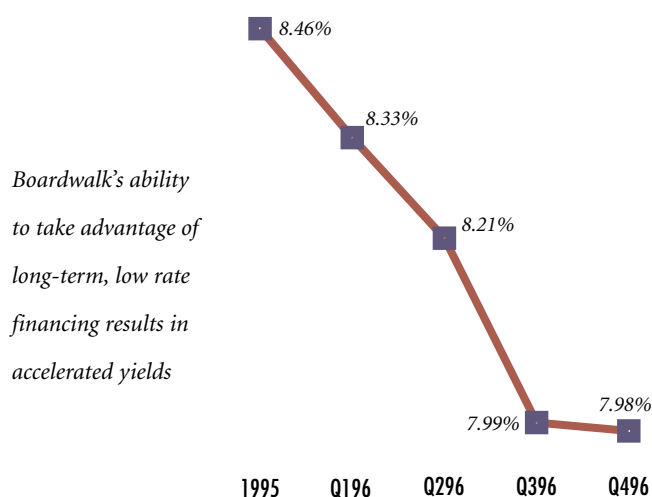
Corporate Operations

FINANCING CHARGES

Financing charges have decreased to 46 percent of revenue generated from revenue producing properties (1995 - 50 percent) or 23 percent of gross revenue (1995 - 41 percent). This decrease arises primarily as a result of improved financing charges obtained through a combination of refinancing maturing mortgages as well as "blending" existing rates

under contract with the more advantageous rates currently offered and "extending" the term of the mortgages to farther out maturities. The annualized savings of this interest rate reduction is computed at approximately \$475,000, only a portion of which was recorded in 1996. Due to the nature of current mortgage structure, the full impact of the reduction in financing rates will not become evident until the 1997 fiscal year.

WEIGHTED AVERAGE MORTGAGE INTEREST RATE ON REVENUE PRODUCING PROPERTIES



ADMINISTRATION EXPENSES

Through continued efforts to lower costs, the Corporation has reduced its administrative expenses to below one percent of current year's gross revenue in comparison to the four percent recorded in 1995. As part of the original property purchase agreements between Boardwalk Properties Company Limited and Boardwalk Equities Inc., Boardwalk Properties agreed to supply management of the facilities until May 31, 1996. As of June 01, 1996, the Corporation has become responsible for the total costs associated with management of



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its own buildings. As all the key personnel and infrastructure formerly employed by Boardwalk Properties is now in the domain of Boardwalk Equities, this transition to full self-management will be seamless. The Corporation's objective is to maintain administrative expenses at levels which are consistently below those charged on standard management agreements for the nature of properties operated.

ASSETS

Boardwalk has two separate and distinct classifications of real estate assets. The largest class, referred to as revenue producing properties, are characterized as stabilized cash flow generating properties capable of further value enhancement through capital improvements. The second classification are properties held for development and resale. These are units which the Corporation determines to be mature properties with more limited capital appreciation improvement potential and which are earmarked for sale as either individual condominium units or as an entire "bulk" project. The Corporation regularly reviews its portfolio in relation to prevailing market conditions, and periodically transfers properties in recognition of shifting market forces. At all times, those properties with the greatest potential for asset appreciation and cash flow are prioritized. Assets with limited upside may be viewed as expendable in exchange for replacement properties having more potential. The current year's operations demonstrate the effectiveness of this policy, wherein the Corporation contracted to acquire a total of 2,580 units in comparison to the 422 units which were sold.

Ninety-seven of the units acquired were from a related party at fair value, which approximated the carrying value of the assets to the related party. The remaining 2,483 units acquired were contracted with non-related parties and the Corporation has taken possession of these assets subsequent to year end.

As a demonstration of the Corporation's "culling" process, 100 of the newly acquired units have since been sold to a third party. The sale includes a participation agreement that will allow the Corporation to participate in future cash flows.

Because of the significant growth resulting from acquisitions negotiated during the 1996 fiscal year, the Corporation identified and sold 422 units which it deemed mature properties with more limited upside potential. These sales, in the form of both individual condominium sales and bulk property transactions, resulted in a significant gain to the Corporation. The funds generated were then reinvested in both financial and non-financial resources as well as toward other, more profitable, projects. Fundamental to the Corporation's growth strategy, numerous acquisition opportunities continue to be investigated. At all times, the focus is on adding quality properties to the portfolio for both value creation and cash flow enhancement.

Current figures show that capitalized interest totals \$501,000 (1995 - \$1,140,000), a modest 6.0 percent of total financing charges (1995 - 26 percent). These costs were also offset by \$157,000 (1995 - \$389,000) of net operating income directly attributable to properties held for development and resale.



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PREPAID EXPENSES

Current year amounts relate mainly to prepaid mortgages and commitment fees on existing and negotiated mortgages.

MORTGAGES & ACCOUNTS RECEIVABLE

Included in the 1996 amounts are \$2.8 million in the form of vendor mortgages on properties sold and mortgages acquired by the Corporation. The vendor mortgages on properties sold are earning interest at a weighted average of 7.1 percent and mature between 1997 and 2000.

LIABILITIES

Boardwalk's indebtedness consists mainly of low rate, fixed term mortgage financing. All amounts are secured by individual mortgages registered against real estate properties, and the maturity of this debt is staggered to lower the Corporation's exposure to interest rate risk. Current year's balances have decreased significantly from those recorded in 1995. This decrease can be attributed mainly to the discharging of existing mortgages through the strategic sale of mature properties. As of May 31, 1996, the Corporation has a total of \$1,400,000 (\$2,500,000 - 1995) in the form of revolving bank demand mortgages. Boardwalk's strategy is to review these revolving mortgages on an ongoing basis, and, if deemed beneficial, this debt will be converted to fixed long term. The current year's weighted average interest rate on outstanding mortgages has decreased to 8.02 percent from 8.46 percent in 1995. Interest on mortgages against revenue producing assets decreased to 7.98 percent from 1995's 8.46 percent.

During the 1996 fiscal year, the Corporation successfully employed the "blend and extend" method to vastly improve the interest rates and maturity dates of the Corporation's fixed term mortgage debt. Capitalizing on the window of opportunity created through a cyclical low in interest rates, Boardwalk has succeeded in extending most of the mortgages which were scheduled to mature in the next two fiscal years, to beyond the year 2000. In addition to lengthening maturities to minimize interest rate sensitivity, the newly negotiated blended interest rates are significantly lower than the rates which existed on these mortgages under the previous contracts. Because of this pro-active approach relative to outstanding mortgages, Boardwalk has effectively become insular to interest rate fluctuations until after the year 2000.

SHARE CAPITAL

Two separate private placements which were undertaken during the 1996 fiscal year increased Boardwalk's share capital. In January 1996, the Corporation issued 1,500,000 common shares pursuant to a private placement at a price of \$3.30 per share, with the issued shares having a one year escrow period. The funds raised from this issue, for the most part, were applied against deposits required on the post year end acquisitions, as well as the net reduction of existing demand debt. The second private placement was in conjunction with a specific asset purchase, which represented a first mortgage on a property located in Calgary. As a condition of the agreement, 140,000 common shares were issued at a price of \$5.75 per share. At the time of this acquisition, the mortgage was in foreclosure. The Corporation has since completed the foreclosure proceeding and taken title to the building.



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PERFORMANCE MEASURES

Boardwalk continues to reward its employees with ownership, rather than through the payment of high base salaries, which are not linked to the overall performance of the Corporation.

The Corporation's stock option plan provides for the granting to directors, officers and employees of the Company, options to purchase up to 1,125,000 common shares.

Currently, there are a total of 1,027,500 options issued to directors, officers and employees. The options have exercise prices ranging from \$0.13 to \$4.50 per share, and expire on various dates up to March 18, 2001. During the 1996 fiscal year, no options were exercised.

TECHNOLOGY

Boardwalk prides itself on its innovative and effective use of computer technology. The Corporation ensures that its employees are well trained on user friendly, proprietary software that is currently in use. Although extremely proud of its existing information systems, Boardwalk recognizes the need to continuously upgrade and improve its technological edge. The systems and technology department is constantly looking at ways to increase existing efficiencies as well as entertaining ideas on making use of the Internet to further advantage. Boardwalk has a Web Page on the Internet, @ www\bwalk.com. The site, which is constantly being upgraded, was constructed with maximum flexibility to service the needs of investors and customers alike.

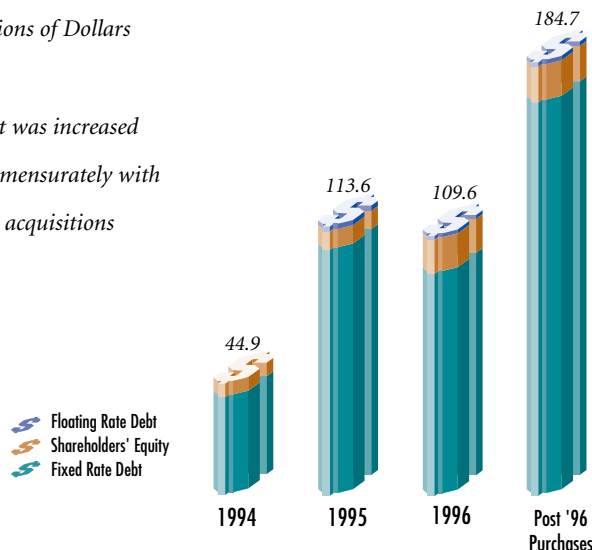
Capital Structure and Liquidity

Boardwalk finances its asset acquisitions and capital improvements through a combination of shareholders' equity and debt. It is important to achieve a balance between debt and equity in order to maximize profit, yet still maintain a reasonable level of risk. The Corporation believes it has achieved this balance through holding a large amount of its capital in the form of fixed rate mortgage debt, with staggered maturity dates. During the year, the Corporation raised equity totalling \$5,755,000 through issuing a total of 1,640,000 common shares as well as generating net income in the amount of \$1,098,000.

CAPITAL STRUCTURE

Millions of Dollars

Debt was increased commensurately with new acquisitions



Management views liquidity to be a major component of both the short and long term viability of the Corporation. Liquidity is defined as cash generated from operations, plus any additional cash available through undrawn credit or market facilities. Cash generated from operations is sufficient to discharge all operating and corporate expenditures.



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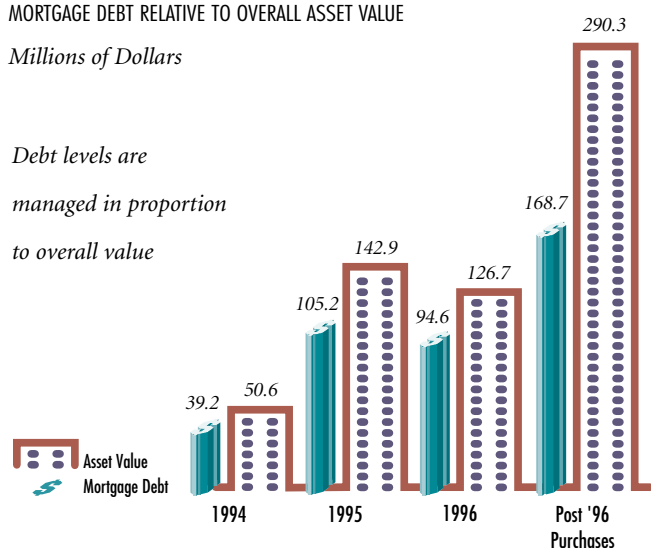
Additional funds are accessed through the sales of mature assets as properties held for development and resale.

Boardwalk has an undrawn line of credit in excess of \$1 million, as well as access to an additional \$20 million through the financing of existing excess equity. This potential to finance equity is most evident in the recent 1,600 unit townhouse acquisition subsequent to year end. Through a stable rental increase program, which is designed to increase rental rates at these projects to market rates over the next two fiscal periods, additional equity can be generated through refinancing. To warrant these increases, Boardwalk has undertaken an aggressive capital improvement program. Even though these properties were only acquired in June of 1996, the Corporation has secured fixed rate long term financing that adds additional stability as well as facilitating the replacement of higher interest rate second mortgages. The annualized interest savings to the Corporation on this refinancing transaction alone approximates \$650,000. This procedure is not isolated to this particular project alone, but rather is available to the Corporation's entire portfolio.

MORTGAGE DEBT RELATIVE TO OVERALL ASSET VALUE

Millions of Dollars

Debt levels are managed in proportion to overall value



Boardwalk's policy is to acquire undervalued properties which, through providing a capital oriented upgrading program, can be increased in value. The increased value then allows the Corporation a vehicle to generate additional cash through access to equity. This equity is accessible in one of two ways; the first being the outright sale of the asset and the second, access to debt financing. The program chosen by the Corporation depends upon the classification of the asset. If the building is classified as revenue producing, Boardwalk will select a financing alternative, as it feels the sale of the property may be premature and will not release the desired amount of equity. Through its strong relationship with Canada Mortgage and Housing Corporation, Boardwalk is able to obtain insurance on the majority of its existing mortgage debt. Because of this insurance, it is able to obtain financing at highly advantageous rates, while achieving loans in excess of conventional amounts. This not only provides access to equity, but also results in exceptionally high equity yields.

In summary, Boardwalk has positioned itself to ensure both short and long term financial viability. Cash generated from operations is more than sufficient to cover both operating and corporate charges. The Corporation's capital intensive programs, financed for the most part by cash flow, increase the asset values and allow another vehicle to generate cash, if required. Boardwalk is continuously reviewing both equity and debt markets in an attempt to obtain the most advantageous and balanced sources of capital that will facilitate continued growth and maximize shareholder value.



MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

RISK MANAGEMENT

In the normal course of business, Boardwalk is exposed to certain risks that can affect the operating performance of the Company. These risks, and the actions taken to minimize them, are discussed below.

OPERATING RISK

The potential for reduced revenue growth exists in the event that Boardwalk is unable to maintain its properties at high levels of occupancy, or in the event there is a downturn in the economy which results in lower rents. Boardwalk has minimized these risks by:

- ▶ Ensuring customer satisfaction. Boardwalk is proactive rather than reactive.
- ▶ Diversifying its portfolio across major cities throughout Western Canada — thus lowering exposure to regional economic swings.
- ▶ Acquiring properties only in desirable locations where vacancy rates are historically at or below city wide averages.
- ▶ Maintaining a balanced portfolio containing a variety of housing types, including high rise, townhouse and walk-up apartments — each in their own market niche.
- ▶ Building a broad and varied customer base, thereby avoiding economic dependence on large scale tenants.
- ▶ Focusing on affordable multi-family housing only, which is a staple commodity.
- ▶ Boardwalk maintains, renovates and manages its product at above industry standard, and is thus considered a preferred landlord with a quality product.

- ▶ Developing a specific rental program which is characterized by charging increased rents that are a result of increased service, not increased rents that may result in increased service.
- ▶ Development and implementation of innovative market concepts to attract customers (i.e. Condo Cash).

Interest Rate Risk

OPTIMAL FINANCING CHARGES

Boardwalk has a strong working relationship with Canada Mortgage and Housing Corporation (CMHC) and the majority of the Corporation's mortgages are insured under the NHA (National Housing Act) mortgage program. The added level of assurance offered to lenders as a result of this insurance allows Boardwalk to obtain the best rates possible in future financing. These mortgages are also insured for their full amortization, virtually eliminating the potential for a lender to prematurely "call" the loan. The NHA insurance also is a further protection against any possible failure by a lending institution.

DEBT MATURITY

The Corporation staggers the maturity of its debt in order to limit its exposure to short term interest rates fluctuation. In order to decrease this risk, Boardwalk has taken a progressive approach in blending and extending existing debt maturing over the next two fiscal periods. This approach has allowed Boardwalk to blend existing contract rates with lower current rates as well as the added benefit that the majority of mortgages now mature subsequent to the year 2000.



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PROPERTY VALUATION

It is Boardwalk's policy to regularly review the value of its assets in order to ensure the amounts recorded are in accordance with generally accepted accounting practices. Those assets which are held for investment purposes are valued at the lower of cost or net recoverable value. Cost includes all amounts relating to the acquisition and improvement of the properties. Net recoverable amount represents the undiscounted estimated future net cash flows expected to be received from the ongoing use of the property and its residual value. To arrive at this amount, the company projects the cash flow over a maximum of ten years and includes the proceeds from the 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 for the most probable set of economic conditions anticipated to prevail in the market area. Boardwalk has also undertaken to provide an estimate of appraised value of its entire property portfolio, including those assets acquired subsequent to year end. Based on both internally and externally generated appraised values, it is estimated that Boardwalk's portfolio has a current market value of approximately \$290 million.

STRATEGIC PROPERTY ACQUISITION

Boardwalk prides itself in its ability to find and acquire undervalued properties in prime locations at advantageous prices. Subsequent to year end, the Corporation took possession of a total of 2,483 units. The purchases not only increase the number of units in the portfolio, but also increase the

Corporation's diversification. This, in turn, decreases the Corporation's vulnerability to economic swings in particular markets.

The post May 31, 1996 acquisitions, totalling \$79,375,000, will have a dramatic effect on revenue, income and cash flow generated by the Corporation. Both income and cash flow from operations are projected to increase significantly in the upcoming year. Included in these purchases are excess lands, which also have a significant value. A portion of the purchase price has been allocated to this land. Under existing zoning, the Corporation has the ability to construct an additional 2,200 units on these sites, or to sell this land to an outside developer. The Corporation is currently reviewing various options for this land.

BALANCE SHEET ANALYSIS

Millions of Dollars	1994	1995	1996	Post 1996 Purchases
Real Estate Assets	45	118	106	186
Other Assets	1	1	8	4
Total Assets	46	119	114	190
Mortgages Payable	39	105	95	169
Other Liabilities	1	6	4	5
Total Liabilities	40	111	99	174
Shareholders' Equity	6	8	15	16
Total Liabilities and Shareholders' Equity	46	119	114	190



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The Corporation's focus on shareholder value became evident in the first quarter of 1997, when it entered into an agreement with a non-related party for the sale of 100 town-house units. The sale price of \$5,500,000 plus participation in future cash flows above a predetermined amount set out in the sale agreement will result in a gain for the Corporation. The effect of this sale has not been documented in the above balance sheet analysis.

A look Ahead

The 1996 fiscal year was a successful year for the corporation. Revenues were up significantly from prior years and management was able to negotiate specific contracts with related parties that were designed to act as a transitional cushion to the Corporation. Although income sources such as rental guarantees or management agreements, which resulted in waived fees in the amount of \$289,000 for 1996 (1995 - \$127,000), are no longer available to the corporation, income generated through the increased performance of the existing buildings, along with savings generated through lower financing costs, as well the removal of selective operating incentives (\$245,000) should compensate accordingly. Property acquisitions closed subsequent to year end will result in significant increases to both revenues and cash flow. Through the efficient use of existing technologies Boardwalk will be able limit additional administrative expenditures required.

Overall, the corporation is expecting both revenues and cash flows to increase in 1997 and future years. Boardwalk is devoted to increasing shareholder value and as a result, will continue to investigate numerous acquisition opportunities in order to grow the portfolio. Only those properties which offer a significant potential for value creation and cash flow enhancement will be selected.

SUMMARY QUARTERLY DATA

(Thousands of dollars except per share)

	Q1	Q2	Q3	Q4	1996
1996					
Revenue	4,113	4,674	11,926	12,040	32,753
Operating expenses	3,898	4,649	11,246	10,135	29,928
Operating earnings					
before taxes	215	25	680	1,905	2,825
Net earnings	120	13	380	585	1,098
Per Share	0.01	0.00	0.03	0.05	0.09
Cash flow					
from operations	664	516	1,173	1,778	4,131
Per Share	0.06	0.04	0.09	0.14	0.33
Average number of shares					
outstanding (000's)	11,750	11,750	12,700	12,377	12,377
1995					
Revenue	1,718	1,259	1,901	4,263	8,042
Operating expenses	1,371	1,074	1,836	4,121	7,303
Operating earnings					
before taxes	347	185	65	142	739
Net earnings	232	85	15	100	432
Per Share	0.02	0.01	0.00	0.01	0.04
Cash flow					
from operations	525	139	274	402	1,340
Per Share	0.05	0.01	0.02	0.04	0.11
Average number of					
shares outstanding	11,250	11,250	11,250	11,417	11,292

BOARDWALK EQUITIES INC.



FOCUS

LOCATION

INFORMATION

Opportunity



F I N A N C I A L R E P O R T S

Management's Report to the Shareholders

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

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

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

Sam Koliás
President and
Chief Executive Officer
Calgary, Alberta

Roberto A. Geremia
Vice President Finance and
Chief Financial Officer
Calgary, Alberta

Auditors' Report

TO THE SHAREHOLDERS OF BOARDWALK EQUITIES INC.

We have audited the balance sheet of Boardwalk Equities Inc. as at May 31, 1996 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion these financial statements present fairly, in all material respects, the financial position of the corporation as at May 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The prior years' audited financial statements were reported by another auditor.

Chartered Accountants
July 26, 1996

Calgary, Alberta

(except as to Note 10 which is dated as at August 31, 1996)



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

As at May 31

Balance Sheet

Note	(000's)	1996	1995
ASSETS			
2	Revenue producing properties	\$ 99,263	\$ 106,100
2	Properties held for development and resale	6,820	12,001
	Cash	130	—
3	Deposit on real estate properties	3,675	100
4	Funds held in trust	289	273
	Mortgages & accounts receivable	3,062	539
	Prepaid expenses	982	86
		\$ 114,221	\$ 119,099
LIABILITIES			
5	Mortgages payable	\$ 94,651	105,228
	Bank Indebtedness	—	259
6	Due to affiliates	534	2,189
	Accounts payable and accrued liabilities	1,412	1,536
	Refundable security deposits and other	706	1,460
7	Income taxes payable	474	—
	Deferred income taxes	1,520	307
		99,297	110,979
SHAREHOLDERS' EQUITY			
8	Share capital	13,441	7,735
	Retained earnings	1,483	385
		14,924	8,120
		\$ 114,221	\$ 119,099

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

Approved by the Board:


Director


Director



FINANCIAL STATEMENTS

For the years ended May 31, 1996 and, 1995

Statement of Earnings and Retained Earnings

Note	(000's)		1996	1995
		Revenue		
		Rental income	\$ 14,434	\$ 6,362
6		Rental guarantee income	1,584	205
		Gain on sale of revenue producing property	—	165
		Sales - properties held for development and resale	16,735	1,310
			32,753	8,042
		Operating expenses		
		Revenue producing properties	5,631	2,249
		Cost of sales - properties held for development and resale	14,899	864
		Administration	226	281
		Financing costs	7,392	3,308
		Amortization	1,780	601
			29,928	7,303
		Operating earnings before income taxes	2,825	739
		Large corporations tax	474	—
		Deferred income taxes	1,253	307
		Net earnings	1,098	432
		Retained earnings (deficit), beginning of year	385	(47)
		Retained earnings, end of year,	\$ 1,483	\$ 385
		Earnings per share - Basic	\$ 0.09	\$ 0.04
		Earnings per share - Fully diluted	\$ 0.09	\$ 0.04

Statement of Cash Flow from Operations

Net earnings	\$	1,098	\$	432
Items not affecting cash				
Amortization		1,780		601
Deferred income taxes		1,253		307
Cash flow from operations	\$	4,131	\$	1,340
Cash flow from operations per share - Basic	\$	0.33	\$	0.11
Cash flow from operations per share - Fully diluted	\$	0.33	\$	0.11



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

For the years ended May 31, 1996 and, 1995

Statement of Changes in Financial Position

(000's)	1996	1995
Cash obtained from (used in):		
Operating activities		
Cash flow from operations	\$ 4,131	\$ 1,340
Net change in non-cash working capital	(3,823)	1,311
Decrease (increase) in properties held for development and sale	5,181	192
	5,489	2,843
Financing activities		
Issue of common shares, net of offering costs	5,666	2,000
Mortgage financing assumed	3,644	67,691
Mortgage proceeds from refinancing	21,853	12,610
Mortgage payments upon refinancing	(21,188)	(13,074)
Mortgages discharged on sale	(11,701)	—
Mortgage principal reduction	(3,185)	(1,242)
Funds held in trust	(16)	(14)
Advances from affiliates	(1,655)	2,822
	(6,582)	70,793
Investing activities		
Transfers from (additions to) revenue producing properties	5,057	(74,080)
Deposits on real estate properties	(3,575)	400
	1,482	(73,680)
Increase (decrease) in cash balance during the year	389	(44)
Cash balance (bank indebtedness), beginning of year	(259)	(215)
Cash balance, end of year	\$ 130	\$ (259)



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

For the years ended May 31, 1996 and, 1995

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

(a) *Operations*

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

(b) *Basis of presentation*

The corporation follows the recommendations of the Canadian Institute of Public Real Estate Companies and the Canadian Institute of Chartered Accountants.

(c) *Revenue Recognition*

Revenue on property held for development and resale is recognized when all conditions of the purchase agreement have been met, a purchaser deposit has been received and there is reasonable assurance on the collectability of the outstanding amount.

(d) *Real estate properties*

(i) Revenue producing properties

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

The “net recoverable amount” represents the undiscounted estimated future net cash flows expected to be received from the ongoing use of the property plus its residual value. To arrive at this amount, the company

projects the cash flow over a maximum of 10 years and includes the proceeds from the 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 are recorded at the lower of cost or net realizable value.

(e) *Amortization*

Revenue producing real estate properties are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Building	4%	-	Sinking fund, 50 years
Equipment	20%	-	Declining balance
Parking lots	8%	-	Declining balance
Project improvements	20%	-	Declining balance

Amortization of revenue producing buildings is determined using the sinking fund method under which an increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 4% is charged to income as to fully depreciate the buildings over their estimated life of 50 years.



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(f) *Income taxes*

The corporation follows the tax deferral method in providing for income taxes, whereby the income tax provision is based on the income reported in the accounts. Under this method, deferred taxes arise primarily as a result of providing for amortization for income tax purposes on a different basis than for accounting purposes. Deferred income taxes are provided for on these differences at current income tax rates.

(g) *Earnings per share*

Earnings per share have been calculated on the weighted average number of common shares outstanding during the year.

Note 2 - REAL ESTATE PROPERTIES

	1996	1995
Revenue producing properties	\$ 101,569	\$106,721
Less: accumulated amortization	(2,306)	(621)
	99,263	106,100
Properties held for development	6,820	12,001
	\$ 106,083	\$ 118,101

Included in the cost of properties held for development are capitalized financing costs of \$501,000 (1995 - \$1,139,800) less net operating revenue of \$156,679 (1995 - \$466,000).

Note 3 - DEPOSIT ON REAL ESTATE PROPERTIES

The deposit on real estate properties represents funds held pursuant to offers to purchase dated, May 24 and December 8, 1995 and April 24 and 30, 1996. Refer to "Note 10 - Subsequent Event" for details.

Note 4 - FUNDS HELD IN TRUST

The Corporation has \$289,000 (1995 - \$273,000) on deposit with the holder of the first mortgage on a property. These funds will be used to reduce the second mortgage if certain net income levels are achieved by December, 1997. Otherwise, the funds will be used to reduce the first mortgage.

Note 5 - MORTGAGES PAYABLE

(a) *Revenue producing properties*

	1996	1995
Mortgages payable bearing interest at a weighted average rate of 7.98% (1995 - 8.46%) per annum, payable in monthly principal and interest installments totalling \$666,000 (1995 - \$748,000) maturing from Demand to 2012 and are secured by specific charges against specific properties.	\$ 88,316	\$ 94,386

(b) *Properties held for development*

Mortgages payable bearing interest at a weighted average rate of 8.56% (1995 - 8.41%) per annum, payable in monthly principal and interest installments totalling \$46,000 (1995 - \$82,000), maturing from 1996 to 2000 and are secured by specific charges against specific properties	6,335	10,842
	\$ 94,651	\$ 105,228



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Estimated principal payments required to meet mortgage obligations are as follows:

	Revenue	Held for	Total
	Producing	Development Resale	
Demand	\$ 1,450	\$ —	\$ 1,450
1997	6,326	1,512	7,838
1998	17,503	45	17,548
1999	31,232	49	31,281
2000	3,475	53	3,528
2001	23,547	4,676	28,223
Subsequent	4,783		4,783
	<u>\$ 88,316</u>	<u>\$ 6,335</u>	<u>\$ 94,651</u>

Note 6 - RELATED PARTY TRANSACTIONS

(a) Due to (from) affiliates

The amounts due to affiliates are unsecured, non-interest bearing and have no specified terms of repayment. The amount relates to the acquisition of properties and has been discounted based on the corporations weighted average borrowing rate. The amounts owing are as follows:

	Undiscounted	Discounted
1996		
Boardwalk Properties		
Company Ltd. (BPCL)	\$ 577	\$ 534
1995		
Boardwalk Properties Company Ltd.	\$ 2,259	\$ 2,083
Panarcadia Investment Co. Ltd (PICL)	115	106
	<u>\$ 2,374</u>	<u>\$ 2,189</u>

(b) Property Acquisitions

During the year the corporation acquired two additional properties (1995 - twelve)from the major shareholder, BPCL and assumed mortgages payable as set out below. The assets were transferred to the corporation at its fair value , which approximates the carrying value of BPCL.

	1996	1995
Assets acquired		
Real estate properties	\$ 3,114	\$ 75,044
Accounts receivable	518	—
Funds held for security deposits	26	443
Prepaid expenses	6	30
	<u>\$ 3,664</u>	<u>\$ 75,517</u>
Liabilities assumed		
Mortgages Payable	\$ 3,644	\$ 67,662
Bank indebtedness	—	1,582
Refundable security deposits	20	572
Accounts payable and accrued liabilities	—	2
	<u>\$ 3,664</u>	<u>\$ 69,818</u>
Consideration provided		
Common shares - Note 6 (a)	\$ —	\$ 2,000
Cash	—	—
Intercompany payable	—	3,699
	<u>\$ —</u>	<u>\$ 5,699</u>



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(c) Rental income guarantee

Rental guarantees formed part of the original real estate property purchase agreements between the corporation, BPCL and PICL. The guarantees were a one time agreement and were for a fixed period of twelve months following the date of acquisition. All guarantees have expired as of April 30, 1996.

(d) Management fees

Pursuant to an agreement dated March 8, 1994 and amended April 29, 1994 BPCL has agreed to manage the properties of the corporation. Pursuant to the amendment BPCL has waived its Management fee of approximately \$289,000 for 1996 (1995 - \$127,000). This agreement provided for the payment by BPCL of all administrative & management salaries as well as leased office space. The management agreement expired May 31, 1996 and subsequent to this date the corporation manages its own properties and employs its own staff.

Note 7 - INCOME TAXES

Income taxes payable include an amount of \$241,000 related to 1995 Large Corporations tax.

Note 8 - SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

Issued:

	Shares	Amount
May 31, 1996	13,390	\$ 13,441
May 31, 1995	11,750	\$ 7,735

Details of shares issued are as follows:

	Shares	Amount
1995		
Opening Balance - June 1, 1994	5,625	\$ 5,735
Stock split - August 15, 1994	5,625	
On acquisition of properties from PICL	500	2,000
	11,750	\$ 7,735
1996		
On private placement		
- January 5, 1996	1,500	\$ 4,950
On acquisition of asset		
- May 27, 1996	140	\$ 805
Less expenses related to private placements		(49)
	13,390	\$ 13,441

At May 31, 1996, there are a total of 7,033,334 common shares that are held under escrow of which, 699,334 escrowed shares may be released on the third anniversary date of the completion date of the Major Transaction, which was May 1, 1994. The balance of 6,334,000 escrowed shares may be released as to one-third thereof on each of the first, second and third anniversaries of the shareholder vote which approved the Major Transaction, which was April 15, 1994. The release of these shares is subject to the corporation achieving a net cash flow per share of \$0.50. In any event all shares will be released from escrow on or before April 15, 1997.



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(b) Stock Options

The corporation has a stock option plan that provides for the granting to directors, officers and employees of the company options to purchase 1,125,000 of common shares. Currently there are a total of 1,027,500 options issued to directors, officers and employees the details of which are noted below:

Number of share options	Exercise price	Expiry date
366,000	\$ 0.13	30 July, 1998
200,000	\$ 0.50	10 January, 1999
200,000	\$ 3.00	10 January, 2000
170,500	\$ 4.20	7 March, 2001
91,000	\$ 4.50	18 March, 2001
1,027,500		

Note 9 - COMPARATIVE FIGURES

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

Note 10 - SUBSEQUENT EVENTS

Subsequent to May 31, 1996 the corporation acquired a total of 2,483 units for an aggregate purchase price of \$79,375,000. The acquisitions were financed through a combination of mortgages, the issue of common shares, cash payments and assumed liabilities. The details of the transactions are as follows:

				Total
Number of Units	1,600	637	246	2,483
Date of acquisition	June 1	June 1	Aug. 15	
Purchase price (\$000's)	52,000	17,375	10,000	79,375
Mortgages arranged and /or assumed (\$000's)	27,000	13,978	7,882	48,860
Vendor mortgages (\$000's)	22,000	2,099	1,118	25,217
Common shares issued (229,885)		1,000		1,000
Deposit paid (\$000's)	1,500	235	250	1,985
Cash and/or liabilities assumed on closing (000's)	1,500	63	750	2,313
	52,000	17,375	10,000	79,375

The 637 units were purchased from a group of companies of which a board member is an officer and director. As part of the 637 unit purchase, the company issued 100,000 warrants entitle the holder to acquire 100,000 common shares on payment of \$4.35 per share. The warrants expire on November 28, 1997.

Pursuant to an offer to purchase dated August 26, 1996, the corporation has agreed to sell a total of 100 townhouse units to a non related party for a price of \$5,500,000 plus the right to participate in future cash flows as determined by the agreement. This transaction was completed on August 31, 1996 and will result in a gain.



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GEORGE J. RETI

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VAN KOLIAS

Calgary, Alberta

KEVIN P. SCREPNECHUK

Calgary, Alberta

A. GORDON STOLLERY

Calgary, Alberta

PAUL J. HILL

Regina, Saskatchewan

MARC DE LA BRUYERE

Edmonton, Alberta

DAVID V. RICHARDS

Calgary, Alberta

Officers and Senior Management

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President and Chief Executive Officer

GEORGE J. RETI

Executive Vice President

WILLIAM G. CHIDLEY

Senior Vice President, Acquisitions

ROBERTO GEREMIA

Vice President Finance
and Chief Financial Officer

KEVIN SCREPNECHUK

Vice President, Marketing

ROD PIRIE

Vice President, Property Management

STEWART OLLEY

Corporate Secretary

VAN KOLIAS

Assistant Corporate Secretary

MARK KORNAK

Chief Information Officer

MIKE GUIDOLIN

Operations Manager

MARK BRISBOURNE

Systems Analyst

Registrar & Transfer Agent

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THE TORONTO STOCK EXCHANGE

THE ALBERTA STOCK EXCHANGE

Trading Symbol: **BEI**

1996 Annual Report



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