



## BOARDWALK REAL ESTATE INVESTMENT TRUST



# Q3

### REPORT TO UNITHOLDERS FOR THE PERIOD ENDED SEPTEMBER 30, 2004

#### FINANCIAL AND OPERATING HIGHLIGHTS

We are pleased to deliver another record quarter despite challenging yet recovering multi-family market fundamentals. With interest rates still low and the new supply of homes and condominiums still high, we believe it is a reflection of our team's continued high performance. Recent reports from CMHC and other financial agencies indicate that the housing market will continue to move towards a balanced state into 2005 and beyond. Historically high new housing starts and resale activity will moderate in the coming quarters as increasing construction, mortgage and carrying costs will further erode affordability for home-buying consumers. On the demand side, further job creation and in-migration for Alberta, our largest market, will continue its positive trend as the province leads the country in economic growth into 2005.

As shown in our latest results, we have made substantial gains on our month-to-month portfolio occupancy levels. October 2004 occupancy was recorded at 96.1% compared to 94.2% in August 2004, an increase of 190 bps. Overall average monthly turnover is decreasing. This decrease in turnover can be seen in Calgary and in our smaller Alberta markets such as Fort McMurray and Grande Prairie, and reflects the ongoing positive economic growth in the province. Our record quarter includes a significant increase in property taxes in Edmonton, approximately \$1.1M or 2 cents per unit, as was anticipated and discussed in prior conference calls. Our Edmonton portfolio continues to face competition from a heavy supply of new condominiums and homes. Revenue in Edmonton was down approximately 2.2% for the quarter and down 0.3% for the nine-month period. Saskatchewan markets continue to be stable with Saskatoon showing some signs of weakness from the oversupply of condos and Regina remaining firm. In Ontario, rental revenues from our London properties continue to improve while Windsor is down slightly as a result of the oversupply of new condominiums and homes. Our Quebec markets are continuing to show strength, albeit at a slower pace due to new competition from new condominiums and homes.

Highlights of the Trust's results for the three months ended Sept. 30, 2004 include:

- Rental revenues increased 2.5% to \$70.4 million compared to the same period last year.
- Net operating income (NOI) increased 3.2% to \$48.0 million.
- FFO from continuing operations, which excludes all property sales, increased 12.7% to \$22.2 million.
- FFO from continuing operations per unit increased by 7.7% to \$0.42 on a diluted basis.
- DI from continued operations was \$0.43 per unit, an increase of 7.5% compared to the same period last year.
- Earnings per unit from continuing operations of \$0.06 compared to \$0.10 per unit in the third quarter of last year. The decrease is the result of a prospective application of a change in accounting policy with respect to the depreciation of our building assets.

Highlights of the Trust's results for the nine months ended Sept. 30, 2004 include:

- Rental revenues increased 4.5% to \$210.2 million compared to the same period last year.
- Net operating income (NOI) increased 5.1% to \$138.1 million.
- FFO from continuing operations, which excludes all property sales, increased 16.4% to \$59.6 million.
- FFO from continuing operations per unit increased by 11.9% to \$1.13 on a diluted basis.
- DI from continued operations was \$1.17 per unit, an increase of 10.4% compared to the same period last year.
- Earnings per unit from continuing operations of \$0.09 compared to \$0.17 per unit in the first nine months of last year. The decrease is the result of a prospective application of a change in accounting policy with respect to the depreciation of our building assets.

Some portfolio highlights for the third quarter include:

- The average vacancy rate across the Trust's portfolio for the third quarter of 2004 was 5.48%, down from 5.67% in the second quarter of 2004, and up from 3.66% in the third quarter of last year.
- The average monthly rent realized in the first nine months of 2004 was \$737 per unit, up \$8, or 1.1%, from \$729 per unit for the same period last year.
- The average market rent for the Trust's properties at the end of September 2004 was an estimated \$801 per unit per month which compares to the average in-place monthly rent per occupied unit of \$779 for the nine-month period ended September 30, 2004. This translates into an estimated "loss-to-lease" of approximately \$8.1 million, maintaining existing occupancy rate levels.
- The "same-property" results for Boardwalk REIT's stabilized properties (defined as properties owned for a period of over 24 months) for the three-month period ended September 30, 2004 showed flat rental growth, a decrease in operating expenses of 2.0% and an increase in NOI of 1.0% compared to the same period last year. The "same-property" results for the nine-month period ended September 30, 2004 showed rental growth of 1.0%, a decrease in operating expenses of 3.5% and an increase in NOI of 3.4% compared to the same period last year. Included in these reported amounts are utility rebates received from the Provincial Government of Alberta. These rebates are part of a current government program that is scheduled to continue until March of 2006.

#### CONTINUED PORTFOLIO EXPANSION

Subsequent to September 30, 2004, Boardwalk REIT added to its Quebec and Ontario portfolio by purchasing an additional 266 units. A total of 168 of these units are located in the Montreal market place, with 98 units located in Windsor, Ontario.

**Le Bienville** - Montreal (Longueuil), QC - a 168 unit apartment property consisting of two walk-up style wood-frame buildings with brick exterior. The property was purchased at an acquisition price of \$7.1 million using cash on hand. The purchase price equates to approximately \$42,300 per unit and approximately \$61.4 per rentable square foot. The transaction had a going-in cap rate of 8.31% and closed on October 14, 2004.

**Tecumseh Eastview Apartments** - Windsor (Tecumseh), ON - a 7-storey concrete high-rise property consisting of 26 one-bedrooms and 72 two-bedrooms for a total of 98 apartment units. The property was purchased for \$6.6 million, which equates to approximately \$67,300 per unit and approximately \$92.1 per rentable square foot. The purchase was funded by a combination of cash on hand and an existing mortgage of \$2.0 million with a fixed interest rate of 6.28% due in December 2005. The going-in cap rate on the acquisition was approximately 8.08%, and the transaction closed on October 29, 2004.

#### **MAINTAINING FINANCIAL STRENGTH**

Boardwalk REIT maintained its solid financial position in the quarter. Boardwalk REIT's mortgage debt totaled \$1.41 billion as at September 30, 2004, up from \$1.39 billion for BEI at December 31, 2003. The increase is largely attributable to the additional debt related to property acquisitions that Boardwalk REIT completed during the first nine months of the year. As of September 30, 2004, Boardwalk REIT's debt had an average maturity of 3.8 years with a weighted average interest rate of 5.49%. Boardwalk REIT's debt-to-total-market-capitalization ratio was 60.9% as at September 30, 2004, which compares to 64.1% for BEI at the same time last year.

Boardwalk REIT's interest coverage ratio, excluding gains, for the three-month period ended September 30, 2004 was 2.2 times compared to 2.1 times in the same period last year.

#### **SUMMARY AND OUTLOOK**

Overall, our diversity continues to deliver firm revenues from our entire portfolio despite challenging yet improving market conditions. Leading economic indicators and housing fundamentals all point towards a balanced market where demand for our product will remain healthy and the supply from new competitors will begin to moderate. Going forward we see this as an opportunity to further grow internally as market conditions improve slowly over time. We also continue to benefit from the positive contribution of our acquisitions that have been completed recently and over the past few years in the Quebec region.

With our solid balance sheet, management expertise, access to capital markets and continued focus on our core competencies and strategy, we believe Boardwalk is well positioned to capitalize on future growth opportunities as they arise.

We remain committed to delivering sustainable long-term value for our unitholders now and into the New Year.

Sincerely,



Sam Kolia  
President and C.E.O.



Le Bienville,  
Montreal (Longueuil),  
Quebec

*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 Boardwalk Equities Inc. ("Boardwalk" or the "Corporation") and Boardwalk Real Estate Investment Trust ("Boardwalk REIT" or the "Trust") 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 Boardwalk's December 31, 2003 Financial Statements and the Notes thereto, along with all other publicly posted information on the Corporation and Boardwalk REIT.*

#### **BUSINESS OVERVIEW**

Boardwalk Real Estate Investment Trust is an unincorporated, open-ended real estate investment trust created pursuant to a declaration of trust, dated January 9, 2004, as amended and restated on May 3, 2004 (the "Declaration of Trust" or "DOT"), under the laws of the Province of Alberta. Boardwalk REIT was created to invest in revenue producing multi-family residential properties or interests within Canada, initially through the acquisition of the operations of the Corporation.

On May 3, 2004, the Corporation sold all of its assets and undertakings to Boardwalk REIT. Boardwalk REIT units trade on the Toronto Stock Exchange under the symbol "BEI.UN". Boardwalk REIT's principal objectives are to provide its unitholders ("Unitholders") with monthly cash distributions, partially on a Canadian income tax-deferred basis, and to increase the value of its units through the effective management of its residential multi-family revenue producing properties and the acquisition of additional, accretive properties. As at the end of the third quarter of 2004, Boardwalk REIT currently owned and operated in excess of 250 properties, comprised of 31,780 units, totalling approximately 27 million net rentable square feet, and is Canada's largest owner/operator of multi-family rental communities. Boardwalk REIT's portfolio is concentrated in the provinces of Alberta, Saskatchewan, Ontario and Quebec.

#### **FINANCIAL REPORTING REVIEW**

With the change in legal entity status from a corporation to a trust, we have reviewed the required financial reporting requirements. We have determined that Boardwalk REIT is a continuation of its predecessor, despite Boardwalk Equities Inc. and Boardwalk REIT having different legal forms, and should follow the continuity of interest method of accounting in accordance with section 3.2 of Proposed National Policy 41-201, entitled "Income Trusts and Other Indirect Offerings". Under the continuity of interest method of accounting, Boardwalk REIT's acquisition of the operations of Boardwalk Equities Inc. is recorded at the net book value of the Corporation's assets and liabilities on May 3, 2004, and the unitholders' capital to Boardwalk REIT represents the shareholders' equity of the Corporation at that date. The Corporation's future income tax liabilities in the amount of \$73.6 million were eliminated on transfer of the assets of Boardwalk to Boardwalk REIT, other than the portion related to tax and accounting base differences in corporate subsidiaries of Boardwalk REIT.

The financial information, discussion and analysis for the nine months ended September 30, 2004 reflect the activities of Boardwalk Equities Inc. for the period from January 1, 2004 to May 2, 2004, combined with the activities of Boardwalk REIT for the period from May 3, 2004 to September 30, 2004. The financial information, discussion and analysis for the three months ended September 30, 2004 reflects only the activities of Boardwalk Real Estate Investment Trust during that fiscal quarter. The comparative figures represent the activities of Boardwalk Equities Inc. for the same period in 2003. Note 4 to the unaudited interim financial statements for the three and nine months ended September 30, 2004 provides additional details on how the earnings and cash flows for Boardwalk REIT and its predecessor were combined.

#### **PERFORMANCE REVIEW**

Boardwalk REIT generates revenues, cash flows and earnings from two separate sources - from rental operations and from the sale of real estate properties.

Boardwalk REIT's most consistent and largest source of income comes from its rental operations. Income from this source is derived from leasing individual apartment units to customers who have varying lease terms ranging from month-to-month to twelve-month leases.

Boardwalk REIT also generates additional income from the periodic sale of selective real estate properties. The sale of these properties is part of Boardwalk REIT's overall operating strategy whereby the equity generated through the sale is then utilized by Boardwalk REIT for the acquisition of new rental properties, to assist in its property value enhancement program or for the acquisition of Boardwalk REIT's trust units in the public market.



Tecumseh Eastview,  
Windsor, Ontario.

### PERFORMANCE MEASURES

Boardwalk REIT assesses and measures segment operating results based on performance measures referred to as "Funds From Operations" ("FFO") and Distributable Income ("DI"). Both DI and FFO are widely accepted supplemental measures on the performance of a Canadian real estate investment trust; however, they are not measures defined by generally accepted accounting principles ("GAAP"). The GAAP measurement most directly comparable to DI and FFO is net earnings. DI and FFO should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as indicators of Boardwalk REIT's performance. In addition, Boardwalk REIT's calculation methodology for FFO and DI may differ from that of other real estate companies and trusts.

DI is computed as outlined in the Trust's Declaration of Trust. The DOT also indicates that the Trust is required to pay out all taxable income to Unitholders in the form of monthly distributions. It is the current policy of the Trust to distribute to its unitholders 85% of DI on an annualized basis. The Trust has indicated that, on an annualized basis, it will distribute \$1.24 per outstanding unit (or \$.103 per trust unit on a monthly basis) for 2004. For the third quarter of 2004, a total of \$16.4 million was declared for distribution. The Trust has also implemented a Distribution Reinvestment Plan ("DRIP"). The essence of this plan is that the Unitholder has the option, in lieu of receiving monthly distributions, to receive trust units from treasury. The DRIP allows participants to accept all or part of their monthly distributions in additional units. To promote this plan, the Trust offers a 3% premium on the units distributed under the plan. This plan is relatively new and, to date, not a significant number of Unitholders have elected to participate in this option.

In the table below, Boardwalk REIT provides a reconciliation of net earnings in accordance with GAAP to FFO and DI for the period.

	3 Months Sept. 04	3 Months Sept. 03	%	9 Months Sept. 04	9 Months Sept. 03	%
In \$000's, except per unit amounts						
Net earnings from continuing operations	\$3,226	\$5,145		\$4,980	\$8,467	
Add						
Earnings from discontinued operations	-	-		-	\$751	
Deferred income taxes	\$(237)	\$1,614		\$(1,613)	\$5,169	
Deferred income taxes on discontinued operations	-	-		-	\$329	
Amortization	\$19,256	\$12,973		\$56,194	\$37,590	
Total funds from operations	<b>\$22,245</b>	<b>\$19,732</b>	<b>12.7%</b>	<b>\$59,561</b>	<b>\$52,306</b>	<b>14.0%</b>
Add						
Deferred financing costs	\$683	\$732		\$2,208	\$2,565	
Deduct proceeds on distribution					\$(1,080)	
Distributable income	<b>\$22,928</b>	<b>\$20,464</b>	<b>11.7%</b>	<b>\$61,769</b>	<b>\$53,791</b>	<b>14.9%</b>
Total funds from continuing operations (excluding all property sales)	<b>\$22,245</b>	<b>\$19,732</b>		<b>\$59,561</b>	<b>\$51,226</b>	
Total funds from operations - per unit	<b>\$0.42</b>	<b>\$0.39</b>	<b>7.7%</b>	<b>\$1.13</b>	<b>\$1.03</b>	<b>9.7%</b>
Distributable income - per unit	<b>\$0.43</b>	<b>\$0.40</b>	<b>7.5%</b>	<b>\$1.17</b>	<b>\$1.06</b>	<b>10.4%</b>
Funds from continuing operations (excluding all property sales) - per unit	<b>\$0.42</b>	<b>\$0.39</b>		<b>\$1.13</b>	<b>\$1.01</b>	



Overall, Boardwalk REIT earned \$22.2 million and \$59.6 million in FFO for the three and nine months ended September 30, 2004, respectively, compared to \$19.7 million and \$52.3 million by the Corporation for the same periods in the prior year, representing increases of approximately 12.7% and 14.0%, respectively. DI for the third quarter was \$0.43 per unit compared to the recomputed DI for the third quarter of 2003 of \$0.40 per unit, or an increase of 7.5%. The following table shows the reasons for the FFO increase for both the three- and nine-month periods compared to the prior year.

	Sept. 30, 2004 3 months	Sept. 30, 2004 9 months
<b>Per Unit</b>		
Prior year's FFO at per unit	\$0.39	\$1.03
Stabilized properties	\$0.01	\$0.08
New acquisitions (under 24 months)	\$0.02	\$0.05
Dilution effect on prior year's FFO	(0.02)	\$(0.04)
Savings from admin, finance and LCT	<b>\$0.42</b>	<b>\$1.13</b>



Domaine du Rocher,  
Quebec City (Levis),  
Quebec

#### ACCOUNTING POLICIES

Note 1 of Boardwalk's audited consolidated financial statements for the fiscal year ended December 31, 2003 summarizes Boardwalk REIT's significant accounting policies. Note 3 of the September, 2004 unaudited interim financial statements provides an update to any significant changes to these accounting policies, which includes the following:

#### BUILDING AMORTIZATION

We are required to assess the useful economic lives of our income-producing properties for purposes of determining the amount of building amortization to record on a quarterly and annual basis. The Canadian Institute of Chartered Accountants ("CICA") adopted recommendations that effectively disallow the use of the sinking-fund method of amortization, which was used by us prior to January 1, 2004 in amortizing the cost of our buildings. This standard is prospective in application and, commencing January 1, 2004, we changed our method of depreciating our building costs to the straight-line method over their estimated useful lives of between 40 and 50 years. The adoption of this standard increased our building amortization compared to the amount that otherwise would have been computed using the sinking-fund method by approximately \$14.8 million for the nine months ended September 30, 2004, with a corresponding decrease to the net carrying amount of our income-producing properties. The impact on net earnings was an estimated decrease of \$9.8 million, with a corresponding decrease to Unitholders' equity. Our determination of the estimated useful economic lives of our buildings could vary under differing circumstances and result in a significantly different amount for building amortization. The amount of building amortization has a direct impact on our net earnings. The change in policy has been applied prospectively.

#### IMPAIRMENT OF REAL ESTATE INVESTMENTS

We continually evaluate the recoverability of the net carrying amount of our income-producing properties and properties under development. The CICA new accounting standard for impairment of long-lived assets is prospective in application and requires us to record an impairment loss when the carrying amount of these real estate investments exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. Commencing January 1, 2004, any impairment we recognize should be measured as the amount by which the carrying amount of the asset exceeds its fair value. Prior to January 1, 2004, we measured any impairment of our real estate investments as the amount by which the asset's carrying value exceeded the undiscounted future cash flow from the use and eventual disposal of the asset. We have determined that the impact of this new impairment standard did not have a material impact on our financial position or results of operations. In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment.



Forest Glade Townhomes,  
Windsor, Quebec

### ACCOUNTING FOR OPERATING LEASES

In accordance with Emerging Issues Committee Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination" an enterprise that acquires real estate, such as an office building, retail centre, or apartment complex in either an asset acquisition or business combination, should allocate a portion of the purchase price to in-place operating leases that the enterprise acquires in connection with the real estate property. Application of EIC-140 has been applied prospectively by Boardwalk REIT to real estate acquisitions initiated subsequent to the effective date of the EIC. For the nine months ended September 30, 2004, approximately \$1.8 million of the corresponding purchase price was allocated to in-place operating leases. As this EIC was applied prospectively, beginning January 1, 2004, there is no comparable allocation for the prior year.

REVIEW OF RENTAL OPERATIONS (In \$000's) (Unaudited)	3		Change	9		Change
	Months Sept. 04	Months Sept. 03		Months Sept. 04	Months Sept. 03	
Rental revenue	\$70,369	\$68,717	2.5%	\$210,234	\$201,099	4.5%
Rental Expenses:						
Operating expenses	\$8,214	\$8,624	-4.7%	\$24,516	\$25,003	-2.0%
Utilities	\$6,025	\$6,851	-13.0%	26,712	25,145	6.4%
Utilities rebate	-	-		(812)		
Property taxes	\$8,170	\$6,702	22.4%	21,699	19,591	10.7%
	<b>\$22,409</b>	<b>\$22,177</b>	<b>1.0%</b>	<b>\$72,115</b>	<b>\$69,739</b>	<b>3.4%</b>
Net operating income	<b>\$47,960</b>	<b>\$46,540</b>	<b>3.2%</b>	<b>\$138,119</b>	<b>\$131,360</b>	<b>5.1%</b>
Operating margins	68.2%	67.7%		65.7%	65.3%	

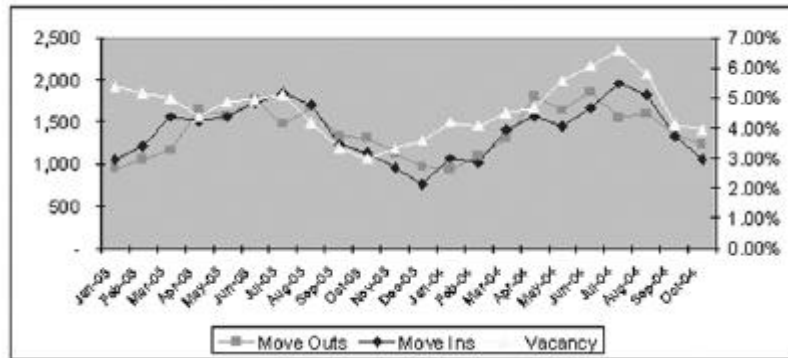
Overall, Boardwalk's rental operations reported strong results. The reported increase of 2.5% for the current quarter and 4.5% on a year-to-date basis in rental revenue is mainly the effect of new revenue generated through the acquisition of apartment units throughout the year. Total rental expenses increased by 1.0% for the current quarter and 3.4% on a year-to-date basis, due primarily to a combination of operating expenses associated with newly acquired properties as well as increased expenses for existing operations. Overall, Boardwalk increased its operating margins slightly on a year-to-date basis and in the current quarter. The increase in the year-to-date margin is the result of a significant increase in rental revenue with a controlled increase in operating expenses.

Boardwalk REIT's estimated loss-to-lease, representing the difference between estimated market rents and actual occupied rents as of September 30, 2004 adjusted for current occupancy levels, totalled \$8.1 million on an annualized basis. The reader should note that estimated loss-to-lease is a non-GAAP measure as well as noting that reported market rents can be very seasonal and, as such, will vary from quarter to quarter. The significance of this change could materially affect Boardwalk REIT's "estimated loss-to-lease" amount. The importance of this estimate, however, is that it can be an indicator of future rental performance assuming consistent economic conditions and trends.

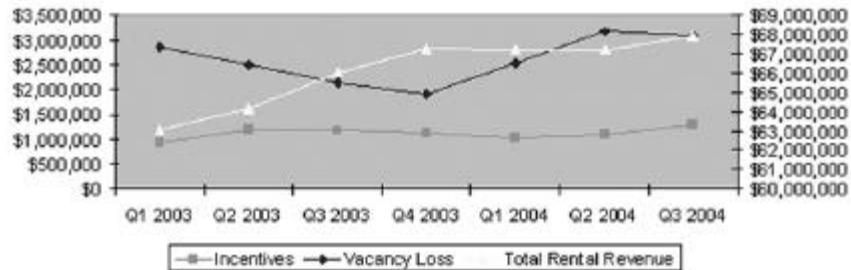
	Q3 2004	Q3 2003	Q2 2004	Q1 2004	Q4 2003	Q3 2003
Calgary	5.56%	5.56%	5.77%	4.94%	5.19%	5.56%
Edmonton	6.57%	3.66%	6.64%	5.15%	4.03%	3.66%
Gatineau	11.67%	2.40%	8.54%	6.04%	3.02%	2.40%
Kitchener	6.08%	3.65%	5.47%	3.70%	3.85%	3.65%
London	3.48%	2.99%	3.55%	3.32%	3.04%	2.99%
Montreal	2.77%	2.27%	1.74%	2.47%	2.47%	2.27%
Other AB	7.66%	6.48%	4.29%	2.87%	3.99%	6.48%
Quebec City	4.38%	1.24%	2.63%	3.20%	2.15%	1.24%
Regina	5.10%	2.76%	4.63%	2.58%	2.36%	2.76%
Saskatoon	6.25%	2.85%	6.90%	5.61%	3.45%	2.85%
Windsor	7.81%	3.42%	9.04%	4.92%	3.75%	3.42%
<b>Grand Total</b>	<b>5.48%</b>	<b>3.66%</b>	<b>5.67%</b>	<b>4.32%</b>	<b>3.67%</b>	<b>3.66%</b>

### BOARDWALK REIT'S PORTFOLIO VACANCY

The third quarter of fiscal 2004 saw the portfolio's overall vacancy rate increase to 5.48%, compared to 3.66% for the same period in the prior year. The increase is mainly the result of increasing vacancy in all markets with the exception of Calgary. Management attributes the vacancy rate increase of 1.8% compared to the prior year primarily to a higher proportion of tenants who took advantage of record low interest rates to purchase houses or condominiums, and continues to focus efforts on attracting and retaining tenants.



The issue of demand and supply, as with other industries, is an important performance indicator for multi-family real estate. The above chart attempts to show the total move-outs (supply) compared to total move-ins (demand) and the resulting impact on reported vacancy. The cumulative impact of supply being greater than demand is the primary driver in the reported vacancy rate.



Residence le Quatre Cent,  
Montreal (Laval), Quebec

Vacancy loss and rental incentives offered are strong indicators of current and future revenue performance. Depending on specific market conditions, the correct balance is important to maintain to best manage overall economic rental revenue. The above chart details, on a quarterly basis, rental incentives offered versus vacancy loss and the impact of the two on overall rental revenue.

### SAME PROPERTY RESULTS

With significant acquisitions in Quebec over the last several quarters, most notably the acquisition of the 3,100 unit Nun's Island portfolio in May 2002, Boardwalk REIT's overall percentage of stabilized properties was 91% of its total rental unit portfolio as at September 30, 2004, or a total of 28,927 units. The following compares the "same-store" results for the three and nine months ended September 30, 2004 with the same periods in the prior year.

#### SAME PROPERTY RESULTS

9 Months - Sept. 2004	Total Rental Revenue	Total Expenses	NOI
Calgary	-0.5%	-4.7%	1.2%
Edmonton	-0.6%	-1.8%	-0.1%
Other Alberta	4.7%	-12.7%	13.4%
Saskatchewan	1.2%	-2.2%	3.3%
Ontario	3.5%	-4.1%	10.2%
Quebec	3.7%	-3.3%	7.1%
	<b>1.0%</b>	<b>-3.5%</b>	<b>3.4%</b>

### SAME PROPERTY RESULTS

3 Months - Sept. 2004	Total Rental Revenue	Total Expenses	NOI
Calgary	-1.2%	-7.8%	1.3%
Edmonton	-2.3%	2.4%	-4.3%
Other Alberta	5.5%	-21.5%	18.5%
Saskatchewan	0.5%	-11.8%	7.3%
Ontario	3.0%	1.7%	3.9%
Quebec	2.5%	8.4%	0.0%
	<b>0.0%</b>	<b>-2.0%</b>	<b>1.0%</b>



Complexe Laudance,  
Quebec City (Saint-Foy),  
Quebec

For the third quarter 2004, same-store revenue remained unchanged from prior year reported amounts. Rental expenses reported for the period decreased by 2.0% from the same period in 2003, resulting in net operating income ("NOI") increasing by 1.0% over the same period last year. The decrease in expenses is mainly the result of decreases in utilities and repair and maintenance expense, partially offset by significant increases in property taxes in both Calgary and Edmonton. The Trust is in the process of appealing these amounts with the regulatory authorities; however, at this time we are not able to reasonably estimate any potential future savings, if any. For the nine-months ended September 30, 2004, same-store revenue increased by 1.0% over the same period last year. Rental operating expenses reported for the nine months decreased by 3.5% from the same period in 2003, resulting in a NOI increase of 3.4% over the same period last year. The reported nine-month results were impacted favorably by the receipt of an Alberta Provincial Natural Gas Rebate in the amount of approximately \$800 thousand. Unlike previous rebates, this rebate most likely will be recurring in nature to help offset spikes in natural gas pricing. If we were to exclude this rebate, NOI would have increased by 2.8%.

Boardwalk closely monitors and manages individually the performance of each of its rental properties. For the reader's convenience, we have provided a summary of our operating results on a province-by-province basis.

ALBERTA RENTAL OPERATIONS (In \$000's) (Unaudited)	3 Months Sept. 04	3 Months Sept. 03	Change	9 Months Sept. 04	9 Months Sept. 03	Change
Rental revenue	\$38,025	\$38,505	-1.2%	\$113,901	\$114,033	-0.1%
Rental Expenses:						
Operating expenses	\$4,084	\$4,783	-14.6%	\$12,281	\$14,151	-13.2%
Utilities	\$3,092	\$3,924	-21.2%	14,121	13,750	2.7%
Utilities rebate				(812)		
Property taxes	\$3,860	\$2,658	45.2%	9,295	8,301	12.0%
	<b>\$11,036</b>	<b>\$11,365</b>	<b>-2.9%</b>	<b>\$34,885</b>	<b>\$36,202</b>	<b>-3.6%</b>
Net operating income	<b>\$26,989</b>	<b>\$27,140</b>	<b>-0.6%</b>	<b>\$79,016</b>	<b>\$77,831</b>	<b>1.5%</b>
Operating margins	71.0%	70.5%		69.4%	68.3%	

Boardwalk's Alberta operations for the nine months ended September 30, 2004 reported results consistent with those reported during the first nine months of 2003. Rental revenue to-date in 2004 was consistent with the amounts reported during the same period in the prior year and, along with a decrease of 3.6% in operating costs, have resulted in a net operating income increase of 1.5% over the same period last year. Reported revenue for the current quarter was down slightly from the prior period reported, mainly the result of increased incentives and vacancy in the Alberta Portfolio. On a year-to-date basis, operating expenses were down 3.6% from the same period in 2003. The reported decrease was mainly the result of lower operating expenses such as insurance and repair and maintenance charges; these cost decreases were somewhat offset by a significant increase in reported property taxes. During the current quarter, operating expenses decreased by 2.9% over the same period last year, mainly the result of decreased operating expenses for the same reasons noted above. Property taxes, however, increased significantly over the same period last year, especially in both Calgary and Edmonton. We are in the process of appealing these assessments. However, at this time we are not able to make reasonable estimates on the property tax rebate, if any, we may receive and, as such, no provision for this rebate has been made.



**SASK. RENTAL OPERATIONS**  
(In \$000's)  
(Unaudited)

	3 Months Sept. 04	3 Months Sept. 03	Change	9 Months Sept. 04	9 Months Sept. 03	Change
Rental revenue	\$8,553	\$8,510	0.5%	\$25,663	\$25,353	1.2%
Rental Expenses:						
Operating expenses	\$998	\$1,165	-14.3%	\$3,114	\$3,327	-6.4%
Utilities	\$568	\$643	-11.7%	2,993	2,716	10.2%
Utilities rebate						
Property taxes	\$1,103	\$1,217	-9.4%	3,338	3,616	-7.7%
	<b>\$2,669</b>	<b>\$3,025</b>	<b>-11.8%</b>	<b>\$9,445</b>	<b>\$9,659</b>	<b>-2.2%</b>
Net operating income	<b>\$5,884</b>	<b>\$5,485</b>	<b>7.3%</b>	<b>\$16,218</b>	<b>\$15,694</b>	<b>3.3%</b>
Operating margins	<b>68.8%</b>	<b>64.5%</b>		<b>63.2%</b>	<b>61.9%</b>	

Boardwalk's Saskatchewan operations reported results in the first nine months of 2004 consistent with those reported during the first nine months of 2003. Rental revenue increased for both the current quarter and on a year-to-date basis by 0.5% and 1.2%, respectively, and was mainly the result of increasing market rents. On a year-to-date basis, operating expenses were down 2.2% from the same period in 2003. The reported decrease was mainly the result of lower property taxes and operating expenses such as insurance and repair and maintenance charges. These cost decreases were somewhat offset by an increase in reported utility charges. During the current quarter, operating expenses decreased by 11.8% from the same period in 2003, mainly the result of decreased operating expenses for the same reasons noted above.

**ONTARIO RENTAL OPERATIONS**  
(In \$000's)  
(Unaudited)

	3 Months Sept. 04	3 Months Sept. 03	Change	9 Months Sept. 04	9 Months Sept. 03	Change
Rental revenue	\$8,959	\$8,699	3.0%	\$26,824	\$25,919	3.5%
Rental Expenses:						
Operating expenses	\$985	\$1,136	-13.3%	\$3,050	\$3,582	-14.9%
Utilities	\$1,242	\$1,077	15.3%	4,168	4,421	-5.7%
Utilities rebate						
Property taxes	\$1,518	\$1,470	3.3%	4,465	4,174	7.0%
	<b>\$3,745</b>	<b>\$3,683</b>	<b>1.7%</b>	<b>\$11,683</b>	<b>\$12,177</b>	<b>-4.1%</b>
Net operating income	<b>\$5,214</b>	<b>\$5,016</b>	<b>3.9%</b>	<b>\$15,141</b>	<b>\$13,742</b>	<b>10.2%</b>
Operating margins	<b>58.2%</b>	<b>57.7%</b>		<b>56.4%</b>	<b>53.0%</b>	

Boardwalk's Ontario operations reported a rental revenue increase of 3.0% for the current quarter and 3.5% on a year-to-date basis, which was mainly the result of increasing market rents. On a year-to-date basis, operating expenses decreased 4.1% from the same period in 2003. The reported decrease was mainly the result of lower property taxes and operating expenses such as insurance and repair and maintenance charges, partially offset by increasing property taxes. During the current quarter, operating expenses increased 1.7% over the same period in 2003, mainly the result of increased utility charges, partially offset by decreases in operating expenses for the same reasons noted above.



QUEBEC RENTAL OPERATIONS (In \$000's) (Unaudited)	3 Months Sept. 04	3 Months Sept. 03	Change	9 Months Sept. 04	9 Months Sept. 03	Change
Rental revenue	\$14,634	\$12,767	14.6%	\$43,093	\$34,771	23.9%
Rental Expenses:						
Operating expenses	\$1,638	\$1,488	10.1%	\$4,662	\$3,812	22.3%
Utilities	\$865	\$1,177	-26.5%	5,076	4,136	22.7%
Utilities rebate						
Property taxes	\$1,668	\$1,295	28.8%	4,561	3,425	33.2%
	<b>\$4,171</b>	<b>\$3,960</b>	<b>5.3%</b>	<b>\$14,299</b>	<b>\$11,373</b>	<b>25.7%</b>
Net operating income	<b>\$10,463</b>	<b>\$8,807</b>	<b>18.8%</b>	<b>\$28,794</b>	<b>\$23,398</b>	<b>23.1%</b>
Operating margins	<b>71.5%</b>	<b>69.0%</b>		<b>66.8%</b>	<b>67.3%</b>	

The majority of Boardwalk's external growth over the last few fiscal years has come in the province of Quebec. Boardwalk's Quebec operations reported strong gains in both revenue and net operating income in both the current quarter and on a year-to-date basis. Reported revenue has increased by 14.6% and 23.9% for the quarter and year-to-date, respectively, on the combined effect of improving results on existing properties and the addition of new units in this market. Rental expenses, accordingly, have increased but have been somewhat offset by a decrease in utility charges for the current quarter.

#### FINANCING COSTS

Financing costs for the current quarter and the first nine months of fiscal 2004 have decreased slightly from prior years even though the amount reported on balance sheet at September 30, 2004 of \$1,408 million was \$26 million higher than the \$1,382 million reported at September 30, 2003. The decrease is the direct result of the decrease in the overall weighted average interest rate charged on the portfolio. At September 30, 2003, the reported rate was 5.77%, compared to 5.49% at September 30, 2004. The September 30, 2004 rate of 5.49% is also down from the weighted average interest rate of 5.68% at December 31, 2003. Boardwalk REIT has been able to take advantage of the current low interest environment to refinance and renew certain mortgages, resulting in a lower overall weighted average mortgage rate. The average maturity of the mortgage portfolio is approximately four years.

Boardwalk REIT's acquisition strategy involves locating and acquiring accretive properties at prices that are below replacement value. Once acquired, these properties undergo various value enhancing upgrades as part of Boardwalk REIT's stabilization program. Boardwalk REIT utilizes external financing to leverage these properties up to, in accordance with the DOT, a maximum of 75% of the purchase price and, where appropriate, Boardwalk REIT adds additional financing for all upgrades performed.

Boardwalk REIT concentrates on multi-family residential real estate; thus, it is eligible to obtain government-backed insurance through the National Housing Act ("NHA"), which is administered by the Canadian Mortgage and Housing Corporation ("CMHC"). The benefits of purchasing this insurance are twofold.

The **first** benefit of using CMHC insurance is that Boardwalk REIT can normally obtain lower interest rate spreads on its property financing. Although the amount of the interest rate spreads will vary, they are currently between 40 and 60 basis points above the respective Government of Canada Bonds. This compares favourably to the spreads on conventional financing, which currently range from 120 to 175 basis points above such bonds.

The **second** benefit of the CMHC insurance relates to the lowering of Boardwalk REIT's overall renewal risk. Once insurance is obtained on the related mortgage, the insurance is transferable and follows the mortgage for the complete amortization period, typically between 25 and 40 years depending on the type of asset being insured. With the insurance being transferable between approved lenders, it lowers the overall risk of Boardwalk REIT not being able to refinance the asset on maturity.

At September 30, 2004, approximately 95% of Boardwalk REIT's mortgage debt was backed by this NHA insurance with a weighted average term of approximately 23 years.



**DEFERRED FINANCING COSTS AMORTIZATION**

The amounts reported here relate primarily to the amortization of CMHC premiums, which are paid as part of first mortgage financing. Under current reporting requirements, if Boardwalk REIT replaces an existing mortgage with a new mortgage, all costs associated with the original mortgage, including the unamortized balance of the CMHC premium, are required to be charged to income in the period that this occurs. As a result of this, and due to the variable timing and strategy of each mortgage at maturity, the amounts reported will vary. In the current quarter, Boardwalk REIT continued to take advantage of CMHC's new product to increase its leverage rather than refinance the entire mortgage. This lowered the cost of CMHC premiums and minimized the amount of borrowing costs, resulting in a decrease in the amortization charged to earnings in the quarter.

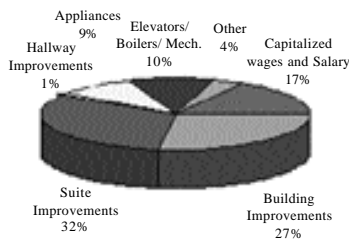
**AMORTIZATION**

As was discussed in more detail above, the increase in the reported amortization is the result of a change in amortization of Boardwalk REIT's building assets from the "sinking fund" amortization method to a straight-line depreciation method. The change in policy was applied prospectively based on balances reported on January 1, 2004, consistent with the recommendation of the CICA.

**REAL ESTATE ASSETS**

During the first nine months of 2004, Boardwalk REIT acquired (exclusive of units acquired from its predecessor in connection with the transfer of the assets of Boardwalk to Boardwalk REIT, effective May 3, 2004) a total of 537 rental units for a total acquisition cost of \$40.6 million, or \$76 thousand per residential unit, excluding a fair value adjustment to assumed debt of approximately \$1.3 million. A portion (approximately \$1.8 million) of the purchase price has been allocated to the value of the in-place operating leases as is now required under EIC 140.

**CAPITAL IMPROVEMENTS**



**CAPITAL IMPROVEMENTS**

For the first nine months of the current year of 2004, Boardwalk REIT (and its predecessor) invested approximately \$22.1 million in its properties in the form of project enhancements. The following chart details which areas these funds were expended.

This amount expended is down dramatically from the \$38.7 million invested in the first nine months of 2003. The decrease was expected as Boardwalk REIT begins to leverage off the approximately \$300 million its predecessor spent on upgrading its assets over the past five fiscal years.

Included in these amounts is approximately \$3.7 million of capitalized on-site wages and salaries, representing approximately 17% of total capital expenditures for the current period. This amount is an estimate of site personnel cost associated with the completion of these capital projects, and is consistent with internal expectations since a significant portion of the improvements are now performed "in-house".

**LIQUIDY AND CAPITAL RESOURCES**

Boardwalk REIT's financial position continues to be strong, with the overall mortgage level reported at 62% of Gross Book Value ("GBV"), after adjusting for entity value to both mortgage debt and real estate assets as dictated in the Trust's DOT. GBV is a non-GAAP term that is defined in the Trust's DOT. In general, it is determined by taking total reported assets of the Trust, adding back accumulated amortization and making a one-time adjustment in the amount of approximately \$231 million with an additional offset of \$48 million to reported mortgages payable.



Place Samuel De  
Champlain,  
Quebec City, Quebec

With a DOT limit of 70% on Debt-to-Gross Book Value, Boardwalk has the ability to add additional leverage on its existing portfolio to assist with future investment in new assets.

Currently, Boardwalk REIT has an operating facility with a major financial institution with excess available of approximately \$45 million. In addition, at the date of writing, Boardwalk REIT has an additional \$6 million of cash available for investment. For the third quarter of 2004, Boardwalk REIT's interest coverage ratio of adjusted EBITDA (i.e. earnings before interest, taxes, depreciation and amortization) to interest expense after excluding gains was 2.2 times, up from 2.1 for the same period last year. The increase in the ratio is partially due to Boardwalk REIT's lower weighted average interest rate on its debt.

**MORTGAGE SCHEDULE  
(CDN\$ THOUSANDS)**

Fiscal Year	Mortgage Balance as at Sept. 30, 2004	Average by Year
2004	\$ 20,971	4.64%
2005	185,215	4.52%
2006	193,341	4.74%
2007	241,893	5.43%
2008	252,466	6.08%
2009	201,257	5.72%
2010	105,854	6.04%
2011	108,176	5.97%
2012	30,395	6.19%
2013	36,665	5.46%
2014	4,673	5.91%
Subsequent	27,176	6.59%
<b>Grand Total</b>	<b>1,408,082</b>	<b>5.49%</b>

**OUTSTANDING SHARE DATA**

Boardwalk REIT has one class of voting securities known as "REIT Units". As at September 30, 2004, there were 48,622,803 REIT units issued and outstanding. In addition, there are currently 4,475,000 class B special voting units of Boardwalk REIT Limited Partnership ("LP B Units"). Each LP B Unit is exchangeable for REIT units on a one for one basis at the option of the holder. Each LP B Unit entitles the holder to one vote at any meeting of Unitholders. Accordingly, if all of the LP B Units were exchanged for REIT units, the total issued and outstanding REIT units would be 53,097,803.

**CRITICAL ACCOUNTING POLICIES**

Boardwalk's and Boardwalk REIT's accounting policies are described in Note 1 to the consolidated financial statements for the year ended December 31, 2003. Note 3 of the September 30, 2003 unaudited interim financial statements provide an update to any significant changes to these accounting policies. These statements were prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") and with the recommendations of the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC"). In applying these policies, in certain cases it is necessary to use estimates. In determining estimates, management uses the information available at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness. Any change to these estimates is applied prospectively in compliance with Canadian generally accepted accounting principles. Boardwalk REIT considers the following policies to be critical in determining the judgments that are involved in the preparation of the consolidated financial statements and the uncertainties that could affect the reported results:

**AMORTIZATION OF BUILDING ASSET**

Effective January 1, 2004, Boardwalk changed its policy on the amortization of its building assets from the sinking-fund method to the straight-line method. Under the straight-line method, the balance of the assets will be amortized on an equal basis over what is estimated to be the useful life of such assets. This method is permitted under U.S. GAAP. The application of this change in policy has been prospective based on the net book value of the building assets at December 31, 2003. This prospective treatment is in accordance with the transitional provision of CICA Handbook, Section 1100. In the determination of the amortization amount, it is necessary to estimate the useful life of the asset, and the salvage value, if any. A significant change to any of these estimates may result in a material charge to Boardwalk REIT's earnings during the period in question.



#### **NET RECOVERABLE AMOUNT**

On a quarterly basis, Boardwalk REIT reviews the valuation of its real estate assets. It compares the reported book value to the calculated net recoverable values as described in Note 1 to the consolidated financial statements for the fiscal year ended December 31, 2003. In determining the net recoverable amount, it is necessary, on a non-discounted basis, to pro forma the results of each individual real estate building for a period of 10 years. At the same time, an estimated residual value is also determined. The sum of these amounts is compared to the outstanding debt and equity in each asset. If it is determined that the combined 10-year cash flow and estimated residual is less than the amount reported as outstanding debt and equity, the asset is then written down to this amount with an offsetting charge to current period earnings.

In calculating the residual value of its properties, Boardwalk REIT must determine the appropriate capitalization rate to be applied to the estimated cash flows. Due to the value cycle of real estate, market capitalization rates may change over time. Boardwalk performs this analysis with a range of capitalization rates designed to provide sensitivity for these market changes. The actual capitalization rate and estimated pro forma results may differ materially from actual performance, which may also result in a charge to the Corporation's earnings. To date, no such charge has been recorded against earnings.

#### **STANDARDIZED WAGE COSTS**

On a quarterly basis, Boardwalk REIT estimates the amount of time its onsite maintenance associates spend working on capital projects. The assumptions used in making the estimates and any changes made are treated prospectively.

#### **FINANCIAL OUTLOOK AND MARKET GUIDANCE**

In its 2003 annual report, Boardwalk outlined specific targets for its fiscal 2004 overall financial performance. These targets, and any revisions, are outlined below:

##### **2004 Guidance**

Although we have reported slightly better than expected operating results for the first nine months of 2004, we continue to be cautious for the remainder of the year. However, given the new results, we are narrowing our 2004 guidance for FFO and distributable income to \$1.40 to \$1.44 and \$1.46 to \$1.49 respectively, from the previous forecast of FFO and distributable income of \$1.37 to \$1.44 and \$1.43 to 1.49, respectively. The forecast assumptions for 2004 are based on new acquisitions at slightly below the targeted range of between 1,000 to 2,000 units and stabilized NOI growth of between 1.0% and 2.0%.

##### **2005 Guidance**

For 2005, we are introducing our guidance for FFO and distributable income of between \$1.42 to \$1.49 and \$1.46 to \$1.53, respectively. These forecasts are based on the assumptions of approximately 0 to 1 percent stabilized NOI growth and new acquisitions of between 1,000 to 2,000 new units for the year.

#### **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following selected financial information should be read in conjunction with "Management's Discussion and Analysis", the audited consolidated financial statements of the Corporation and accompanying notes for the years ended December 31, 2003 and 2002, and the unaudited consolidated financial statements of Boardwalk REIT and accompanying notes for the three months ended September 30, 2004 and 2003 (for the Corporation) both incorporated herein by reference.

The statement of net income information and balance sheet information set forth in the following tables has been derived from the audited consolidated financial statements referred to above and the unaudited consolidated financial statements of Boardwalk and Boardwalk REIT for various quarterly interim periods.



**Annual Comparative**

<b>Period Ended</b>	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2002</b>	<b>Dec. 31, 2001</b>	<b>Dec. 31, 2000</b>	<b>May 31, 2000</b>	<b>May 31, 1999</b>
	<b>(12 Months)</b>	<b>(12 Months)</b>	<b>(12 Months)</b>	<b>(12 Months)</b>	<b>(12 Months)</b>	<b>(12 Months)</b>
<b>CDN\$ Thousands, except per share amount</b>						
Total revenue	270,992	249,394	227,269	147,082	217,971	185,972
Net earnings (loss)	7,751	11,576	(12,802)	15,565	10,445	14,485
Funds from operations <sup>(1)</sup>	69,527	63,052	57,941	34,314	53,593	49,816
Net earnings (loss) per share						
Basic	0.15	0.23	(0.26)	0.32	0.21	0.31
Diluted	0.15	0.23	(0.26)	0.31	0.21	0.31
Funds from operations per share						
Basic	1.40	1.27	1.16	0.70	1.09	1.08
Diluted	1.39	1.26	1.15	0.69	1.09	1.07
<b>Mortgage payable</b>	<b>1,387,067</b>	<b>1,307,177</b>	<b>1,108,406</b>	<b>1,034,444</b>	<b>1,009,526</b>	<b>867,757</b>
<b>Total assets</b>	<b>1,803,380</b>	<b>1,708,490</b>	<b>1,489,291</b>	<b>1,443,834</b>	<b>1,398,028</b>	<b>1,200,800</b>
<b>Number of apartment units</b>	<b>31,239</b>	<b>29,326</b>	<b>25,889</b>	<b>24,856</b>	<b>25,070</b>	<b>22,441</b>
<b>Rentable square feet (000)</b>	<b>26,353</b>	<b>24,970</b>	<b>21,590</b>	<b>20,721</b>	<b>20,762</b>	<b>18,810</b>

**Quarterly Comparative**

<b>Three Months Ended</b>	<b>Sept. 30</b>	<b>June 30,</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>June 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>
	<b>2004</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2002</b>
<b>CDN\$ Thousands, except per share amount</b>									
Total revenue	70,369	70,040	69,825	69,893	68,717	66,675	65,707	63,927	63,641
Net earnings (loss)	3,226	2,981	(1,227)	(1,467)	5,145	2,555	1,518	2,213	3,443
Funds from operations <sup>(1)</sup>	22,425	20,828	16,488	18,301	19,732	17,082	14,412	13,472	17,313
Net earnings (loss) per share									
Basic	(0.06)	(0.06)	(0.02)	(0.03)	0.10	0.05	0.03	0.04	0.07
Diluted	(0.06)	(0.06)	(0.02)	(0.03)	0.10	0.05	0.03	0.04	0.07
Funds from operations per share									
Basic	0.42	0.39	0.32	0.36	0.39	0.34	0.31	0.27	0.35
Diluted	0.42	0.39	0.32	0.36	0.39	0.34	0.31	0.27	0.34

**Note:**

- (1) Prior to changes in non-cash working capital and properties held for resale.
- (2) Amounts reported have not been adjusted to reflect the change in accounting for future income taxes, adoption of the 'treasury method' for fully diluted share computation (previous method was 'imputed earnings') and adoption of funds from operations calculation.

**FORWARD LOOKING STATEMENTS**

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements are statements that involve risks and uncertainties, including, but not limited to, changes in the demand for apartment and townhome rentals, the effects of economic conditions, the impact of competition and competitive pricing, the effects of Boardwalk REIT's accounting policies and other matters detailed in Boardwalk REIT's and Boardwalk Equities Inc.'s filings with Canadian and United States securities regulators available on SEDAR in Canada and by request through the Securities and Exchange Commission in the United States, including matters set forth in Boardwalk's Annual Report to Shareholders for the year ended December 31, 2003, under the heading "Management's Discussion and Analysis". Because of these risks and uncertainties, the results, expectations, achievements, or performance described in this release may be different from those currently anticipated by Boardwalk REIT.

Additional information relating to Boardwalk and Boardwalk REIT, including the Annual Information of Boardwalk REIT, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Respectfully,

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



## CONSOLIDATED BALANCE SHEETS

(CDN\$ THOUSANDS)  
(UNAUDITED)

As at	September 30, 2004	December 31, 2003
<b>Assets</b>		
Revenue producing properties	\$1,721,196	\$1,713,171
Properties held for resale	7,800	7,493
Deferred financing costs	38,779	38,044
Other assets	16,566	14,652
Future income taxes (NOTE 9)	461	-
Mortgages and accounts receivable	5,809	13,126
Segregated tenants' security deposits	6,709	6,771
Cash and cash equivalents	17,148	10,123
	<b>\$1,814,468</b>	<b>\$1,803,380</b>
<b>Liabilities</b>		
Mortgages payable	\$1,408,082	\$1,387,067
Accounts payable and accrued liabilities	23,569	19,801
Refundable tenants' security deposits and other	9,848	9,730
Capital lease obligations	145	3,515
Future income taxes (NOTE 9)	-	74,765
	<b>\$1,441,644</b>	<b>\$1,494,878</b>
<b>Unitholders' Equity</b>		
Unitholders' capital (NOTE 7)	293,992	275,509
Accumulated earnings	78,832	32,993
	<b>\$372,824</b>	<b>\$308,502</b>
	<b>\$1,814,468</b>	<b>\$1,803,380</b>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ON BEHALF OF THE TRUST:

SAM KOLIAS, TRUSTEE

DAVID V. RICHARDS, TRUSTEE



## CONSOLIDATED STATEMENTS OF EARNINGS

INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 COMBINES INFORMATION FROM BOARDWALK REAL ESTATE INVESTMENT TRUST AND IT PREDECESSOR (NOTES 2 AND 4)

(CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

(UNAUDITED)

	3 months ended Sept. 30, 2004	3 months ended Sept. 30, 2003	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
	<b>Notes 2 and 4</b>			
<b>Revenue</b>				
Rental income	\$70,369	\$68,717	\$210,234	\$201,099
<b>Expenses</b>				
Revenue producing properties:				
Operating expenses	8,214	8,624	24,516	25,003
Utilities	6,025	6,851	26,712	25,145
Utility rebate (NOTE 10)	-	-	(812)	-
Property taxes	8,170	6,702	21,699	19,591
Administration	5,715	5,857	17,678	17,535
Financing costs	19,062	19,391	57,217	57,366
Deferred financing costs amortization	683	732	2,208	2,565
Amortization (NOTE 3)	19,256	12,973	56,194	37,590
	<b>67,125</b>	<b>61,130</b>	<b>205,412</b>	<b>184,795</b>
<b>Earnings from continuing operations before income taxes</b>	3,244	7,587	4,822	16,304
Large corporations taxes	255	828	1,455	2,668
Future income taxes (recovery) (NOTE 9)	(237)	1,614	(1,613)	5,169
<b>Earnings from continuing operations</b>	3,226	5,145	4,980	8,467
Earnings from discontinued operations, net of tax	-	-	-	751
<b>Net earnings for the period</b>	<b>\$3,226</b>	<b>\$5,145</b>	<b>\$4,980</b>	<b>\$9,218</b>
<b>Basic earnings per unit (NOTE 8)</b>				
- from continuing operations	\$0.06	\$0.10	\$0.09	\$0.17
- from discontinued operations	-	-	-	0.01
<b>Basic earnings per unit</b>	<b>\$0.06</b>	<b>\$0.10</b>	<b>\$0.09</b>	<b>\$0.18</b>
<b>Diluted earnings per unit (NOTE 8)</b>				
- from continuing operations	\$0.06	\$0.10	\$0.09	\$0.17
- from discontinued operations	-	-	-	0.01
<b>Diluted earnings per unit</b>	<b>\$0.06</b>	<b>\$0.10</b>	<b>\$0.09</b>	<b>\$0.18</b>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## CONSOLIDATED STATEMENTS OF ACCUMULATED EARNINGS

(CDN\$ THOUSANDS)  
(UNAUDITED)

	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
Accumulated earnings, beginning of period	\$32,993	\$35,229
Net earnings for the period	4,980	9,218
Distribution on units	(31,297)	(5,795)
Premium on unit repurchases (stock repurchases pre May 3, 2004)	(1,397)	(392)
Elimination of future income taxes on conversion to trust (NOTE 2)	73,553	-
Accumulated earnings, end of period	<b>\$78,832</b>	<b>\$38,260</b>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## CONSOLIDATED STATEMENTS OF CASH FLOWS

INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 COMBINES INFORMATION FROM BOARDWALK REAL ESTATE INVESTMENT TRUST AND ITS PREDECESSOR (NOTES 2 AND 4)

(CDN\$ THOUSANDS)

(UNAUDITED)

	3 months ended Sept. 30, 2004	3 months ended Sept. 30, 2003	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
	<b>Notes 2 and 4</b>			
<b>Operating activities</b>				
Net earnings for the period	\$3,226	5,145	\$4,980	\$9,218
Earnings from discontinued operations, net of tax	-	-	-	(751)
Future income taxes (recovery)	(237)	1,614	(1,613)	5,169
Amortization	19,256	12,973	56,194	37,590
<b>Funds from continuing operations</b>	<b>22,245</b>	<b>19,732</b>	<b>59,561</b>	<b>51,226</b>
Funds from discontinued operations	-	-	-	33
Net change in operating working capital	1,089	592	7,330	916
Net change in properties held for resale	(105)	(123)	(307)	1,549
<b>Total operating cash flows</b>	<b>23,229</b>	<b>20,201</b>	<b>66,584</b>	<b>53,724</b>
<b>Financing activities</b>				
Issue of trust units (net of issue costs) (NOTE 7)	127	601	28,769	4,614
Restructuring Costs	(1,020)	-	(9,520)	-
Unit repurchase program (Stock repurchase program pre May 3, 2003)	(156)	-	(766)	(628)
Distributions paid	(16,419)	(3,785)	(31,297)	(5,795)
Financing of revenue producing properties	25,485	60,954	95,340	149,818
Repayment of debt on revenue producing properties	(26,173)	(39,578)	(92,646)	(115,364)
Capital lease obligations	(2,786)	(274)	(3,370)	(803)
Deferred financing costs incurred (net of amortization)	1,827	(1,808)	(1,140)	(2,745)
	<b>(19,115)</b>	<b>16,110</b>	<b>(14,630)</b>	<b>29,097</b>
<b>Investing activities</b>				
Purchases of revenue producing properties (NOTE 5)	-	(22,296)	(22,263)	(68,831)
Project improvements to revenue producing properties	(10,101)	(15,427)	(22,126)	(38,726)
Net cash proceeds from sale of properties	-	-	-	1,223
Technology for real estate operations	(258)	323	(540)	(86)
	<b>(10,359)</b>	<b>(37,400)</b>	<b>(44,929)</b>	<b>(106,420)</b>
<b>Net increase (decrease) in cash and cash equivalents balance during period</b>	<b>(6,245)</b>	<b>(1,089)</b>	<b>7,025</b>	<b>(23,599)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>23,393</b>	<b>1,121</b>	<b>10,123</b>	<b>23,631</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$17,148</b>	<b>\$32</b>	<b>\$17,148</b>	<b>\$32</b>
<b>Supplementary cash flow information:</b>				
Taxes paid	\$425	\$832	\$1,667	\$2,566
Interest paid	\$18,934	\$18,928	\$57,225	\$57,016

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

(TABULAR AMOUNTS IN CDN\$ THOUSANDS, EXCEPT NUMBER OF UNITS AND PER UNIT AMOUNTS UNLESS OTHERWISE STATED)  
(UNAUDITED)

#### NOTE 1 - ORGANIZATION OF TRUST

Boardwalk Real Estate Investment Trust ("Boardwalk REIT") is an unincorporated, open-ended real estate investment trust created pursuant to the Declaration of Trust, dated January 9, 2004 and as amended and restated on May 3, 2004, under the laws of the Province of Alberta. Boardwalk REIT was created to invest in revenue producing multi-family residential properties or interests within Canada, initially through the acquisition of operations of Boardwalk Equities Inc. (the "Corporation"), which was acquired on May 3, 2004.

#### NOTE 2 - BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), and are consistent with those used in the audited consolidated financial statements of Boardwalk Equities Inc. as at and for the year ended December 31, 2003, except as described in Note 3 below. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles ("Canadian GAAP") applicable to annual financial statements and, therefore, should be read in conjunction with the Corporation's audited consolidated financial statements.

Boardwalk REIT is considered to be a continuation of Boardwalk Equities Inc. following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Boardwalk REIT's acquisition of the operations of Boardwalk Equities Inc. is recorded at the net book value of the Corporation's assets and liabilities on May 3, 2004 and the unitholders' capital to Boardwalk REIT represents the shareholders' equity of the Corporation at that date. Future income tax liabilities in the amount of \$73.6 million were eliminated, except the portion related to tax and accounting base differences in corporate subsidiaries of Boardwalk REIT.

The statements of earnings and cash flows for the three months ended September 30, 2004 reflect the activities of Boardwalk REIT. The statements of earnings and cash flows for the nine months ended September 30, 2004 reflect the activities of Boardwalk Equities Inc. for the period from January 1, 2004 to May 2, 2004 combined with the activities of Boardwalk REIT for the period from May 3, 2004 to September 30, 2004 (see Note 4). The comparative figures represent the activities of Boardwalk Equities Inc.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Due to seasonality, the operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the full fiscal year.

#### NOTE 3 - ACCOUNTING POLICY CHANGES

##### AMORTIZATION OF REVENUE PRODUCING BUILDINGS

Effective January 1, 2004, the straight-line method was adopted to compute amortization of its revenue producing buildings. The adoption of the straight-line method from the sinking-fund method has been applied prospectively in accordance with the transitional provision of CICA Handbook Section 1100. Had the change not been made, the effect on the financial statements would have been a decrease to amortization of \$14.8 million and an increase to net earnings of approximately \$9.8 million for the nine-month period ended September 30, 2004.

##### ACCOUNTING FOR OPERATING LEASES

In accordance with EIC-140, Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination, an enterprise that acquires real estate, such as an office building, retail centre, or apartment complex in either an asset acquisition or business combination, should allocate a portion of the purchase price to in-place operating leases that the enterprise acquires in connection with the real estate property. Application of EIC-140 has been applied prospectively to real estate acquisitions initiated subsequent to the date of issue of EIC-140.



**IMPAIRMENT OF LONG-LIVED ASSETS**

Effective January 1, 2003, the provisions of CICA Handbook Section 3063, Impairment of Long-lived Assets, was adopted. With the adoption of this section, an impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value. If it is determined that an impairment exists, the carrying value of the revenue producing properties will be reduced to their estimated fair value. The adoption of this section has had no impact on the financial statements of the current and prior periods.

**COMPARATIVE FIGURES**

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

**NOTE 4 - RESULTS OF BOARDWALK REIT AND ITS PREDECESSOR**

The following statements of earnings and cash flows reflect the activities of Boardwalk Reit for the nine-month period ended September 30, 2004, separated to show the results of Boardwalk equities inc. prior to may 3, 2004 and the results of boardwalk reit subsequent to May 2, 2004.

	<b>Jan. 1, 2004 to May 2, 2004</b>	<b>May 3, 2004 to Sept. 30, 2004</b>	<b>9 months ended Sept. 30, 2004</b>
<b>Statement of Earnings</b>			
<b>Revenue</b>			
Rental income	\$93,108	\$117,126	\$210,234
<b>Expenses</b>			
Revenue producing properties:			
Operating expenses	11,429	13,087	24,516
Utilities	15,965	10,747	26,712
Utility rebate	(812)	-	(812)
Property taxes	9,000	12,699	21,699
Administration	7,720	9,958	17,678
Financing costs	24,856	32,361	57,217
Deferred financing costs amortization	1,051	1,157	2,208
Amortization	23,273	32,921	56,194
	<b>92,482</b>	<b>112,930</b>	<b>205,412</b>
<b>Earnings from continuing operations before income taxes</b>	<b>626</b>	<b>4,196</b>	<b>4,822</b>
Large corporations taxes	1,032	423	1,455
Future income tax recovery	(1,291)	(322)	(1,613)
<b>Earnings from continuing operations</b>	<b>885</b>	<b>4,095</b>	<b>4,980</b>
Earnings from discontinued operations, net of tax	-	-	-
<b>Net earnings for the period</b>	<b>\$885</b>	<b>\$4,095</b>	<b>\$4,980</b>
<b>Basic earnings per unit</b>			
- from continuing operations	\$0.02	\$0.07	\$0.09
- from discontinued operations	-	-	-
<b>Basic earnings per unit</b>	<b>\$0.02</b>	<b>\$0.07</b>	<b>\$0.09</b>
<b>Diluted earnings per unit</b>			
- from continuing operations	\$0.02	\$0.07	\$0.09
- from discontinued operations	-	-	-
<b>Diluted earnings per unit</b>	<b>\$0.02</b>	<b>\$0.07</b>	<b>\$0.09</b>



Statement of Cash Flows	Jan. 1, 2004 to May 2, 2004	May 3, 2004 to Sept. 30, 2004	9 months ended Sept. 30, 2004
<b>Operating activities</b>			
Net earnings for the period	\$885	\$4,095	\$4,980
Future income tax recovery	(1,291)	(322)	(1,613)
Amortization	23,273	32,921	56,194
<b>Funds from continuing operations</b>	<b>22,867</b>	<b>36,694</b>	<b>59,561</b>
Net change in operating working capital	4,075	3,255	7,330
Net change in properties held for resale	(141)	(166)	(307)
<b>Total operating cash flows</b>	<b>26,801</b>	<b>39,783</b>	<b>66,584</b>
<b>Financing activities</b>			
Issue of trust units (net of issue costs)	28,372	397	28,769
Restructuring costs	(8,500)	(1,020)	(9,520)
Unit repurchase program (stock repurchase program pre May 3, 2004)	-	(766)	(766)
Distributions paid	(3,938)	(27,359)	(31,297)
Financing of revenue producing properties	47,718	47,622	95,340
Repayment of debt on revenue producing properties	(47,414)	(45,232)	(92,646)
Capital lease obligations	(407)	(2,963)	(3,370)
Deferred financing costs incurred (net of amortization)	(1,969)	829	(1,140)
	<b>13,862</b>	<b>(28,492)</b>	<b>(14,630)</b>
<b>Investing activities</b>			
Purchases of revenue producing properties	(9,174)	(13,089)	(22,263)
Project improvements to revenue producing properties	(7,303)	(14,823)	(22,126)
Technology for real estate operations	(461)	(79)	(540)
	<b>(16,938)</b>	<b>(27,991)</b>	<b>(44,929)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$23,725</b>	<b>\$(16,700)</b>	<b>\$7,025</b>



**NOTE 5 - REVENUE PRODUCING PROPERTIES**

	<b>Jan. 1, 2004 to May 2, 2004</b>	<b>May 3, 2004 to Sept. 30, 2004</b>	<b>9 months ended Sept. 30, 2004</b>	<b>9 months ended Sept. 30, 2003</b>
<b>Acquisitions</b>				
Cash paid	\$9,174	\$13,089	\$22,263	\$68,831
Debt assumed	7,912	10,409	18,321	38,834
Total purchase price	17,086	23,498	40,584	107,665
Fair value adjustments to debt	560	774	1,334	2,137
Book value	<b>\$17,646</b>	<b>\$24,272</b>	<b>\$41,918</b>	<b>\$109,802</b>
Allocation of book value to revenue producing properties	\$16,910	\$23,235	\$40,145	\$109,802
Allocation of book value to other assets (NOTE 2 - Accounting for Operating Leases)	736	1,037	1,773	-
	<b>\$17,646</b>	<b>\$24,272</b>	<b>\$41,918</b>	<b>\$109,802</b>
<b>Units acquired</b>	<b>183</b>	<b>354</b>	<b>537</b>	<b>1,956</b>
<b>Dispositions</b>				
Cash received	\$-	\$-	\$-	\$1,385
Debt assumed	-	-	-	1,655
Total proceeds	-	-	-	3,040
Net book value	-	-	-	1,993
<b>Gain on sales</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,047</b>
<b>Units sold</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40</b>



**NOTE 6 - DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS**

During the first quarter of 2003, a \$3.0 million unsolicited offer was received to purchase a 40-unit property located in Edmonton, Alberta. The sale was completed by the end of the first quarter of 2003. There were no dispositions in the first nine months of 2004. Note 5 discloses the carrying amounts of the major assets and liabilities included in the disposition. The following table sets forth the results of operations associated with the long-lived asset, separately reported as discontinued operations.

	<b>Jan. 1, 2004 to May 2, 2004</b>	<b>May 3, 2004 to Sept. 30, 2004</b>	<b>9 months ended Sept. 30, 2004</b>	<b>9 months ended Sept. 30, 2003</b>
<b>Revenue</b>				
Rental income	\$-	\$-	\$-	\$86
<b>Expenses</b>				
Revenue producing properties:				
Operating expenses	-	-	-	4
Utilities	-	-	-	17
Property taxes	-	-	-	6
Administration	-	-	-	2
Financing costs	-	-	-	24
	-	-	-	<b>53</b>
<b>Operating earnings from discontinued operations before income taxes</b>	-	-	-	33
Future income taxes	-	-	-	12
<b>Operating earnings from discontinued operations</b>	-	-	-	21
Gain on disposition	-	-	-	1,047
Future income taxes	-	-	-	(317)
<b>Earnings from discontinued operations</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$751</b>

**NOTE 7 - UNITHOLDERS' CAPITAL**

The Plan of Arrangement (the "Arrangement") to convert Boardwalk Equities Inc. from a share corporation to a real estate investment trust was completed on May 3, 2004. On conversion of Boardwalk Equities Inc. to a trust, Boardwalk Equities Inc. incurred \$9.5 million in restructuring costs. Under the Arrangement, the former shareholders of Boardwalk Equities Inc. received Boardwalk REIT units or Class B Limited Partnership ("LP Class B") units of a controlled limited partnership of Boardwalk REIT, Boardwalk REIT Limited Partnership.

The LP Class B units are exchangeable, on a one-for-one basis, into Boardwalk REIT units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Boardwalk REIT been issued. Each LP Class B unit was accompanied by a Special Voting unit, which will entitle the holder to receive notice of, attend and vote at all meetings of unitholders. There is no value assigned to the Special Voting units. The LP Class B units issued are included in the unitholders' capital contributions on the balance sheet. The change in unitholders' capital contribution for 2004 are as follows:



	Shares	Amount
Share capital of Boardwalk Equities Inc. at December 31, 2003	50,868,119	\$275,509
Options exercised	2,345,155	28,372
Share capital of Boardwalk Equities Inc. at May 2, 2004 exchanged for trust units	<b>53,213,274</b>	<b>\$303,881</b>
<b>Summary of Unitholders' Capital Contributions</b>	<b>Units</b>	<b>Amount</b>
Units issued in exchange for Boardwalk Equities Inc. shares	53,213,274	\$303,881
Issuance of 15,000 units for cash at \$18.00 per unit on May 3, 2004	15,000	270
Unit repurchases, recorded at book value of units	(138,400)	(766)
Units issued under dividend reinvestment plan	7,929	127
Restructuring cost	-	(9,520)
Total unitholders' capital contribution	<b>53,097,803</b>	<b>\$293,992</b>

The Declaration of Trust authorizes Boardwalk REIT to issue an unlimited number of units for the consideration and on terms and conditions established by the Trustees without the approval of any unitholders. The interests in Boardwalk REIT are represented by two classes of units: a class described and designated as "REIT Units" and a class described and designated as "Special Voting Units". The beneficial interest of the two classes of units is as follows:

**(A) REIT UNITS**

REIT Units represents an undivided beneficial interest in Boardwalk REIT and in distributions made by Boardwalk REIT. The REIT Units are freely transferable, subject to applicable securities regulatory requirements. Each REIT Unit entitles the holder to one vote at all meetings of unitholders. Except as set out under the redemption rights below, the REIT Units have no conversion, retraction, redemption or pre-emptive rights.

REIT Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt by Boardwalk REIT of a written redemption notice and other documents that may be required, all rights to and under the REIT Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per REIT Unit equal to the lesser of:

- i) 90% of the "market price" of the REIT Units on the principal market on which the REIT Units are quoted for trading during the twenty- day period ending on the trading day prior to the day on which the REIT Units were surrendered to Boardwalk REIT for redemption; and
- ii) 100% of the "closing market price" of the REIT Units on the principal market on which the REIT Units are quoted for trading on the redemption date.

**(B) SPECIAL VOTING UNITS**

The Declaration of Trust provides for the issuance of an unlimited number of Special Voting Units that will be used to provide voting rights to holders of LP Class B units or other securities that are, directly or indirectly, exchangeable for REIT Units.

Each Special Voting Unit entitles the holder to the number of votes at any meeting of unitholders, which is equal to the number of REIT Units which may be obtained upon surrender of the LP Class B unit to which the Special Voting Unit relates. The Special Voting Units do not entitle or give any rights to the holders to receive distributions or any amount upon liquidation, dissolution or winding-up of Boardwalk REIT.

The breakdown of trust units of Boardwalk REIT by class is as follows:



	Units	Amount
Boardwalk REIT Units	48,622,803	
Special Voting Units issued to holders of LP Class B units	4,475,000	
<b>Total trust units</b>	<b>53,097,803</b>	<b>\$293,992</b>

**STOCK OPTIONS (PRE MAY 3, 2004)**

The following table illustrates the impact on net earnings and earnings per unit if compensation expense had been recorded in the current and prior periods based on the fair value of all options granted on or after January 1, 2002:

	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
Compensation costs	\$(2,278)	\$(1,555)
Net earnings		
As reported	\$4,980	\$9,218
Pro forma	\$2,702	\$7,663
Net earnings per unit		
Basic		
As reported	\$0.09	\$0.18
Pro forma	\$0.05	\$0.15
Diluted		
As reported	\$0.09	\$0.18
Pro forma	\$0.05	\$0.15

As a result Boardwalk REIT's conversion, all previously granted security options vested prior to May 3, 2004. Of the total of 2,398,828 security options outstanding at December 31, 2003, a total of 2,345,155 security options were exercised and the balance of 53,673 security options were cancelled. Consequently, net earnings and earnings per unit shown above for the current period reflect all remaining compensation costs not previously recognized in prior periods.

The fair value of each option granted in 2002 was estimated to be \$6.74 on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	5.33%
Expected lives (years)	7 - 10 years
Expected volatility	42.56%
Dividend per unit	\$0.05

No stock options were granted subsequent to December 31, 2002.

**NOTE 8 - DISTRIBUTABLE INCOME AND PER UNIT INFORMATION**

**Distributable cash per unit**

Boardwalk REIT makes distributions to unitholders on a monthly basis on or about the 15th day of the following month. The reconciliation of distributable income and per unit information begins with net earnings calculated in accordance with Canadian generally accepted accounting principles and as defined in the Declaration of Trust for Boardwalk REIT. However, distributable income and the per unit information are non-GAAP measures that do not have any standardized meaning prescribed by GAAP and, therefore, unlikely to be comparable to similar measures presented by other real estate companies and trusts.



Net earnings, subsequent to Boardwalk REIT conversion	\$4,095
Add:	
Amortization	32,921
Amortization of deferred financing costs incurred prior to May 3, 2004	1,131
Deduct:	
Future income tax recovery	(322)
Amortization of net premium on long-term debt assumed after May 2, 2004	(52)
Distributable income	\$37,773
Distribution paid to unitholders	\$27,359
Weighted average units outstanding - basic and diluted	53,122,763
Distributable income earned per unit	\$0.711
Actual distributions declared per unit	\$0.515

**Earnings per unit**

	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
<b>Numerator</b>		
Earnings from continuing operations	\$4,980	\$8,467
Earnings from discontinued operations	-	\$751
<b>Denominator</b>		
Denominator for basic earnings per unit - weighted average units (THOUSANDS)	52,632	50,304
Effect of dilutive units issued in respect of long-term incentive plan (THOUSANDS)	-	544
Denominator for diluted earnings per unit adjusted for weighted average shares and assumed conversion (THOUSANDS)	52,632	50,848
<b>Earnings per unit from continuing operations</b>		
Basic	\$0.09	\$0.17
Diluted	\$0.09	\$0.17
<b>Earnings per unit from discontinued operations</b>		
Basic	\$0.00	\$0.01
Diluted	\$0.00	\$0.01

**NOTE 9 - INCOME TAXES**

Boardwalk REIT is a "mutual fund trust" as defined under the Income Tax Act (Canada) and accordingly is not taxable on its income to the extent that its income is distributed to its unitholders. This exemption does not extend to the corporate subsidiaries of Boardwalk REIT that are subject to income tax. Total future income tax recovery for the nine-month ended September 30, 2004 combines the results of Boardwalk Equities Inc. prior to May 3, 2004 with the results of Boardwalk REIT subsequent to May 2, 2004. The adjustment for change in effective tax rate reflects the reduction of the current combined federal and provincial substantially enacted rate in the province of Alberta.

	Jan. 1, 2004 to May 2, 2004	May 3, 2004 to Sept. 30, 2004	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
Continuing operations	\$(1,291)	\$(322)	\$(1,613)	\$5,169
Discontinued operations	-	-	-	329
<b>Total future income taxes (recovery)</b>	<b>\$(1,291)</b>	<b>\$(322)</b>	<b>\$(1,613)</b>	<b>\$5,498</b>

Future income taxes (recovery) consist of the following:

	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
Tax (recovery) expense based on expected rate	\$(36)	\$6,451
Non-taxable portion of capital gains	-	(223)
Adjustment to future income tax liabilities	(26)	772
Adjustment for change in effective tax rate	(1,551)	(1,502)
<b>Future income taxes (recovery)</b>	<b>\$(1,613)</b>	<b>\$5,498</b>

The future income tax asset (liability) is calculated as follows:

AS AT	Sept. 30, 2004	Dec. 31, 2003
Tax assets related to operating losses	\$1,143	\$77,354
Tax liabilities related to differences in tax and book basis	(682)	(152,119)
<b>Future income tax asset (liability)</b>	<b>\$461</b>	<b>\$(74,765)</b>

#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

At September 30, 2004, Boardwalk REIT has long-term physical supply arrangements with two electrical utility companies to supply it with its electrical power needs for Alberta for the next fifteen to twenty-seven months at a blended rate of approximately \$0.066/kwh. These agreements provide that Boardwalk REIT purchase its power for all Alberta properties under contract for the upcoming months.

Boardwalk REIT also has a physical settlement fixed-price supply contracts for Alberta natural gas requirements. This contract fixes the price of natural gas for 37.5% of its requirements in Alberta. The contract is for physical settlement, runs from October 1, 2003 to September 30, 2005, and provides the commodity at a price of \$6.16/GJ.

In Saskatchewan, Boardwalk REIT has a physical supply agreement to supply 100% of its natural gas requirements for that province. The agreement extends until October 31, 2005 at a fixed price of \$5.20/GJ.

In Eastern Canada, Boardwalk REIT has procured approximately 37% of its gas usage requirements under a physical fixed-price supply contract until August 2005, priced near \$6.00/GJ.

Beginning in November 2003, the Alberta government implemented a natural gas rebate program covering the winter usage months of November thru March. This program will be in effect for a remaining eighteen-month term ending March 31, 2006. The rebate program becomes active when the natural gas consumer price exceeds \$5.50/GJ for any individual winter usage month. There was no rebate for November and December 2003. For January to March 2004, Boardwalk REIT's predecessor was eligible for an estimated rebate of \$812,000.

**NOTE 11 - GUARANTEES**

In the normal course of business, various agreements may be entered that may contain features that meet the AcG-14 definition of a guarantee. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires an entity to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay its indebtedness when due.

In connection with the sales of properties, a mortgage assumed by the purchaser will have an indirect guarantee provided to the lender until the mortgage is refinanced by the purchaser. In the event of default by the purchaser, the seller would be liable for the outstanding mortgage balance. Boardwalk REIT's maximum exposure at September 30, 2004 is approximately \$6.0 million. In the event of default, Boardwalk REIT's recourse for recovery includes the sale of the respective building asset. Boardwalk REIT expects that the proceeds from the sale of the building asset will cover, and in most likelihood exceed, the maximum potential liability associated with the amount being guaranteed. Therefore, at September 30, 2004, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

**NOTE 12 - SEGMENTED INFORMATION**

Boardwalk REIT specializes in multi-family residential housing and operates primarily within one business segment in four provinces located in Canada. The following summary presents segmented financial information for Boardwalk REIT's business by geographic location, and reflects the activities of Boardwalk Equities Inc. for the period from January 1, 2004 to May 2, 2004 combined with the activities of Boardwalk REIT for the period from May 3, 2004 to September 30, 2004. The segmented financial information for the three-month period ended September 30, 2004 reflects the activities of Boardwalk REIT. The comparative figures represent the activities of Boardwalk Equities Inc.

	3 months ended Sept. 30, 2004	3 months ended Sept. 30, 2003	9 months ended Sept. 30, 2004	9 months ended Sept. 30, 2003
<b>Alberta</b>				
Revenue	\$38,025	\$38,505	\$113,901	\$114,033
Expenses				
Operating	4,084	4,783	12,281	14,151
Utilities	3,092	3,924	14,121	13,750
Utilities Rebate	-	-	(812)	-
Property taxes	3,860	2,658	9,295	8,301
	<b>11,036</b>	<b>11,365</b>	<b>34,885</b>	<b>36,202</b>
<b>Net operating income</b>	<b>\$26,989</b>	<b>\$27,140</b>	<b>\$79,016</b>	<b>\$77,831</b>
<b>Saskatchewan</b>				
Revenue	\$8,553	\$8,510	\$25,663	\$25,353
Expenses				
Operating	998	1,165	3,114	3,327
Utilities	568	643	2,993	2,716
Property taxes	1,103	1,217	3,338	3,616
	<b>2,669</b>	<b>3,025</b>	<b>9,445</b>	<b>9,659</b>
<b>Net operating income</b>	<b>\$5,884</b>	<b>\$5,485</b>	<b>\$16,218</b>	<b>\$15,694</b>
<b>Ontario</b>				
Revenue	\$8,959	\$8,699	\$26,824	\$25,919
Expenses				
Operating	985	1,136	3,050	3,582
Utilities	1,242	1,077	4,168	4,421
Property taxes	1,518	1,470	4,465	4,174
	<b>3,745</b>	<b>3,683</b>	<b>11,683</b>	<b>12,177</b>
<b>Net operating income</b>	<b>\$5,214</b>	<b>\$5,016</b>	<b>\$15,141</b>	<b>\$13,742</b>
<b>Quebec</b>				
Revenue	\$14,634	\$12,767	\$43,093	\$34,771
Expenses				
Operating	1,638	1,488	4,662	3,812
Utilities	865	1,177	5,076	4,136
Property taxes	1,668	1,295	4,561	3,425
	<b>4,171</b>	<b>3,960</b>	<b>14,299</b>	<b>11,373</b>
<b>Net operating income</b>	<b>\$10,463</b>	<b>\$8,807</b>	<b>\$28,794</b>	<b>\$23,398</b>
<b>Total</b>				
Net operating income	\$48,550	\$46,448	\$139,169	\$130,665
Unallocated revenue*	198	236	753	4,149
Unallocated expenses**	(45,522)	(41,539)	(134,942)	(125,596)
<b>Net earnings for the period</b>	<b>\$3,226</b>	<b>\$5,145</b>	<b>\$4,980</b>	<b>\$9,218</b>

	Sept. 30, 2004	December 31, 2003
<b>AS AT</b>		
<b>Alberta</b>		
Identifiable assets		
Revenue producing properties	\$944,735	\$969,196
Mortgages and accounts receivable	-	8,338
Deferred financing costs	24,526	26,621
Tenants' security deposit	5,468	5,674
	<b>\$974,729</b>	<b>\$1,009,829</b>
<b>Saskatchewan</b>		
Identifiable assets		
Revenue producing properties	\$174,794	\$178,867
Mortgages and accounts receivable	-	11
Deferred financing costs	4,534	4,585
Tenants' security deposits	1,241	1,097
	<b>\$180,569</b>	<b>\$184,560</b>
<b>Ontario</b>		
Identifiable assets		
Revenue producing properties	\$212,938	\$215,428
Mortgages and accounts receivable	132	250
Deferred financing costs	2,960	2,709
	<b>\$216,030</b>	<b>\$218,387</b>
<b>Quebec</b>		
Identifiable assets		
Revenue producing properties	\$377,873	\$342,364
Mortgages and accounts receivable	4,661	4,425
Deferred financing costs	5,256	4,102
	<b>\$387,790</b>	<b>\$350,891</b>
<b>Total assets</b>		
Identifiable assets	\$1,759,118	\$1,763,667
Unallocated assets***	55,350	39,713
	<b>\$1,814,468</b>	<b>\$1,803,380</b>

\* Unallocated revenue includes property sales, interest income, revenue from discontinued operations and other non-rental income.

\*\* Unallocated expenses include cost of property sales, operating expenses from discontinued operations, non-rental operating expenses, administration, financing costs, amortization, income taxes and other provisions.

\*\*\* Unallocated assets include properties held for development, cash, short-term investments and other assets.

#### NOTE 13 - SUBSEQUENT EVENTS

Subsequent to September 30, 2004, Boardwalk REIT contracted to acquire 266 residential units from unrelated third parties for an aggregate purchase price of \$13.7 million. The acquisitions will be financed through the assumption of existing mortgages and cash.



## CORPORATE INFORMATION

### OFFICERS AND MANAGEMENT

**William Chidley**  
Senior Vice President, Corporate Development

**Jean Denis**  
Vice President, Quebec Acquisitions

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

**Michael Guyette**  
Vice President, Technology

**Sam Kolias**  
President and Chief Executive Officer

**Van Kolias**  
Senior Vice President, Quality Control

**Helen Mix**  
Vice President, Human Resources

**Kim O'Brien**  
Vice President, Investments

**Shaun Renneberg**  
Vice President, Capital Projects

**Lisa Russell**  
Vice President, Western Acquisitions

**Kelly Mahajan**  
Vice President, Customer Service and  
Process Design

**Kevin P. Screpnechuk**  
Senior Vice President, Rental Operations

### INVESTOR INFORMATION

**Paul Moon**  
Director of Corporate Communications

**Telephone: 403.531.9255**

**Facsimile: 403.261.9269**

**Website: [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com)**

**Email: [investor@bwalk.com](mailto:investor@bwalk.com)**

### EXECUTIVE OFFICE

**Boardwalk Real Estate Investment Trust**  
First West Professional Building  
Suite 200, 1501-1 Street SW  
Calgary, Alberta T2R 0W1  
Telephone: 403.531.9255  
Facsimile: 403.531.9565  
Website: [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com)

### AUDITORS

**Deloitte & Touche LLP**  
3000, 700 - 2 Street SW  
Calgary, Alberta  
T2P 0S7

### REGISTRAR AND TRANSFER AGENT

**Computershare Trust  
Company of Canada**  
600, 530 - 8 Avenue SW  
Calgary, Alberta  
T2P 3S8  
Telephone: 403.267.6800

### SOLICITORS

**Stikeman Elliott**  
4300 Bankers Hall West  
888 - 3 Street SW  
Calgary, Alberta  
T2P 5C5

**Butlin Oke Roberts & Nobles**  
100, 1501 - 1 Street SW  
Calgary, Alberta  
T2R 0W1

### BANKERS

**Toronto Dominion Bank**  
355 - 4 Avenue SW  
Calgary, Alberta  
T2P 0J1

### EXCHANGE LISTINGS

**The Toronto Stock Exchange**

**Symbol: BEI.UN**