

## **NEWS RELEASE FOR IMMEDIATE DISTRIBUTION**

Boardwalk REIT Announces Solid Fourth Quarter and Full Year 2007 Financial Results; FFO Per Unit Up 26.2% and DI Per Unit up 24.9% YOY; and its February 2008 Distribution.

### **CALGARY, February 14, 2008 - Boardwalk Real Estate Investment Trust ("BEI.UN" - TSX)**

Boardwalk Real Estate Investment Trust ("Boardwalk REIT" or the "Trust") today announced solid financial results for both the fourth quarter of 2007 and fiscal 2007; FFO per unit up 22.7% and DI per unit up 19.6% for the fourth quarter of 2007 compared to the same period last year and FFO per unit up 26.2% and DI per unit up 24.9% YOY. During fiscal 2007, the Trust acquired a total of 2,421 residential units in Western Canada.

For the fourth quarter ended December 31, 2007, the Trust reported Funds From Operations<sup>1</sup> ("FFO") of \$29.9 million and FFO per unit of \$0.54 on a diluted basis, compared to FFO of \$25.0 million and FFO per unit of \$0.44 for the same period last year. Distributable income ("DI") for the quarter was \$30.8 million and DI per unit was \$0.55 on a diluted basis, compared to \$25.9 million and \$0.46 per unit for the same period last year.

#### **Highlights of the Trust's fourth quarter 2007 financial results include:**

- Rental revenues of \$99.0 million, an increase of 18.4%, compared to \$83.6 million for the three-month period ended December 31, 2006.
- Net operating income of \$61.6 million, representing a 22.0% increase, from \$50.5 million in the same period last year.
- FFO of \$29.9 million, an increase of 19.6%, compared to \$25.0 million for the three-month period ended December 31, 2006.
- FFO per unit was \$0.54 on a diluted basis, up 22.7%, compared to \$0.44 for the three-month period ended December 31, 2006.
- DI was \$0.55 per unit, up 19.6%, from \$0.46 for the three months ended December 31, 2006.

#### **Highlights of the Trust's financial results for fiscal 2007 include:**

- Rental revenues of \$375.0 million, an increase of 17.4% compared to \$319.4 million for the twelve-month period ended December 31, 2006.
- Net operating income of \$235.5 million, representing a 22.6% increase from \$192.1 million in the same period last year.
- FFO from continuing operations of \$116.5 million, an increase of 27.5% compared to \$91.4 million for the twelve-month period ended December 31, 2006.
- FFO per unit from continuing operations of \$2.07 on a diluted basis, up 26.2% compared to \$1.64 for the twelve-month period ended December 31, 2006.
- DI from continued operations was \$2.11 per unit, up 24.9% compared to \$1.69 for the twelve months ended December 31, 2006.

Commenting on the Trust's Q4 and fiscal 2007 results, Sam Koliass, C.E.O. and Chairman of the Board, said: "Fiscal 2007 was an impressive year for Boardwalk REIT. The geographic diversity of our portfolio, strong market fundamentals, and our ability to nimbly adapt to change resulted in an excellent year with outstanding growth. Throughout the 2007 year, we embraced the challenge of meeting and exceeding the exceptional results that we achieved in fiscal 2006. We are pleased that our efforts produced another solid year in 2007."

## BOARDWALK REAL ESTATE INVESTMENT TRUST

“Over the fourth quarter, in-place occupied rents continued to rise. Across the portfolio, occupied rent increased \$32, or 3.5%, from approximately \$915 per suite at the end of Q3 2007 to approximately \$947 per suite at the end of Q4 2007. Year-over-year occupied rent increased approximately \$96 per suite for the entire portfolio. Despite increasing occupied rents, a decline in market rents and occupancy was noted over the fourth quarter, reflecting a typical weaker winter season. It is too early to gauge if the trend of decreasing market rents will extend beyond the normal seasonal winter cycle into the spring and summer months. For the entire portfolio, market rents decreased \$42, from approximately \$1096 per suite at the end of Q3 2007 to \$1054 per suite at the end of Q4 2007. Corresponding with the seasonal decrease in market rents, our mark-to-market per suite (representing the difference between actual rental rates obtained and potential rental revenue based on market rental rates) also declined slightly over the fourth quarter. Across our portfolio, our mark-to-market decreased from approximately \$189 per suite at the end of Q3 2007 to \$95 per suite at the end of Q4 2007. As a result, the annualized total mark-to-market gap decreased from \$78.5 million at the end of Q3 2007 to \$39.4 million at the end of Q4 2007, adjusted for current vacancy. This decrease can be attributed to both an increase in occupied rents, as well as a decrease in market rents. Despite the decline, the gap between in-place and market rents remains significant.”

“Our strategy of adjusting market rent allows us to maximize revenues by creating the most economically beneficial balance of occupancy and rent levels. As maximizing revenues is a balancing act of price, supply and demand, we continue to monitor our markets on a constant basis, adjusting rents and incentives with agility and market sensitivity. It is not uncommon for us to adjust market rents, based on market demand for rentals over a short period of time. We are optimistic that we will make strides towards closing the mark-to-market gap in 2008. In 2007, legislation passed by the government of Alberta limited rental increases for current Customers to once a year. Due to the retroactive nature of the legislation, our ability to close our mark-to-market gap through rental increases was temporarily reduced in 2007. However, as of January 2008, the majority of our existing Alberta Customers were eligible for monthly rent increase notices up to our internal maximum increase of \$150, a significant stride towards realizing this mark-to-market gap. After this adjustment, over half of the rental rates of in-place Customers will still be well below market rates.”

“Our Saskatchewan markets, which make up 13% of our portfolio, had a very positive quarter and a particularly impressive year. With strong activity in the energy sector, record population and employment growth, rising house prices, and an influx of inter-provincial migration, demand for rental housing in Saskatchewan is strong. Average market rents were up approximately \$15 per suite in Saskatchewan at the end of Q4 2007 over Q3 2007 and up approximately \$224 per suite year-over-year. In-place occupied rents in the province increased \$53, from \$729 per suite at the end of Q3 2007 to \$782 per suite at the end of Q4 2007. Carrying momentum from a strong finish to 2007, analysts predict that 2008 will be another notable year for the province.”

“Our Alberta markets, which make up 54% of our portfolio, continued to generate solid growth for the Trust over the fourth quarter and for the 2007 fiscal year. Though the growth rate of some market fundamentals tempered from the extraordinary levels of 2006, most indicators remained at strong levels at the close of the year. We are particularly pleased to note continued investment in Alberta’s Oil Sands, as well as strong employment growth in the province. Despite strong results, occupancy rates in Edmonton decreased from 97.52% for Q4 of 2006 to 95.22% for Q4 of 2007. In Calgary, occupancy decreased from 97.47% for Q4 of 2006 to 94.42% for Q4 of 2007. It should be noted, however, that the occupancy rates posted at the end of 2006 were at an unprecedented high level. In Calgary, average market rents decreased approximately \$100 per suite at the end of Q4 over Q3 2007. In Edmonton, average market rents decreased approximately \$113 per suite at the end of Q4 over Q3 2007; however, increased \$101 per suite year-over-year. Despite the decline in market rents, occupied rents increased \$67 per suite in Calgary and \$61 per suite in Edmonton at the end of Q4 over Q3 2007. We believe that there is still room for growth in Alberta at a more sustainable and balanced pace. We continue to maximize revenues by constantly adjusting market rents while maintaining acceptable occupancy levels.”

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## Operational Highlights

The average vacancy rate across the Trust's portfolio for the fourth quarter of 2007 was 4.69%, up from 3.93% in the third quarter of 2007, and up from 3.51% compared to the same period last year.

The average monthly rent on our entire portfolio realized in the fourth quarter of 2007 was \$903 per suite, up \$83 from \$820 per suite for the same period last year.

The average market rent for the Trust's properties at the end of December 2007 was an estimated \$1054 per suite per month, which compares to an average in-place monthly rent per occupied suite of \$947 for the quarter ended December 31, 2007.

At the end of December 2007, the potential between occupied rents and market rents (mark-to-market) totalled \$39.4 million, or \$0.71 per trust unit, down from \$78.5 million, or \$1.39 per trust unit, at the end of September 2007.

More detail on our operations will be found in our conference call presentation to be posted on our web site today at <http://www.boardwalkreit.com/FinancialReports/>. The conference call audio for this presentation can also be found on our web site at <http://www.boardwalkreit.com/FinancialReports/> following the call.

## Same-Property Results

Boardwalk continued to show solid performance in its stabilized properties (defined as properties owned for over 24 months). The "same-property" results for the Trust's stabilized portfolio for the three-month period ended December 31, 2007 showed rental revenue growth of 9.7% on a year-over-year basis. Operating expenses increased 0.6%, resulting in an increase in NOI of 15.4% compared to the same period last year. The "same-property" results for the twelve-month period ended December 31, 2007 showed rental revenue growth of 11.0% and an increase in total operating expenses of 2.4%, resulting in an increase in NOI of 16.4% compared to the same period last year. A total of 33,014 units, representing approximately 90.5% of Boardwalk's total portfolio, were classified as stabilized as at December 31, 2007.

## Same-Property Results - Stabilized Portfolio

Dec 31 2007 - 3 M	# of Units	Revenue		Operating		Net Operating		% of
		Growth	Expense	Growth	Income	Growth	Stabilized NOI	
Calgary	4,973	10.1%		5.0%		12.1%		21%
Edmonton	10,369	16.2%		4.5%		23.1%		34%
Other Alberta	1,680	7.6%		16.6%		3.8%		6%
British Columbia	633	3.6%		-16.1%		17.9%		2%
Ontario	4,265	0.3%		-13.0%		13.7%		9%
Quebec	6,434	3.6%		-4.1%		9.5%		17%
Saskatchewan	4,660	13.8%		8.5%		17.8%		11%
	<b>33,014</b>	<b>9.7%</b>		<b>0.6%</b>		<b>15.4%</b>		<b>100%</b>

Dec 31 2007 - 12 M	# of Units	Revenue		Operating		Net Operating		% of
		Growth	Expense	Growth	Income	Growth	Stabilized NOI	
Calgary	4,973	17.6%		4.2%		23.2%		21%
Edmonton	10,369	17.4%		8.9%		22.1%		34%
Other Alberta	1,680	12.6%		13.3%		12.3%		6%
British Columbia	633	8.1%		-6.1%		16.0%		2%
Ontario	4,265	-0.1%		-4.6%		4.7%		9%
Quebec	6,434	2.9%		-3.5%		7.6%		18%
Saskatchewan	4,660	9.8%		2.5%		15.6%		10%
	<b>33,014</b>	<b>11.0%</b>		<b>2.4%</b>		<b>16.4%</b>		<b>100%</b>

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Commenting on Boardwalk's same-property results, President, Roberto Geremia, said, "In the fourth quarter, we were pleased to see continued revenue growth translating into a strong reported net operating income. Boardwalk's Alberta and Saskatchewan portfolios continue to deliver growth."

The 2007 reported results were favourably impacted by Alberta natural gas rebates in the amount totalling approximately \$1.2 million compared to approximately \$2.0 million for the prior year. For a more detailed analysis of the program, please visit the following Alberta provincial government website: <http://www.energy.gov.ab.ca>

### Sequential Revenue Analysis

<b>Stabilized Revenue</b>				
<b>Growth Q4 2007 vs.</b>	<b># of Units</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>
Calgary	4,973	0.4%	1.3%	5.6%
Edmonton	10,369	1.8%	5.7%	10.4%
Other Alberta	1,680	1.9%	2.7%	2.3%
British Columbia	633	-1.9%	0.7%	2.4%
Ontario	4,265	2.1%	0.6%	1.0%
Quebec	6,434	0.2%	2.4%	3.0%
Saskatchewan	4,660	4.6%	10.4%	12.9%
	33,014	1.5%	3.9%	6.7%

Commenting on Boardwalk REIT's sequential stabilized revenue growth, William Wong, Chief Financial Officer said, "Stabilized revenues reported for the current quarter were up 6.7% comparing Q4 over Q1 2007, 3.9% comparing Q4 over Q2 2007, and 1.5% comparing Q4 over Q3 2007. Though stabilized revenue growth tempered through the third and fourth quarters, mainly due to a change in legislation in Alberta requiring a 12-month period between rental increases (up from our previous 6-month period), we estimate that growth will again increase in the first half of 2008 when annual rental increases in Alberta are realized. Rental legislation enacted in May of 2007 (retroactive to the beginning of 2007) limits rental increases to once per year in Alberta, our largest market, resulting in larger rental increases given less often."

### Real Estate Acquisition/Disposition Activity

<b>Building Name</b>	<b>City</b>	<b>Closing Date</b>	<b>Type</b>	<b>Units</b>	<b>Price</b>	<b>Year 1</b>		<b>Avg. Sq. Ft.</b>	<b>\$/Sq.Ft.</b>
						<b>Cap Rate</b>	<b>\$/Unit</b>		
Ridgement Apartments	Coquitlam, BC	January 25, 2007	Low Rise	41	\$ 3,700,000	5.03%	\$90,244	634	\$142
Oliver View/Manor (St. Charles Pl/Parkview)	Edmonton, AB	January 26, 2007	Walk Up	51	\$ 4,150,000	4.52%	\$81,373	795	\$102
West Edmonton Village	Edmonton, AB	February 28, 2007	Various	1,176	\$ 143,500,000	5.47%	\$122,024	968	\$126
			Walk Up /						
Prairie Sunrise Tower Portfolio	Grande Prairie, AB	March 14, 2007	Hi Rise	275	\$ 40,000,000	4.74%	\$145,455	831	\$175
Springwood Place Apartments	Spruce Grove, AB	May 28, 2007	Low Rise	160	\$ 16,000,000	5.63%	\$100,000	767	\$130
Lakeview Apartments	Calgary, AB	September 20, 2007	Walkup	120	\$ 21,850,000	4.72%	\$182,083	897	\$203
			Highrise /						
Whitehall Square	Edmonton, AB	September 24, 2007	Walkup	598	\$ 111,250,000	5.03%	\$186,037	913	\$204
<b>Total</b>				<b>2,421</b>	<b>\$ 340,450,000</b>	<b>5.22%</b>	<b>\$140,624</b>	<b>913</b>	<b>\$154</b>

### Dispositions

<b>Building Name</b>	<b>City</b>	<b>Closing Date</b>	<b>Type</b>	<b>Units</b>	<b>Price</b>	<b>Cap Rate</b>	<b>\$/Unit</b>	<b>Avg. Sq. Ft.</b>	<b>\$/Sq.Ft.</b>
Oliver View/Manor (St. Charles Pl/Parkview)	Edmonton, AB	April 30, 2007	Walk Up	51	\$ 5,900,000	3.20%	\$115,686	795	\$146
<b>Total</b>				<b>51</b>	<b>\$ 5,900,000</b>	<b>3.20%</b>	<b>\$115,686</b>	<b>795</b>	<b>\$146</b>

## **BOARDWALK REAL ESTATE INVESTMENT TRUST**

Commenting on the Trust's property acquisitions and dispositions, Bill Chidley, Senior Vice President, Corporate Development, said: "In 2007, the Trust fulfilled its acquisition target by closing on 2,421 rental units in British Columbia and Alberta. The acquisitions had a total purchase price of 340.5 million and, in aggregate, a going-in cap rate of 5.2%. The Trust had no new acquisitions in the fourth quarter of 2007."

"During 2007, we increased our already large presence in the economically strong province of Alberta. With reasonable cap rates and strong rental fundamentals, our 2007 Alberta acquisitions make a welcome contribution to the strength of the Trust's property portfolio. In 2007, we closed on six Alberta properties, located in Edmonton, Calgary, Spruce Grove, and Grande Prairie. In 2007, we also conducted one disposition in Edmonton, Alberta of a 51-unit walk-up, and also sold and closed 50 units in a 90-unit property located in Calgary, Alberta that is being developed into condominium units for sale. The 50 condominium units sold and closed in 2007 is not included in the disposition table noted above."

"The accretive acquisitions outlined above would not be possible without our experienced team of acquisition professionals. Our team is able to act with speed and confidence based on their ongoing due diligence, consisting of intensive, building-by-building analysis in all major Canadian markets. By consistently monitoring a property's surrounding area, background, socio-economic motivators, and potential tenants, the Trust is able to recognize and close on below-market-value deals."

### **New Apartment Development**

In 2007, we began to explore the possibility of developing new multi-family rental product in select markets in Western Canada, focusing on several of our existing buildings in Calgary and Edmonton that feature excess density. During the third quarter of 2007, the Trust completed a preliminary densification study in Calgary. The planning consultants estimate that, in Calgary, an additional density of 7,000 to 14,000 apartment units could be achieved with re-zoning, the vast majority on 11 sites. In the fourth quarter, these numbers were revisited and revised to 6,200 to 12,700 apartment units.

Over the fourth quarter, we continued our densification study in the Edmonton area, focusing on two Edmonton properties - West Edmonton Village and Viking Arms. We have also commissioned a densification study for Fort McMurray. It is important to note that we are in the early stages of this process, with the earliest completion of any new development between 2011 and 2012 which is 2.5 to four years away. As part of this investigation, we are considering a number of ways to surface this densification value, including direct development, joint venture, and the sale of excess density. Though we are excited by this potential, it is important to note that in order to obtain the estimated maximum density, it will be necessary to demolish existing rental units. It is our belief that the key to this development is to find the optimal trade-off between maximizing density and retaining as much of the existing rental stock as possible. Boardwalk believes that being prepared for all future opportunities is a key to our on-going success.

### **Alberta Royalty Review**

On October 25, 2007, the Alberta Government announced changes to the existing oil and gas royalty program. This new program, which will commence in 2009, is more heavily based on a sliding scale that is responsive to the market price of the underlying commodity. This new scale increases the top end of the royalty rates from approximately 35% to a maximum of 50%. It is the Government's belief that this new system strikes a balance between the needs of both the Province and the producers of these commodities.

The long-term impact of this decision on the Alberta economy has not yet been determined; however, thus far, there has been no material pullback in Oil Sands related projects. Optimism has been encouraged with the announcement of several long-term sustaining investments in the Oil Sands after the new Royalty Program was released. Of particular note is Suncor Energy's January 2008 announcement of a \$20.6 billion expansion plan to boost crude oil production in Alberta's Oil Sands. It is our continued belief that the high price of oil will continue to encourage further investment, particularly in the Alberta Oil Sands.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## Bill C-52

On June 22, 2007, Bill C-52 received Royal Assent and as such became law. This "Income Trust Law" set forth a number of tests that, if not met, would strip the right of a trust to continue as a Specified Investment Flow-Through ("SIFT") tax-effective vehicle. In the legislation, there are specific exemptions for real estate investment trusts ("REITs"). Although we do believe the spirit of the Legislation was to exclude all REITs, the actual detail of the Bill is unclear on some issues that, if not corrected, may result in many REITs, including Boardwalk REIT, not qualifying to continue as a REIT effective January 1, 2011 in accordance with the definition stipulated in the Legislation.

On December 20, 2007, the Canadian Federal Government proposed technical changes to the current rules governing REITs. Proposed changes include the removal of the 25% limit on foreign investment by REITs, as well as some technical amendments, which clarified the uncertainty on whether most real estate investment trusts will qualify as REITs as previously defined in Bill C-52. These recently released modifications appear to have rectified the need to re-structure to continue to qualify as a REIT. Although we have not seen the details of the agreement, we view this proposal as a positive move towards rectifying the uncertainty surrounding Bill C-52.

We continue to work with the Federal Government and other industry organizations to address the issues surrounding Bill C-52. If these items are rectified, the Trust will reverse the one-time non-cash charge recorded in Q2 of 2007 on our financial statements, which was updated at the end of the third and fourth quarters of 2007. Until then, this non-cash charge will be reviewed and adjusted, if necessary, on a quarterly basis. Unfortunately, we are not able to provide any guidance on the likelihood or the expected timing of this reversal.

## Unit Buyback and Distribution Reinvestment Plan

Under the Normal Course Issuer Bid previously announced in 2007, as of February 1, 2008, the Trust had repurchased a total of 1,013,212 trust units representing a total market value of \$44.9 million, or an average price of \$44.35 per trust unit.

Boardwalk's Board of Trustees has determined that, effective February 29, 2008, the Trust will be suspending its Distribution Reinvestment Plan (the "Plan"). The Plan was originally put in place as part of the conversion to a real estate investment trust in May of 2004. The Plan provided an efficient and cost-effective equity to support the Trust's financing of its strategic plan implementation. Given the current liquidity condition, the Trust finds it no longer requires this source of funding at this time. The Trust may reinstate the Plan in the future, if required to fund new investing activities. The suspension of the Plan does not affect regular distributions and Unitholders will continue to receive such distributions as declared.

## Continued Financial Strength

The Trust strengthened its financial position through 2007 due to lower interest rates. We remain focused on maintaining a strong and healthy balance sheet. Boardwalk's total mortgage and long-term debt was \$1.88 billion as at December 31, 2007, compared to \$1.50 billion at December 31, 2006. As at December 31, 2007, the Trust's total debt had an average term maturity of 3 years with a weighted average interest rate of 5.11%. The Trust's debt-to-total-market-capitalization ratio was approximately 43.2%. The Trust's interest coverage ratio of adjusted EBITDA (i.e. earnings before interest, taxes, depreciation and amortization) to interest expense, after excluding gains, was 2.25 times for the three months ended December 31, 2007, compared to 2.29 times for the same period last year. During the fourth quarter of 2007, Boardwalk successfully completed approximately \$420 million in mortgage refinancings and renewals.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## Outlook and 2008 Financial Guidance

Commenting on the outlook for the Trust, Roberto Geremia, President, said, "We are confirming our previously announced fiscal 2008 guidance for FFO and Distributable Income of between \$2.35 to \$2.50 and \$2.37 to \$2.52, respectively. These forecasts are based on the assumptions of achieving approximately 8.0% - 14.0% in stabilized NOI growth and new property acquisitions of between 1,000 to 2,000 new residential units for the year. In accordance with the Trust's current policy, management will update the market on our Annual 2008 Guidance on a quarterly basis." The reader is cautioned that this information is forward-looking information and actual results may vary materially from those reported.

## February 2008 Monthly Distribution

The Trust has declared its February 2008 distribution in the amount of 15.00 cents per trust unit (\$1.80 on an annualized basis). The February distribution will be payable on March 17, 2008 to unitholders of record on February 29, 2008.

## Supplementary Information

Boardwalk produces Quarterly Supplemental Information that provides detailed information regarding the Trust's activities during the quarter. The Fourth Quarter 2007 Supplemental Information is available on our investor website at [www.boardwalkreit.com](http://www.boardwalkreit.com).

## Teleconference on Fourth Quarter Financial Results

We invite you to participate in the teleconference that will be held to discuss these results this same morning at 11:00 am EST. Senior management will speak to the fourth quarter financial results and provide a corporate update. Presentation materials will be made available on our investor website at [www.boardwalkreit.com](http://www.boardwalkreit.com) prior to the call.

Participation & Registration: Please RSVP to Investor Relations at 403-206-6758 or by email to [investor@bwalk.com](mailto:investor@bwalk.com).

Teleconference: The telephone numbers for the conference are: (416) 644-3415 (within Toronto) or toll-free (800) 733-7560 (outside Toronto).

Webcast: Investors will be able to listen to the call and view our slide presentation over the Internet by visiting <http://www.boardwalkreit.com> 15 min. prior to the start of the call. An information page will be provided for any software needed and system requirements. The live audiocast will also be available at <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2128940>

Replay: An audio recording of the teleconference will be available from 1:00 pm ET on Thursday, February 14, 2008 until 11:59 pm ET on Thursday, February 21, 2008. You can access it by dialling 416-640-1917 and using the passcode 21258069 followed by the pound (#) sign. An audio archive will also be available on our website (<http://www.boardwalkreit.com/>) approximately two hours after the conference call.

## Corporate Profile

Boardwalk REIT is an open-ended real estate investment trust formed to acquire all of the assets and undertakings of Boardwalk Equities Inc. Boardwalk REIT's principal objectives are to provide its 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 properties. Boardwalk REIT currently owns and operates in excess of 260 properties with over 36,480 units totalling approximately 40 million net rentable square feet, and is Canada's largest

## **BOARDWALK REAL ESTATE INVESTMENT TRUST**

owner/operator of multi-family rental communities. Boardwalk REIT's portfolio is concentrated in the provinces of Alberta, British Columbia, Saskatchewan, Ontario and Quebec.

<sup>1</sup> Funds From Operations ("FFO") is a generally accepted measure of operating performance of real estate investment trusts and companies; however, it is a non-GAAP measure. The Trust calculates FFO by taking net earnings after discontinued operations, adjusting for gains or losses on disposal of discontinued operation assets and extraordinary items, and adding non-cash expenses including future income taxes and amortization. The determination of this amount may differ from that of other real estate investment trusts and companies. Distributable Income ("DI") is calculated based on the definition as set out in the Trust's declaration of trust and is computed by taking FFO and adding back amortization on any deferred financing charges incurred prior to May 3, 2004 as well as adjusting for any discounts or premiums relating to the amortization of mark-to-market debt adjustment incurred subsequent to the real estate investment trust conversion date of May 3, 2004.

### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

*This news release contains forward-looking statements relating to our operations and the environment in which we operate, which are based on our expectations, estimates, forecast and projections, which we believe are reasonable as of the current date . These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. For more exhaustive information on these risks and uncertainties you should refer to our most recently filed annual information form which is available at [www.sedar.com](http://www.sedar.com). Actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made and should not be relied upon as of any other date. While we may elect to, we undertake no obligation to publicly update any such statement to reflect new information or the occurrence of future events or circumstances at any particular time.*

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED BALANCE SHEETS

(CDN\$ THOUSANDS)

As at	December 31, 2007	December 31, 2006
<b>Assets</b>		
Revenue producing properties (NOTE 4)	\$2,149,853	\$1,836,429
Other assets (NOTE 7)	15,776	13,873
Future income taxes (NOTES 3 and 14)	-	316
Mortgages and accounts receivable (NOTE 6)	10,071	4,388
Segregated tenants' security deposits	12,935	9,998
Cash and cash equivalents	960	-
Discontinued operations (NOTE 5)	6,293	5,456
	<u>\$2,195,888</u>	<u>\$1,870,460</u>
<b>Liabilities</b>		
Mortgages payable (NOTES 3 and 8)	\$1,770,015	\$1,380,578
Debentures (NOTES 3 and 9)	118,768	118,448
Accounts payable and accrued liabilities	48,279	35,423
Refundable tenants' security deposits and other	16,186	13,102
Bank indebtedness	-	4,042
	<u>1,953,248</u>	<u>1,551,593</u>
Future income taxes (NOTES 3 and 14)	100,287	-
	<u>2,053,535</u>	<u>1,551,593</u>
<b>Unitholders' Equity</b>		
Unitholders' equity	142,353	318,867
	<u>\$2,195,888</u>	<u>\$1,870,460</u>

Commitments and contingencies (NOTE 16)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(CDN\$ THOUSANDS, EXCEPT NUMBER OF UNITS AND PER UNIT AMOUNTS)

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
<b>Revenue</b>		
Rental income	\$375,012	\$319,440
<b>Expenses</b>		
Revenue producing properties:		
Operating expenses	64,934	56,797
Utilities	43,504	40,443
Utility rebate (NOTE 2)	(1,228)	(2,032)
Property taxes	32,300	32,143
Administration	21,213	17,072
Financing costs	92,982	80,806
Deferred financing costs amortization	4,823	3,193
Amortization of capital assets (NOTE 2)	76,863	71,583
Amortization of intangibles (NOTE 2)	7,382	1,842
	342,773	301,847
<b>Earnings from continuing operations before the following</b>	32,239	17,593
Other income (NOTE 13)	(755)	(750)
<b>Earnings from continuing operations before income taxes</b>	32,994	18,343
Large corporations taxes (recovery)	15	(30)
Future income taxes (NOTE 14)	100,597	613
<b>Earnings (loss) from continuing operations</b>	(67,618)	17,760
Earnings from discontinued operations, net of tax (NOTE 5)	8,292	7,629
<b>Net earnings (loss)</b>	(59,326)	25,389
<b>Other comprehensive income</b>	-	-
<b>Comprehensive income (loss)</b>	\$(59,326)	\$25,389
<b>Basic earnings (loss) per unit</b> (NOTE 12)		
- from continuing operations	\$(1.20)	\$0.32
- from discontinued operations	0.15	0.14
<b>Basic earnings (loss) per unit</b>	\$(1.05)	\$0.46
<b>Diluted earnings (loss) per unit</b> (NOTE 12)		
- from continuing operations	\$(1.20)	\$0.32
- from discontinued operations	0.15	0.14
<b>Diluted earnings (loss) per unit</b>	\$(1.05)	\$0.46
<b>Weighted average number of units</b>	56,248,879	55,542,918

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CDN\$ THOUSANDS, EXCEPT NUMBER OF UNITS)

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
<b>Trust units (NOTE 11)</b>		
Balance, beginning of year	\$365,744	\$295,696
Units issued under equity financing, net of issue costs	(151)	63,583
Units issued under distribution reinvestment plan	8,917	5,784
Restructuring costs	-	(140)
Deferred unit plan (NOTE 10)	1,750	821
Units issued for vested deferred units (NOTE 10)	400	-
Units purchased and cancelled (NOTE 11)	(38,576)	-
Balance, end of year	\$338,084	\$365,744
<b>Cumulative earnings</b>		
Balance, beginning of year	\$154,917	\$129,528
Net earnings (loss)	(59,326)	25,389
Balance, end of year	\$95,591	\$154,917
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	\$-	\$-
Other comprehensive income	-	-
Balance, end of year	\$-	\$-
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of year	\$(201,794)	\$(129,482)
Distributions declared to unitholders (NOTE 12)	(89,528)	(72,312)
Balance, end of year	\$(291,322)	\$(201,794)
<b>Total unitholders' equity</b>	<b>\$142,353</b>	<b>\$318,867</b>
<b>Units issued and outstanding (NOTE 11)</b>	<b>55,708,934</b>	<b>56,351,783</b>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(CDN\$ THOUSANDS)

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
<b>Operating activities</b>		
Net earnings (loss)	\$(59,326)	\$25,389
Earnings from discontinued operations, net of tax	(8,292)	(7,629)
Future income taxes	100,597	613
Amortization of capital assets	76,863	71,583
Amortization of intangibles	7,382	1,842
Amortization of deferred financing costs	4,823	3,193
Other income (NOTE 13)	(755)	(750)
	121,292	94,241
Cash from discontinued operations	(8)	308
Net change in operating working capital	6,419	4,458
Total operating cash flows	127,703	99,007
<b>Financing activities</b>		
Issuance of trust units (net of issue costs) (NOTE 11)	8,766	69,367
Restructuring costs	-	(140)
Distributions paid	(88,144)	(70,952)
Unit repurchase program (NOTE 11)	(38,576)	-
Financing of revenue producing properties	795,429	67,605
Repayment of debt on revenue producing properties	(419,543)	(72,987)
Deferred financing costs incurred	(21,471)	(3,564)
	236,461	(10,671)
<b>Investing activities</b>		
Purchases of revenue producing properties (NOTE 4)	(309,313)	(85,812)
Improvements to revenue producing properties	(71,528)	(37,448)
Net cash proceeds from sale of properties (NOTE 4)	21,974	20,274
Net cash proceeds from extinguishment of option to acquire property	-	750
Net cash proceeds from forfeiture of deposit	755	-
Additions to corporate technology assets	(1,050)	(1,287)
	(359,162)	(103,523)
<b>Net increase (decrease) in cash and cash equivalents balance</b>	5,002	(15,187)
<b>Cash and cash equivalents (bank indebtedness), beginning of year</b>	(4,042)	11,145
<b>Cash and cash equivalents (bank indebtedness), end of year</b>	\$960	\$(4,042)
<b>Supplementary cash flow information:</b>		
Capital taxes paid	\$15	\$120
Interest paid	\$90,056	\$81,129
	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
<b>Net change in operating working capital:</b>		
Net change in mortgages and accounts receivable	\$(5,683)	\$4,651
Net change in other assets	(901)	(3,318)
Net change in tenant security deposits	147	(102)
Net change in accounts payable and accrued liabilities	12,856	3,227
	\$6,419	\$4,458

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

### 1. ORGANIZATION OF TRUST

Boardwalk Real Estate Investment Trust (“Boardwalk REIT” or the “Trust”) 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, May 10, 2006 and May 10, 2007, 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of presentation

These consolidated financial statements have been prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”).

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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.

#### (b) Principles of consolidation

The consolidated financial statements include the accounts of Boardwalk REIT and its wholly-owned subsidiaries, as well as entities over which it exercises control on a basis other than ownership of voting interests in accordance with CICA Handbook Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities. All inter-company transactions have been eliminated.

#### (c) Revenue recognition

- i. Revenue from a rental property is recognized once the Trust has attained substantially all of the benefits and risks of ownership of the rental property. Rental revenue includes rents, parking and other sundry revenues. The majority of the residential leases are for one-year terms or less; consequently, the Trust accounts for leases with its tenants as operating leases.
- ii. Revenue from the disposition of property held for sale, or redevelopment and sale, is recognized when all conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit (usually 15%) has been received and there is reasonable assurance on the collectibility of any outstanding amount.

#### (d) Revenue producing properties

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

Revenue producing properties and intangible assets are reviewed periodically for impairment. 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 and intangible assets will be reduced to their estimated fair value.

In accordance with the requirements of the CICA Handbook, when acquiring revenue producing properties, Boardwalk REIT allocates a portion of the purchase price to in-place operating leases that are acquired in connection with the real estate property and to a separate customer relationship intangible asset relating to the possibility or probability that existing tenants will renew their leases.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## (e) Amortization of capital assets

Revenue producing real estate properties are amortized over the estimated useful lives of the assets. Revenue producing building assets are amortized using the straight-line method over periods ranging from 40 to 50 years. Non-building assets are amortized using the declining-balance method at rates ranging from 8% to 35%.

Estimated useful lives of buildings and non-building assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

## (f) Amortization of intangibles

The value allocated to in-place operating leases when revenue producing properties are purchased by the Trust, is amortized over a twelve-month period.

## (g) Deferred financing costs

Insurance premiums paid to Canada Mortgage and Housing Corporation ("CMHC") to obtain insurance through the National Housing Act ("NHA") are amortized on a straight-line basis over the insured term of the mortgage loans. Upon the refinancing of a mortgage, any unamortized insurance premium associated with the previous mortgage is written off to income. Transaction costs related to refinancing are amortized on a straight-line basis over the term of the new loan.

## (h) Deferred unit plan

The deferred unit plan is described in NOTE 10. Deferred units granted to trustees and executives in respect of their trustee fees and bonuses, respectively, are considered to be in respect of past services and are recognized in compensation expense upon grant. Deferred units granted relating to amounts matched by the Trust are considered to be in respect of future services and are recognized in compensation expense on a straight-line basis over the vesting period. Compensation cost is measured based on the market price of the Trust's units on the date of grant of the deferred units. The unvested deferred units (and vested deferred units that have not been exchanged for Trust Units) earn additional deferred units for the distributions that would otherwise have been paid on the deferred units had they instead been issued as Trust Units on the date of grant (or the date they were exchangeable for Trust Units). No additional compensation cost is recorded for additional deferred units issued. Deferred units that have vested, but for which the corresponding Trust Units have not been issued and where the ultimate issuance of such Trust Units is simply a matter of the passage of time, are considered to be outstanding units from the date of vesting for basic and diluted earnings per unit calculations.

## (i) Risk management and fair value

### Risk management

The Trust is exposed to financial risk that arises from the fluctuation in interest rates, the credit quality of its tenants, and the fluctuation in utility rates. These risks are managed as follows:

#### i. Interest rate risk

Interest rate risk is minimized through the Trust's current strategy of having the majority of its mortgages payable in fixed term arrangements. In addition, management is constantly reviewing its operating facility and, if market conditions warrant, the Trust has the ability to convert its existing demand debt to fixed rate debt. The Trust had demand debt outstanding of \$1.2 million at December 31, 2007 (December 31, 2006 - \$6.2 million). In addition, the Trust structures its financings so as to stagger the maturities of its debt, thereby minimizing the Trust's exposure to interest rates in any one year.

The majority of the Trust's mortgages are insured by CMHC under the NHA mortgage program. This added level of insurance offered to lenders allows the Trust to receive the best possible financing and interest rates, and significantly reduces the potential for a lender to call a loan prematurely.

#### ii. Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Trust mitigates this risk of credit loss by geographically diversifying its existing portfolio, by limiting its exposure to any one tenant and by conducting thorough credit checks with respect to all new rental leasing arrangements. In addition, where legislation allows, the Trust obtains a security deposit from a tenant to assist in the recovery of monies owed to the Trust.

#### iii. Utilities

At December 31, 2007, the Trust had a long-term supply arrangement with one electrical utility company to supply the Trust with its electrical power needs for southern Alberta for the next twelve months at a blended rate of approximately \$0.068/kwh. The agreement provides that the Trust purchase its power for all southern Alberta properties under contract for the upcoming months.

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Beginning in November 2003, the Alberta government implemented a natural gas rebate program covering the winter usage months of November through March. In October 2005, the natural gas rebate program was extended to cover the month of October. In January of 2006, the Alberta government announced a three-year extension to the program covering the winter months of October through March, with the program to end March 31, 2009. The rebate program becomes active when the natural gas consumer price charged by two of the three major gas companies in Alberta exceeds \$5.50/GJ for any individual winter usage month. For January through March 2007, Boardwalk REIT was eligible for estimated rebates totalling approximately \$0.9 million. For October through December 2007, Boardwalk REIT was eligible for estimated rebates totalling \$0.3 million. For January to March 2006, Boardwalk REIT was eligible for rebates totalling approximately \$1.4 million. For October through December 2006, Boardwalk REIT was eligible for rebates totalling approximately \$0.6 million.

As at December 31, 2007, the Trust also had one natural gas supply contract, which provides a degree of price certainty for natural gas usage in the province of Saskatchewan. The contract covers between 75 - 100% of the Trust's natural gas requirements for this province. The physical supply agreement for Saskatchewan covered the period from November 1, 2006 to October 31, 2007 and has been extended to October 31, 2008. The supply contract provides the commodity at a price of \$8.95/GJ.

While the above utility contracts reduce the risk of exposure to adverse changes in commodity prices, they also reduce the potential benefits of favourable changes in commodity prices. For accounting purposes, all settlements are recorded as utility expense in the period the settlement occurs.

### Fair Value

In accordance with the disclosure requirements of the CICA Handbook, Boardwalk REIT is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the majority of the Trust's short-term financial assets and liabilities, such as mortgages and accounts receivable, tenants' security deposits, accounts payable and accrued liabilities and cash or bank indebtedness, approximate their recorded values at December 31, 2007 and 2006 due to their short-term nature. In these circumstances, the fair value is determined to be the market or exchange value of the assets or liabilities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of Boardwalk REIT and their carrying values as of December 31, 2007 and 2006 are as follows:

AS AT	December 31, 2007	December 31, 2006
Mortgages and accounts receivable		
Carrying value	\$10,071	\$4,388
Fair market value	\$10,071	\$4,388
Mortgages payable and debentures		
Carrying value	1,888,783	\$1,499,026
Fair market value	1,900,096	\$1,532,259

The fair value of the Trust's mortgages payable and debentures exceeded the recorded value by approximately \$11.3 million at December 31, 2007, while the fair value of the mortgages payable exceeded the carrying value at December 31, 2006 by \$33.2 million, due to changes in interest rates since the dates on which the individual mortgages and debentures were assumed. The fair value of the mortgages payable and debentures have been estimated based on the current market rates for mortgages and debentures with similar terms and conditions. The fair value of the Trust's mortgages payable and debentures is an amount computed based on the interest rate environment prevailing at December 31, 2007 and 2006, respectively; the amount is subject to change and the future amounts will converge. There are no additional costs or penalties to Boardwalk REIT if the mortgages and debentures are held to maturity.

### (j) Use of estimates

The accounting process requires that management make, and periodically review, a number of estimates including the following material items:

- i. economic useful life of buildings for purposes of calculating amortization as disclosed in NOTE 2 (e);
- ii. forecast of economic indicators in order to measure fair values of buildings for purposes of determining net recoverable amount under Canadian generally accepted accounting principles as discussed in NOTE 2 (d);
- iii. amount of capitalized on-site wages which relate to project improvements, as discussed in NOTE 4; and
- iv. amount of utility accrual for charges related to the current period.

Actual results may differ from these estimates.

### (k) Cash and cash equivalents

# BOARDWALK REAL ESTATE INVESTMENT TRUST

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

## **(l) Disposal of -lived assets**

Disposal of long-lived assets are classified as held for sale or redevelopment, and the results of operations and cash flows associated with the assets disposed are reported separately as discontinued operations, less applicable income taxes. A long-lived asset is classified as an asset held for sale or redevelopment at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. For unsolicited interest in a long-lived asset, the asset is classified as held for sale only if all the conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and the sale is probable and expected to be completed shortly after the end of the current period.

A long-lived asset classified as held for sale or redevelopment is measured at the lower of its carrying value and fair value less cost to sell. No amortization is recorded while it is classified as held for sale or redevelopment. Interest and other expenses attributable to the long-lived asset held for sale continue to be accrued.

The carrying value of long-lived assets classified as held for sale or redevelopment are segregated on the balance sheet as "Discontinued Operations" and the earnings and cash flows associated with these assets are presented separately on the statement of earnings and comprehensive income (loss) as line item "Earnings from discontinued operations, net of tax". For comparative purposes, the prior year's financial information has also been restated to reflect the reclassification of these assets.

## **(m) Hedging relationships**

Boardwalk REIT appropriately documents and monitors to ensure that there is a reasonable assurance, both in inception and throughout the term of the hedge, that the hedging relationship will be effective. Relationships that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of earnings and comprehensive income. Hedge accounting was applied to a bond forward contract (see NOTE 9) entered into by the Trust to mitigate future cash interest payments associated with our unsecured debentures, which was completed on January 21, 2005. Hedge accounting will also be applied to bond forward transaction completed subsequent to the fiscal year end (see NOTE 19).

## **(n) Disclosure of guarantees**

In accordance with the disclosure requirements of the CICA Handbook, Boardwalk REIT is required to disclose significant details of guarantees that have been given, regardless of whether it will have to make payments under the guarantees (see NOTE 17).

## **(o) Comparative figures**

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

### **3. ACCOUNTING CHANGES**

On January 1, 2007, the Trust adopted five new accounting standards issued by the CICA. These standards are to be applied on a retroactive basis without restatement to prior periods. Any adjustments as a result of adopting these new standards were recognized by restating the balance of opening unitholders' equity. Comparative periods are not permitted to be restated. These five standards are outlined below:

- a) Section 1506 - Accounting Changes
- b) Section 1530 - Comprehensive Income
- c) Section 3855 - Financial Instruments-Recognition and Measurement
- d) Section 3861 - Financial Instruments-Disclosure and Presentation
- e) Section 3865 - Hedges

Section 1506 - Accounting Changes prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors in order to enhance the relevance, reliability and comparability of financial statements.

Section 1530 - Comprehensive Income is comprised of net earnings and other comprehensive income ("OCI"), which represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments arising from self-sustaining foreign operations and changes in the fair value of the effective portion of cash flow hedging instruments.

Section 3855 - Financial Instruments - Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition,

## BOARDWALK REAL ESTATE INVESTMENT TRUST

except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost. Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are required to be recognized in net earnings, except for derivatives that are designated as a cash flow hedge, in which case the fair value change for the effective portion of such hedge relationship is required to be recognized in OCI. The standard permits us to designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. The standard specifically excludes Section 3065 - Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications arising on adoption of the standard include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Section 3861 - Financial Instruments - Disclosure and Presentation establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

Section 3865 - Hedges specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard ("effective"), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard ("ineffective") will be recognized in net earnings. The amounts recognized in OCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion is recognized in net earnings. Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in OCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses will be recognized in the opening balance of retained earnings on transition.

### **Impact of Adoption of Sections 1506, 1530, 3855, 3861 and 3865**

Our consolidated financial statements now include consolidated statements of earnings and comprehensive income while the cumulative amount of other comprehensive income has been included as a separate section of unitholders' equity.

Boardwalk REIT has also adopted the effective interest rate method for calculating the amortized cost of its financial liabilities and of allocating the financing charges, including transaction costs, over the relevant reporting periods. Any adjustment as a result of the adoption of Section 3855 is recognized by restating the balance of opening unitholders' equity. Comparative periods are not permitted to be restated. For the current and prior periods, all unamortized transaction costs (previously designated as deferred financing costs and mark-to-market adjustment of debt) are now netted against the respective financial liability. The table below outlines the transitional effect of adopting the new accounting standards on financial instruments:

# BOARDWALK REAL ESTATE INVESTMENT TRUST

	December 31, 2007	December 31, 2006
<b>Mortgages Payable</b>		
Principal outstanding as previously reported	\$1,827,793	\$1,420,701
Unamortized deferred financing costs as previously reported	(58,821)	(41,853)
Unamortized mark-to-market adjustment as previously reported	1,043	1,730
	\$1,770,015	\$1,380,578
<b>Debentures</b>		
Principal outstanding as previously reported	\$120,000	\$120,000
Unamortized deferred financing costs as previously reported	(1,232)	(1,552)
	\$118,768	\$118,448

There were no material impacts to the consolidated financial statements on adoption of Section 3865 by the Trust.

## Bill C-52

On June 22, 2007, Bill C-52 received Royal Assent in Canada. As a result of this, under Generally Accepted Accounting Principles in Canada, once a bill is enacted, it is a requirement to record the income tax implications effective on that date. In accordance with Bill C-52, the assumption being made is that, effective January 1, 2011, Boardwalk REIT will no longer qualify as a Real Estate Investment Trust ("REIT") in accordance with the definition contained in that legislation, and will remain within certain "normal growth" limits such that it will be subject to income tax pursuant to this new legislation.

In late December of 2007, the Federal Government announced its intention to make technical amendments to Bill C-52, in particular, amendments clarifying the definition of a REIT, which is exempted from the specified investment flow-through ("SIFT") rules. In particular, it is proposed that revenue of a subsidiary trust will be treated as revenue from real property.

## Impact of Bill C-52 and Related Amendments

The impact of our interpretation of Bill C-52 on Boardwalk REIT was that, based on a detailed review of the legislation, at this time it may be interpreted that the Trust does not qualify as a REIT, which would be exempt from the SIFT rules, and as such has recorded an estimate of its future income tax liability at June 30, 2007 and subsequently updated at December 31, 2007 based on it being subject to the tax prescribed by the SIFT rules on January 1, 2011. The result is that the Trust recorded a future income tax liability at June 30, 2007 of \$111.1 million, which was revised upward by \$1.7 million to \$112.8 million at September 30, 2007 and revised downward by \$12.9 million to \$99.9 million at December 31, 2007. Although the adjustment to earnings and cumulative earnings at December 31, 2007 is significant, it is not large enough to affect any existing debt covenants currently in place, including those stipulated for Boardwalk REIT's unsecured debentures.

At December 31, 2007, the technical amendments announced in late December 2007 had not received Royal Assent. However, if these amendments receive Royal Assent, as was the case with Bill C-52, it is believed that Boardwalk REIT would qualify as a REIT and will reverse the future income tax liability reported in these financial statements.

## Future Changes in Significant Accounting Policies

Boardwalk REIT monitored the recently issued CICA accounting pronouncements to assess the applicability and impact, if any, of these new pronouncements on our consolidated financial statements and note disclosures. The CICA issued five new accounting standards that are effective for the Trust's fiscal year commencing January 1, 2008, except for Section 3064, which is effective for the Trust's fiscal year commencing January 1, 2009:

- a) Section 1535 - Capital Disclosures
- b) Section 3031 - Inventories
- c) Section 3064 - Goodwill and Intangible Assets
- d) Section 3862 - Financial Instruments-Disclosure
- e) Section 3863 - Financial Instruments-Presentation

Section 1535 - Capital Disclosures requires the disclosure of both qualitative and quantitative information, which allows the users of financial statements to evaluate the entity's objective, policies and processes for managing capital.

Section 3031 - Inventories, which will replace Section 3030 - Inventories, provides guidelines on the measurement and costing of inventories, as well as allows for the reversal of inventory values previously written-down. This new section also enhances disclosure requirements for inventory to include accounting policies and carrying amounts used to value inventory, inventory amounts recognized as an expense and disclosure of any write-downs or the reversal of any inventory write-downs previously recorded.

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs, establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

Section 3862 - Financial Instruments-Disclosure and Section 3863 - Financial Instruments-Presentation, which will replace Section 3861 - Financial Instruments Presentation and Disclosure, revises and enhances the disclosure requirements for financial instruments and carry forward unchanged the presentation requirements for financial instruments.

The new accounting pronouncements are not expected to have any material impact to the consolidated financial statements on adoption.

#### 4. REVENUE PRODUCING PROPERTIES

As at	December 31, 2007	December 31, 2006
Land	\$214,575	\$162,839
Building and non-building assets	2,455,085	2,117,315
<hr/>		
Total revenue producing properties	2,669,660	2,280,154
Less: accumulated amortization	(513,514)	(438,269)
<hr/>		
	\$2,156,146	\$1,841,885
Continuing operations	\$2,149,853	\$1,836,429
Discontinued operations (NOTE 5)	6,293	5,456
<hr/>		
	\$2,156,146	\$1,841,885
<b>Acquisitions</b>		
	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
Cash paid	\$309,313	\$85,812
Debt assumed	31,209	3,539
<hr/>		
Total purchase price	340,522	89,351
Fair value adjustments to debt	376	19
<hr/>		
Book value	\$340,898	\$89,370
Allocation of book value to revenue producing properties	\$331,035	\$86,338
Allocation of book value to other assets (NOTE 2 (d))	9,863	3,032
<hr/>		
	\$340,898	\$89,370
Multi-family units acquired	2,421	1,103

Included in revenue producing properties is capitalized wages of \$6.8 million for the year ended December 31, 2007 (December 31, 2006 - \$3.9 million) relating to capital upgrades.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## Dispositions

	Year ended December 31, 2007	Year ended December 31, 2006
Cash received	\$21,974	\$20,274
Cost of dispositions	125	426
<hr/>		
Total proceeds	22,099	20,700
Net book value	13,767	13,173
<hr/>		
Gain on dispositions	\$8,332	\$7,527
<hr/>		
Multi-family units sold	101	196

Included in dispositions were the sales and closings of 50 units in a 90-unit property located in Calgary, Alberta that is being developed into condominium units for sale (see NOTE 5). Under the percentage of completion method, sales of \$16.2 million for the year ended December 31, 2007 (December 31, 2006 - \$nil) were recorded against cost of sales of \$9.5 million (December 31, 2006 - \$nil).

## 5. DISCONTINUED OPERATIONS

During the third quarter of 2007, it was determined by the purchaser that the plan to purchase a 108-unit property in Edmonton, Alberta owned by Boardwalk would not proceed. As a result, this building was reclassified as part of continuing operations with no loss recognized (see NOTE 13). This Edmonton property is part of our Alberta segment in our segmented information disclosure.

During the first quarter of 2007, the Trust acquired a property in Edmonton, Alberta consisting of two buildings totaling 51 apartment units. Prior to the closing of the acquisition, the Trust received an unsolicited offer to sell this property to an unrelated third party. After a detailed review of the offer, the Trust agreed to the sale of this property. The property was, therefore, classified as discontinued operations upon acquisition.

During the end of the third quarter of 2006, a revenue producing property consisting of 90 units in Calgary was classified as discontinued operations as a result of the Trust initiating an active program to dispose of this property. This property is being developed into condominium units for sale at a price that is reasonable in relation to its current fair value. This Calgary property formed part of our Alberta segment in our segmented information disclosure.

The following tables set forth the results of operations as well as the assets and liabilities associated with the discontinued operations.

	Year ended December 31, 2007	Year ended December 31, 2006
<b>Revenue</b>		
Rental income	\$219	\$1,167
<hr/>		
<b>Expenses</b>		
Revenue producing properties:		
Operating expenses	99	186
Utilities	41	167
Utilities rebate	(5)	(16)
Property taxes	25	96
Administration	54	42
Financing costs	13	208
Deferred financing costs amortization	-	176
Amortization of capital assets	32	206
<hr/>		
	259	1,065
	(40)	102

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Gain on dispositions	8,332	7,527
<hr/>		
<b>Operating earnings from discontinued operations before income taxes</b>	8,292	7,629
Future income taxes	-	-
<hr/>		
<b>Earnings from discontinued operations</b>	<u>\$8,292</u>	<u>\$7,629</u>
<b>As at</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<hr/>		
<b>Discontinued Assets</b>		
Properties held for redevelopment and sale	\$6,293	\$5,456
	<hr/>	

### 6. MORTGAGES AND ACCOUNTS RECEIVABLE

The mortgages and accounts receivable comprise an aggregate amount of \$10.1 million at December 31, 2007 (December 31, 2006 - \$4.4 million). The balance consists mainly of mortgage holdbacks, refundable mortgage fees and amounts owed to Boardwalk REIT by customers.

<b>As at</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	<hr/>	
Accounts receivable	\$5,197	\$4,388
Mortgage holdbacks and refundable mortgage fees	4,874	-
	<hr/>	
	\$10,071	\$4,388
	<hr/>	

### 7. OTHER ASSETS

<b>As at</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	<hr/>	
Corporate technology assets (net of accumulated amortization)	\$3,100	\$3,436
Head office building (net of accumulated amortization)	2,307	2,329
Deposits on potential property acquisitions	-	814
Prepaid parts and supplies	2,791	2,097
In-place lease and customer relationship intangibles (net of accumulated amortization)	3,686	1,271
Prepaid property taxes	1,312	1,193
Prepaid and other	2,580	2,733
	<hr/>	
	\$15,776	\$13,873
	<hr/>	

Accumulated amortization for corporate technology assets and head office building at December 31, 2007 were \$13.5 million and \$1.1 million, respectively (December 31, 2006 - \$12.1 million and \$1.0 million, respectively). Accumulated amortization for lease goodwill and customer relationship intangibles at December 31, 2007 was \$15.2 million (December 31, 2006 - \$7.9 million).

### 8. MORTGAGES PAYABLE

<b>As at</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	<hr/>	
<b>(a) Revenue producing properties</b>		
Mortgages payable bearing interest at rates ranging between 3.5% and 8.85% per annum with a weighted average rate of 5.11% per annum at December 31, 2007 (December 31, 2006 - 5.31%), payable in monthly principal and interest instalments totalling \$13.4 million for the year ended December 31, 2007 (December 31, 2006 - \$9.0 million), mature from 2008 to 2020 and are secured by specific charges against specific properties. All interest rates are fixed for the term of the respective mortgage.	\$1,768,389	\$1,378,910

#### (b) Other assets

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Mortgage payable bearing interest at the rate of 7.92% per annum at December 31, 2007 and 2006, payable in monthly principal and interest instalments totalling \$15 thousand for the years ended December 31, 2007 and 2006, matures in September 2010 and is secured by a specific charge against the head office building. The interest rate is fixed for the term of the mortgage.

1,626                      1,668

\$1,770,015                      \$1,380,578

Estimated principal payments required to meet mortgage obligations as at December 31, 2007 are as follows:

	<u>Revenue Producing Properties</u>	<u>Other Assets</u>	<u>Total</u>
2008	\$299,836	\$48	\$299,884
2009	284,268	53	284,321
2010	305,884	1,537	307,421
2011	131,361	-	131,361
2012	670,261	-	670,261
Subsequent	134,545	-	134,545
	<u>\$1,826,155</u>	<u>\$1,638</u>	<u>\$1,827,793</u>
Unamortized deferred financing costs	(58,809)	(12)	(58,821)
Unamortized mark-to-market adjustment	1,043	-	1,043
	<u>\$1,768,389</u>	<u>\$1,626</u>	<u>\$1,770,015</u>

Estimated principal payments required to meet mortgage obligations as at December 31, 2006 were as follows:

	<u>Revenue Producing Properties</u>	<u>Other Assets</u>	<u>Total</u>
2007	\$351,233	\$45	\$351,278
2008	238,836	48	238,884
2009	223,796	53	223,849
2010	262,470	1,537	264,007
2011	117,951	-	117,951
Subsequent	224,732	-	224,732
	<u>\$1,419,018</u>	<u>\$1,683</u>	<u>\$1,420,701</u>
Unamortized deferred financing costs	(41,838)	(15)	(41,853)
Unamortized mark-to-market adjustment	1,730	-	1,730
	<u>\$1,378,910</u>	<u>\$1,668</u>	<u>\$1,380,578</u>

CMHC provides mortgage loan insurance in connection with mortgages made to Boardwalk REIT. In an agreement dated September 13, 2002 and as amended and restated on January 19, 2005 and April 25, 2006, the Trust agreed to provide certain financial information to CMHC and be subject to certain restrictive covenants, including limitation on additional debt, payment of distributions in respect of unitholders' capital in the event of default, and maintenance of certain financial ratios. In the event of default, the Trust's total financial liability under this Agreement is limited to a one-time penalty payment of \$250 thousand under a Letter of Credit issued in favour of CMHC.

### (c) Demand facilities

During the year, the Trust had a demand facility in the form of an acquisition and operating line with a major financial institution. This demand facility was secured by a first or second mortgage charge of specific real estate assets. The maximum amount available varies with the value of pledged assets to a maximum not to exceed \$200 million. Approximately \$198.2 million was available from this facility on December 31, 2007 (December 31, 2006 - \$103.0 million). The amount of \$1.2 million of the facility was outstanding at December 31, 2007 (December 31, 2006 - \$6.2 million). In addition, two Letters of Credit ("LC") were issued and outstanding against the facility as at December 31, 2006. One LC was issued in favour of CMHC as noted above. The second LC in the amount of \$356 thousand was issued in favour of the City of London. The demand facility carried an interest rate ranging from prime to prime plus 1.0% per annum and had no fixed terms of repayment. The facility was subject to annual reviews by the financial institution.

## 9. DEBENTURES

On January 21, 2005, Boardwalk REIT completed the issuance of unsecured debentures in a public offering in the aggregate amount of \$120 million. The debentures are rated "BBB" with a stable trend by Dominion Bond Rating Services, carry a coupon rate of 5.31% and will mature on January 23, 2012. Net proceeds of approximately \$119 million was used to fund acquisitions, repay operating lines of credit and for general trust purposes. In conjunction with the debenture issue, the Trust also entered into a bond forward contract to hedge the risk of interest rate fluctuations prior to the final pricing of the debenture. The bond forward contract was settled when the debentures were issued for the settlement amount of \$0.7 million. The settlement amount will be amortized over the term of the unsecured debentures. As at December 31, 2007, the Trust was in compliance with all the covenants reported in the debenture.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## 10. DEFERRED UNIT PLAN

During 2006, the Trust implemented a deferred unit plan, which allows Boardwalk REIT to issue a maximum number of deferred units equal to 1% of the Trust Units outstanding on a fully diluted basis. The plan entitles trustees and officers, at the participant's option, to receive deferred units in consideration for trustee fees or executive bonuses, respectively, with the Trust matching the number of units received. The deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e., had they instead been issued as Trust Units on the date of grant). Once vested, participants are entitled, at their option, to receive an equivalent number of Trust Units or the equivalent value in cash of the vested deferred units and the corresponding additional deferred units. The deferred unit plan was approved by unitholders on May 10, 2006. The deferred units had a weighted average fair value of \$45.87 per unit at the grant date in 2007 (2006 - \$25.48). Total compensation costs of \$1.8 million were recognized (2006 - \$0.8 million) in income related to employee and trustee awards under the deferred unit plan.

The status of the outstanding deferred units is as follows:

Summary of Deferred Unit Plan	Outstanding	Vested
Deferred units granted	72,746	-
Additional deferred units earned on unvested units	1,000	-
<b>December 31, 2006</b>	<b>73,746</b>	<b>-</b>
Deferred units granted	51,722	-
Additional deferred units earned on unvested units	3,487	-
Deferred units cancelled	(10,478)	-
<b>December 31, 2007</b>	<b>118,477</b>	<b>-</b>

In the third quarter of 2007, a total of 8,413 deferred units vested as a result of the retirement of one trustee and the resignation of one executive. These deferred units were exchanged for an equivalent number of Trust Units and cancelled along with the remaining 2,065 deferred units that were unvested.

## 11. 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 \$10.3 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 the Trust, Boardwalk REIT Limited Partnership.

The LP Class B units are non-transferable, except under certain circumstances, but 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 entitles 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 changes in unitholders' capital contribution are as follows:

Summary of Unitholders' Capital Contributions	Units	Amount
December 31, 2005	53,224,194	\$295,696
Units issued under equity financing, net of issue costs	2,915,000	63,583
Units issued under distribution reinvestment plan	212,589	5,784
Restructuring costs	-	(140)
Deferred unit plan (NOTE 10)	-	821
December 31, 2006	56,351,783	365,744

# BOARDWALK REAL ESTATE INVESTMENT TRUST

Units issued under distribution reinvestment plan	205,185	8,917
Issue costs	-	(151)
Deferred unit plan (NOTE 10)	-	1,750
Units issued for vested deferred units (NOTE 10)	8,413	400
Units purchased and cancelled	(856,447)	(38,576)
<hr/>		
December 31, 2007	<u>55,708,934</u>	<u>\$338,084</u>

In the second quarter of 2007, Boardwalk REIT filed an application for a normal course issuer bid (the “Bid”), which received regulatory approval from the Toronto Stock Exchange on August 10, 2007. The Bid allows Boardwalk REIT to purchase and cancel up to 4,267,048 trust units, representing 10% of the public float of its trust units at the time of the TSX approval. The Bid will terminate on the earlier of one year from the date of commencement of the Bid on August 17, 2007 or at such time as purchases under the Bid are complete.

Under the Bid, the Trust has purchased and cancelled 856,447 REIT units in the year representing a total market value of approximately \$38.6 million, or an average of \$45.04 per trust unit.

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 represent 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 that 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:

	<b>Units</b>	<b>Amount</b>
Boardwalk REIT Units	51,233,934	
Special Voting Units issued to holders of LP Class B units	4,475,000	
<hr/>		
Total trust units	<u>55,708,934</u>	<u>\$338,084</u>

**12. DISTRIBUTABLE INCOME AND PER UNIT INFORMATION**

**Distributable income per unit**

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Boardwalk REIT makes distributions to unitholders on a monthly basis on or about the 15<sup>th</sup> day of the following month. The reported distributable income is defined under the Trust's Declaration of Trust ("DOT"). Under the DOT, as amended and restated, the Trust is required to distribute, at a minimum, its reported taxable income. The reconciliation of distributable income and per unit information begins with total operating cash flows calculated in accordance with Canadian generally accepted accounting principles and is 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 Canadian GAAP and, therefore, unlikely to be comparable to similar measures presented by other real estate companies and trusts.

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
Total operating cash flows	\$127,703	\$99,007
Net change in operating working capital	(6,419)	(4,458)
Add:		
Amortization of net discount on long-term debt assumed after May 2, 2004	-	67
Deduct:		
Deferred financing costs amortization post May 2, 2004	(2,155)	(1,007)
Amortization of net premium on long-term debt assumed after May 2, 2004	(417)	-
Distributable income	\$118,712	\$93,609
Distribution declared to unitholders	\$89,528	\$72,312
Distributable income withheld	\$29,184	\$21,297
Weighted average units outstanding – basic and diluted	56,248,879	55,542,918
Distributable income earned per unit	\$2.110	\$1.685
Actual distributions declared per unit	\$1.592	\$1.302

### Earnings per unit

	<b>Year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>
<b>Numerator</b>		
Earnings (loss) from continuing operations	\$(67,618)	\$17,760
Earnings from discontinued operations	8,292	7,629
<b>Denominator</b>		
Denominator for basic earnings per unit – weighted average units (THOUSANDS)	56,249	55,543
Denominator for diluted earnings per unit adjusted for weighted average units and assumed conversion (THOUSANDS)	56,249	55,543
<b>Earnings (loss) per unit from continuing operations</b>		
Basic	\$(1.20)	\$0.32
Diluted	\$(1.20)	\$0.32
<b>Earnings per unit from discontinued operations</b>		
Basic	\$0.15	\$0.14
Diluted	\$0.15	\$0.14

### 13. OTHER INCOME

In 2007, Boardwalk REIT had an agreement to sell a 108-unit property located in Edmonton, Alberta to an unrelated third-party purchaser. This sale did not proceed in accordance with the agreement, resulting in the forfeiture of the buyer's deposit to Boardwalk REIT in the amount of \$755 thousand.

In 2006, Boardwalk REIT had an option to acquire a property with an unrelated third-party, provided the first agreement to sell the property to another purchaser was not consummated. This agreement to sell the property to another purchaser was realized, resulting in a gain to Boardwalk REIT of \$750 thousand.

### 14. INCOME TAXES

Although 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. The adjustment for change in effective tax rate reflects the reduction of the current combined federal and provincial substantively enacted rate in the province of Alberta. On June 22, 2007, Bill C-52 received royal assent

## BOARDWALK REAL ESTATE INVESTMENT TRUST

(see NOTE 3 for further details). As such, the Trust, to be in compliance with Canadian GAAP, is required to estimate what the impact of the reported tax amount would be on January 1, 2011.

	Year ended December 31, 2007	Year ended December 31, 2006
Total future income taxes	\$100,597	\$613

Future income taxes consists of the following:

	Year ended December 31, 2007	Year ended December 31, 2006
Tax expense based on expected rate	\$586	\$455
Adjustment to future income tax liabilities	100,011	158
Future income taxes	\$100,597	\$613

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

	December 31, 2007	December 31, 2006
As at		
Tax asset (liability) related to operating losses	\$(90)	\$294
Tax asset (liability) related to differences in tax and book basis	(100,197)	22
Future income tax asset (liability)	\$(100,287)	\$316

### 15. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2007 and 2006, there were no related party transactions.

### 16. COMMITMENTS AND CONTINGENCIES

Boardwalk REIT has long-term supply arrangements with utility companies as described in NOTE 2(i).

Boardwalk REIT, in the normal course of operations, will become subject to a variety of legal and other claims against the Trust. Management and the Trust's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Trust or its predecessor will not be material to Boardwalk REIT.

### 17. 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 may 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 December 31, 2007 is approximately \$5.3 million (December 31, 2006 - \$5.4 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 December 31, 2007, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## 18. SEGMENTED INFORMATION

Boardwalk REIT specializes in multi-family residential housing and operates primarily within one business segment in five provinces located in Canada. The following summary presents segmented financial information for Boardwalk REIT's business by geographic location.

	Year ended December 31, 2007	Year ended December 31, 2006
<b>Alberta</b>		
Revenue	\$217,323	\$170,261
Expenses		
Operating	33,881	27,116
Utilities	22,938	20,188
Utility rebates	(1,222)	(1,988)
Property taxes	13,219	12,278
	<u>68,816</u>	<u>57,594</u>
Net operating income	<u>\$148,507</u>	<u>\$112,667</u>
<b>Saskatchewan</b>		
Revenue	\$38,974	\$35,485
Expenses		
Operating	6,922	6,375
Utilities	4,928	4,815
Property taxes	4,573	4,813
	<u>16,423</u>	<u>16,003</u>
Net operating income	<u>\$22,551</u>	<u>\$19,482</u>
<b>Ontario</b>		
Revenue	\$37,535	\$37,573
Expenses		
Operating	6,063	6,059
Utilities	6,312	6,368
Property taxes	6,262	7,169
	<u>18,637</u>	<u>19,596</u>
Net operating income	<u>\$18,898</u>	<u>\$17,977</u>
<b>Quebec</b>		
Revenue	\$69,065	\$67,141
Expenses		
Operating	13,271	13,680
Utilities	7,697	7,878
Property taxes	7,510	7,335
	<u>28,478</u>	<u>28,893</u>
Net operating income	<u>\$40,587</u>	<u>\$38,248</u>
<b>British Columbia</b>		
Revenue	\$11,410	\$8,358
Expenses		
Operating	2,541	1,943
Utilities	1,463	1,015
Property taxes	601	465
	<u>4,605</u>	<u>3,423</u>
Net operating income	<u>\$6,805</u>	<u>\$4,935</u>
<b>Total</b>		
Net operating income	\$237,348	\$193,309
Unallocated revenue*	23,778	22,489
Unallocated expenses**	(320,452)	(190,409)
Net earnings (loss) for the period	<u><u>\$(59,326)</u></u>	<u><u>\$25,389</u></u>

As at

December 31,      December 31,

# BOARDWALK REAL ESTATE INVESTMENT TRUST

	2007	2006
<b>Alberta</b>		
Identifiable assets		
Revenue producing properties	\$1,244,328	\$933,212
Mortgages and accounts receivable	5,863	1,249
Tenants' security deposit	10,385	7,988
	\$1,260,576	\$942,449
<b>Saskatchewan</b>		
Identifiable assets		
Revenue producing properties	\$168,581	\$172,269
Mortgages and accounts receivable	202	216
Tenants' security deposits	2,096	1,491
	\$170,879	\$173,976
<b>Ontario</b>		
Identifiable assets		
Revenue producing properties	\$206,366	\$208,927
Mortgages and accounts receivable	237	124
	\$206,603	\$209,051
<b>Quebec</b>		
Identifiable assets		
Revenue producing properties	\$421,473	\$419,962
Mortgages and accounts receivable	800	859
	\$422,273	\$420,821
<b>British Columbia</b>		
Identifiable assets		
Revenue producing properties	\$104,491	\$98,111
Mortgages and accounts receivable	1,049	37
Tenants' security deposits	444	408
	\$105,984	\$98,556
<b>Total assets</b>		
Identifiable assets	\$2,166,315	\$1,844,853
Unallocated assets***	29,573	25,607
	\$2,195,888	\$1,870,460

\* 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, corporate administration, financing costs, amortization, income taxes and other provisions.

\*\*\* Unallocated assets include discontinued assets, cash, short-term investments and other assets.

## 19. SUBSEQUENT EVENTS

### Forward Bond Transaction

Subsequent to the end of the fiscal year, the Trust entered into a forward bond transaction with a major Canadian financial institution. In total, the transaction was for \$101.6 million with a weighted average term and interest rate of 7.2 years and 3.63%, respectively.