

## **NEWS RELEASE FOR IMMEDIATE DISTRIBUTION**

Boardwalk REIT Announces Solid First Quarter 2008 Financial Results; FFO Per Unit Up 25.0% and DI Per Unit up 21.4% YOY; and its May 2008 Distribution.

### **CALGARY, May 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 the first quarter of 2008; FFO per unit up 25.0% and DI per unit up 21.4% YOY and its May 2008 Distribution.

For the first quarter ended March 31, 2008, the Trust reported Funds From Operations<sup>1</sup> ("FFO") of \$27.7 million and FFO per unit of \$0.50 on a diluted basis, compared to FFO of \$22.8 million and FFO per unit of \$0.40 for the same period last year. Distributable income ("DI") for the quarter was \$28.3 million and DI per unit was \$0.51 on a diluted basis, compared to \$23.6 million and \$0.42 per unit for the same period last year.

#### **Highlights of the Trust's first quarter 2008 financial results include:**

- Rental revenues of \$102.2 million, an increase of 16.7%, compared to \$87.6 million for the three-month period ended March 31, 2007.
- Net operating income of \$60.5 million, representing a 18.6% increase, from \$51.0 million in the same period last year.
- FFO of \$27.7 million, an increase of 21.7%, compared to \$22.8 million for the three-month period ended March 31, 2007.
- FFO per unit was \$0.50 on a diluted basis, up 25.0%, compared to \$0.40 for the three-month period ended March 31, 2007.
- DI per unit was \$0.51 per unit, up 21.4%, from the \$0.42 per unit for the three months ended March 31, 2007.

Commenting on the Trust's Q1 2008 results, Sam Kalias, C.E.O. and Chairman of the Board, said: "We are pleased to report on a strong first quarter of 2008 for the Trust. Our Western Canadian markets continued to generate solid revenue growth again this quarter, garnering strength from impressive market fundamentals in Saskatchewan, and still strong, though less robust than in 2006 and 2007, fundamentals in Alberta."

"Over the first quarter, market fundamentals in Saskatchewan continued to break regional records, driven by a vibrant economy and rising commodity prices for Saskatchewan produced products. The strength of the province yielded strong revenue growth for the Trust, particularly in Saskatoon, Saskatchewan's largest centre. Monthly occupied rent in our property portfolio increased approximately \$21 in Saskatchewan in March 2008 over December 2007 and increased approximately \$125 year-over-year. Average market rents in Saskatchewan increased \$14 at the end of March 2008 compared to the end of December 2007 and increased \$234 year-over-year."

"Our Alberta portfolio, which makes up approximately 54% of our portfolio overall, continued to perform over the first quarter. Despite a tempering in some market fundamentals, Alberta continues to exhibit great economic strength, fuelled by the province's thriving energy sector and strong employment opportunities. Especially strong fundamentals in Edmonton, our largest market, contributed to strong revenue growth for the Trust in the first quarter."

Roberto Geremia, President, added: "In the last month of Q4 2007 and the first month of Q1 2008, there was a weaker seasonal rental demand in Alberta, and we believe that it was partially a result of reported market rental rates that were too high. We quickly adjusted our market rents downward and with the support of our strong operations team, realized an increase in occupancy, supporting our assumption that high price was the primary contributor of the lower demand. In April, we are pleased to note a continued increase in occupancy in the Alberta portfolio. As a result of the adjustments outlined above, average market rents were down approximately \$17 in

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Edmonton and up approximately \$11 in Calgary at the end of March 2008 compared to the end of December 2007. In Edmonton and Calgary, occupied rents increased approximately \$78 and \$52, respectively, in March 2008 compared to December 2007.”

“In both Calgary and Edmonton, the resale housing market recorded an increase in inventory over the first quarter of 2008, tempering the growth rate of housing prices. Though the expense gap between buying a house and renting remains significant, consumers now have increased housing options. We currently believe that in the short-term, a more incremental approach to market rents and a focus on increasing occupancy is the most effective way to maximize revenue and retain Customer loyalty. By focusing on occupancy, we believe that we will increase revenues, promote Customer satisfaction and support sustainability for the Trust. While we work to increase occupancy, we believe that a certain level of vacancy is a necessary aspect of revenue maximization. We continue to implement our three-pronged revenue maximization strategy, in which we actively monitor occupancy, adjust price and apply suite-specific incentives when necessary. In order to maximize revenues, we seek to achieve the optimal balance of price and occupancy.”

### Operational Highlights

- The average vacancy rate across the Trust’s portfolio for the first quarter of 2008 was 5.65%, up from 4.69% in the fourth quarter of 2007, and up from 4.39% for the first quarter of 2007.
- The average monthly rent realized in the first quarter of 2008 was \$931 per rental unit, up \$89 from \$842 per rental unit for the same period last year.
- The average market rent for the Trust’s properties at the end of March 2008 was an estimated \$1,051 per rental unit per month, which compares to an average in-place monthly rent per occupied unit of \$994 at the end of March 2008. This translates to an estimated ‘loss-to-lease’ of approximately \$23.7 million on an annualized basis, or \$0.43 per outstanding Trust Unit, given existing occupancy levels.
- For the first quarter, ‘same-property’ (or properties owned for a period of 24 months or greater than) rental revenue grew by 9.6% compared to the same period last year, overall operating costs increased by 10.3%, resulting in same-property NOI increase of 9.1%. A total of 33,574 units, representing approximately 92% of Boardwalk REIT’s total portfolio, were classified as stabilized as of March 31, 2008.

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.

### Amendment to Declaration of Trust

At its special meeting of Unitholders on May 13, 2008, Boardwalk REIT Unitholders voted to adopt the previously announced amendment to its Declaration of Trust to change the definition of “Gross Book Value” to increase the asset bump by an additional \$410 million, from \$231 million to \$641 million. It is the Trust’s intention to now approach its bondholders for approval of this change to the bondholders’ trust deed. Boardwalk REIT is of the opinion that the proposed amendment to the definition of Gross Book Value will give the Trust increased flexibility to implement its strategic plan, which includes the purchase of accretive multi-family assets in the current competitive acquisition environment and, at the same time, execute its Trust Unit buy-back program.

### Same-Property Results

Boardwalk continued to show solid performance in its stabilized properties (defined as properties owned for 24 months or longer). The “same-property” results for the Trust’s stabilized portfolio for the three-month period ended March 31, 2008 showed rental revenue growth of 9.6% on a year-over-year basis. Operating expenses increased 10.3%, resulting in an increase in NOI of 9.1% compared to the same period last year. A total of 33,574

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units, representing approximately 92.0% of Boardwalk's total portfolio, were classified as stabilized as at March 31, 2008.

### Same-Property Results - Stabilized Portfolio

Mar 31 2008 - 3 M	# Units	% Revenue Growth	% Operating Expense Growth	% Net Operating Income Growth	% of NOI
Calgary	4,973	9.1%	19.9%	4.8%	20.7%
Edmonton	10,369	16.3%	17.1%	15.8%	35.8%
Other Alberta	1,680	5.6%	18.2%	-0.4%	6.1%
British Columbia	871	6.2%	11.1%	2.9%	2.5%
Ontario	4,265	0.6%	-2.3%	4.3%	7.7%
Quebec	6,756	2.7%	-1.0%	5.8%	17.5%
Saskatchewan	4,660	16.0%	17.8%	14.2%	9.7%
	33,574	9.6%	10.3%	9.1%	100.0%

Commenting on Boardwalk REIT's same-property results, William Wong, Chief Financial Officer, said, "For the first quarter of 2008, same-property revenue increased by 9.6% compared to the same period in the prior year. Despite rental expenses increasing by 10.3%, net operating income growth improved overall by 9.1%. The increase in reported stabilized revenue was driven mainly by the Trust's Alberta operations, which account for approximately 63% of the Trust's reported stabilized net operating income. The majority of the reported increase in rental operating expenses for the three months ended March 31, 2008 was due to higher operating costs in Alberta and higher utility costs in the first quarter of 2008, as compared to the first quarter of 2007."

### Sequential Revenue Analysis

Stabilized Revenue Growth	# Units	Q1 2008 vs. Q4 2007	Q4 2007 vs. Q3 2007	Q3 2007 vs. Q2 2007	Q2 2007 vs. Q1 2007
Calgary	4,973	3.3%	0.4%	0.8%	4.2%
Edmonton	10,369	5.3%	1.8%	3.9%	4.5%
Other Alberta	1,680	3.2%	1.9%	0.8%	(0.4)%
British Columbia	871	4.1%	(1.9)%	2.6%	1.8%
Ontario	4,265	-0.4%	2.1%	(1.4)%	0.4%
Quebec	6,756	0.0%	0.2%	2.3%	0.6%
Saskatchewan	4,660	2.7%	4.6%	5.5%	2.3%
	33,574	2.9%	1.5%	2.4%	2.6%

Commenting on Boardwalk REIT's sequential stabilized revenue growth, William Wong, Chief Financial Officer, said, "On a sequential basis, stabilized revenues grew 2.9% from Q4 2007 to Q1 2008, 1.5% from Q3 2007 to Q4 2007, 2.4% from Q2 2007 to Q3 2007 and 2.6% from Q1 2007 to Q2 2007."

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## New Property Development

Commenting on the Trust's property acquisitions and dispositions, Bill Chidley, Senior Vice President, Corporate Development, said, "We continue 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, Edmonton and Fort McMurray that feature excess density. The planning consultants estimate that in Calgary, an additional density of 6,200 to 12,700 apartment units could be achieved with re-zoning. In the Edmonton area the consultants estimate 11,900 to 14,400 additional units could be achieved, along with 450 additional units in 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. 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.

## Unit Buyback

We continue to believe that one of the best investments we can make is purchasing our Trust Units at current levels. For the quarter ended March 31, 2008, the Trust purchased in the public market 620,800 Trust Units for a total of \$23.0 million, or an average purchase price of \$37.06 per Trust Unit. As of May 01, 2008, Boardwalk REIT have purchased a cumulative total of \$65.68 million in Trust Units in the public market, representing 1,584,347 Trust Units with an average price of \$41.46 per Trust Unit.

## Continued Financial Strength

The Trust built upon its solid financial position throughout the first quarter of 2008. Boardwalk REIT's total principal mortgage and debt outstanding was \$2.1 billion as of March 31, 2008, as compared to \$1.7 billion as of March 31, 2007. As of March 31, 2008, the Trust's total debt had an average maturity of 3 years with a weighted average interest rate of 5.02%. The Trust's debt-to-total enterprise value ratio was 49.0%.

We currently estimate that by the end of this fiscal year, if desired, the Trust could have access to approximately \$450 million of available capital in the form of cash on hand, secured, undrawn acquisition and operating facility and estimated additional mortgage proceeds for the remainder of the year. The Trust's interest coverage ratio, excluding gains, for the three-month period ended March 31, 2008 was 2.14 times, compared to 2.11 times in the same period last year.

## Subsequent Event

Subsequent to March 31, 2008, Boardwalk REIT acquired a property in Calgary, Alberta, totaling 297 apartment units from an unrelated third party for an aggregate purchase price of \$48.8 million. The transaction is scheduled to close June 13, 2008 and will be funded using cash-on-hand.

## Outlook and 2008 Financial Guidance

In its 2007 Annual Report, Boardwalk REIT outlined specific targets for its fiscal 2008 overall financial performance. The Trust on a quarterly basis reviews the key assumptions used in determining this guidance and if warranted, makes adjustments. Based on this review, we are maintaining our 2008 full year guidance for both FFO and DI per Unit; however, we are lowering our stabilized buildings NOI growth from the initial guidance of 8.0% - 14.0% to 8.0% - 12.0%. The reduction in our NOI has not resulted in a revision in either FFO or DI full year expectations, as we anticipate that this decrease will be compensated by lower overall expected financing charges and increased return on acquisitions. We are currently taking a more conservative approach to acquisitions, as we feel our normal course issuer bid will provide us with better value in the current year. We are reducing our new acquisition targets from the previously stated 1,000 - 2,000 units to 500 - 1,000 units.

	2008 Original Objectives	2008 Revised Guidance

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FFO Rental Operations	\$2.35 to \$2.50	\$2.35 to \$2.50
Distributable Income	\$2.37 to \$2.52	\$2.37 to \$2.52
New Unit Acquisitions	1,000 to 2,000	500 to 1,000
Stabilized Buildings NOI growth	8% to 14%	8% to 12%

### May 2008 Monthly Distribution

The Trust has declared its May 2008 distribution in the amount of 15.00 cents per trust unit (\$1.80 on an annualized basis). The May distribution will be payable on June 16, 2008 to unitholders of record on May 30, 2008.

### Supplementary Information

Boardwalk produces Quarterly Supplemental Information that provides detailed information regarding the Trust's activities during the quarter. The First Quarter 2008 Supplemental Information is available on our investor website at [www.boardwalkreit.com](http://www.boardwalkreit.com).

### Teleconference on First Quarter 2008 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 first 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)-644-3414 (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=2190760>

Replay: An audio recording of the teleconference will be available from 1:00 pm ET on Wednesday, May 14, 2008 until 11:59 pm ET on Wednesday, May 21, 2008. You can access it by dialling 416-640-1917 and using the passcode 21265024 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 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.

## BOARDWALK REAL ESTATE INVESTMENT TRUST

**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	March 31, 2008	December 31, 2007
	(Unaudited)	(Audited)
<b>Assets</b>		
Revenue producing properties (NOTE 4)	\$2,138,794	\$2,149,853
Other assets (NOTE 5)	16,503	15,776
Mortgages and accounts receivable	10,067	10,071
Segregated tenants' security deposits	13,309	12,935
Cash and cash equivalents	91,675	960
Discontinued operations (NOTE 6)	7,577	6,293
	<u>\$2,277,925</u>	<u>\$2,195,888</u>
<b>Liabilities</b>		
Mortgages payable	\$1,892,239	\$1,770,015
Debentures (NOTE 7)	118,844	118,768
Accounts payable and accrued liabilities	44,983	48,279
Refundable tenants' security deposits and other	16,591	16,186
	<u>2,072,657</u>	<u>1,953,248</u>
Future income taxes (NOTES 3 and 11)	102,668	100,287
	<u>2,175,325</u>	<u>2,053,535</u>
<b>Unitholders' Equity</b>		
Unitholders' equity	102,600	142,353
	<u>\$2,277,925</u>	<u>\$2,195,888</u>

Commitments and contingencies (NOTE 14)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(CDN\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
	(Unaudited)	(Unaudited)
<b>Revenue</b>		
Rental income	\$102,209	\$87,570
<b>Expenses</b>		
Revenue producing properties:		
Operating expenses	18,559	15,541
Utilities	16,724	13,862
Utility rebate (NOTE 14)	(1,258)	(925)
Property taxes	7,679	8,068
Administration	5,754	5,291
Financing costs	25,595	21,669
Deferred financing costs amortization	1,468	1,279
Amortization of capital assets	19,999	18,136
Amortization of intangibles	1,939	1,198
	96,459	84,119
<b>Earnings from continuing operations before income taxes</b>	5,750	3,451
Current income taxes	4	-
Future income taxes (recovery) (NOTE 11)	2,381	(232)
<b>Earnings from continuing operations</b>	3,365	3,683
Earnings (loss) from discontinued operations, net of tax (NOTE 6)	2,267	(52)
<b>Net earnings</b>	5,632	3,631
<b>Other comprehensive income</b>	-	-
<b>Comprehensive income</b>	\$5,632	\$3,631
<b>Basic earnings per unit (NOTE 10)</b>		
- from continuing operations	\$0.06	\$0.06
- from discontinued operations	0.04	0.00
<b>Basic earnings per unit</b>	\$0.10	\$0.06
<b>Diluted earnings per unit (NOTE 10)</b>		
- from continuing operations	\$0.06	\$0.06
- from discontinued operations	0.04	0.00
<b>Diluted earnings per unit</b>	\$0.10	\$0.06

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>3 months ended March 31, 2008</b> (Unaudited)	<b>3 months ended March 31, 2007</b> (Unaudited)
<b>Trust units (NOTE 9)</b>		
Balance, beginning of period	\$338,084	\$365,744
Units issued under equity financing, net of issue costs	-	(136)
Units issued under distribution reinvestment plan	2,121	2,450
Deferred unit plan (NOTE 8)	461	630
Unit purchased and cancelled (NOTE 9)	(23,009)	-
Balance, end of period	<u>\$317,657</u>	<u>\$368,688</u>
<b>Cumulative earnings</b>		
Balance, beginning of period	\$95,591	\$154,917
Net earnings for the period	5,632	3,631
Balance, end of period	<u>\$101,223</u>	<u>\$158,548</u>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	\$-	\$-
Other comprehensive income for the period	-	-
Balance, end of period	<u>\$-</u>	<u>\$-</u>
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of period	\$(291,322)	\$(201,794)
Distributions declared to unitholders (NOTE 10)	(24,958)	(20,861)
Balance, end of period	<u>\$(316,280)</u>	<u>\$(222,655)</u>
<b>Total unitholders' equity</b>	<u>\$102,600</u>	<u>\$304,581</u>
<b>Units issued and outstanding</b>	<u>55,144,852</u>	<u>56,411,163</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(CDN\$ THOUSANDS)

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
	(Unaudited)	(Unaudited)
<b>Operating activities</b>		
Net earnings	\$5,632	\$3,631
Loss (earnings) from discontinued operations, net of tax	(2,267)	52
Future income taxes (recovery)	2,381	(232)
Amortization of capital assets	19,999	18,136
Amortization of intangibles	1,939	1,198
Amortization of deferred financing costs	1,468	1,279
	29,152	24,064
Cash from discontinued operations	-	(28)
Net change in operating working capital	(5,273)	(155)
Total operating cash flows	23,879	23,881
<b>Financing activities</b>		
Issue of trust units (net of issue costs) (NOTE 9)	2,121	2,313
Distributions paid	(25,012)	(20,854)
Unit repurchase program (NOTE 9)	(23,009)	-
Financing of revenue producing properties	209,387	246,140
Repayment and maturity of debt on revenue producing properties	(81,362)	(109,701)
Deferred financing costs incurred	(7,022)	(5,175)
	75,103	112,723
<b>Investing activities</b>		
Purchases of revenue producing properties (NOTE 4)	-	(160,191)
Improvements to properties	(16,325)	(14,370)
Net cash proceeds from sale of properties (NOTE 4)	8,381	-
Additions to corporate technology assets	(323)	(335)
	(8,267)	(174,896)
<b>Net increase (decrease) in cash and cash equivalents balance</b>	90,715	(38,292)
<b>Cash and cash equivalents (bank indebtedness), beginning of period</b>	960	(4,042)
<b>Cash and cash equivalents (bank indebtedness), end of period</b>	\$91,675	\$(42,334)
<b>Supplementary cash flow information:</b>		
Taxes paid	\$4	\$-
Interest paid	\$26,542	\$21,064
	\$4	\$(666)
<b>Net change in operating working capital:</b>		
Net change in mortgages and accounts receivable	\$4	\$(666)
Net change in other assets	(2,012)	(829)
Net change in tenants' security deposits	31	189
Net change in accounts payable and accrued liabilities	(3,296)	1,151
	\$(5,273)	\$(155)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2008

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

### 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. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”) and are consistent with those used in the audited consolidated financial statements as at and for the year ended December 31, 2007, except as disclosed in Note 3 below. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles (“Canadian GAAP”) applicable to annual financial statements and, therefore, they should be read in conjunction with the audited consolidated financial statements.

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

Due to seasonality, the operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008 due to seasonal variations in utility costs and other factors. Historically, Boardwalk REIT has experienced higher utility expenses in the first quarter as a result of the winter months, resulting in variations in the quarterly results.

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, 2008, the Trust adopted four new accounting standards issued by the CICA as outlined below:

- a) Section 1535 – Capital Disclosures
- b) Section 3031 – Inventories
- c) Section 3862 – Financial Instruments – Disclosure
- d) 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 replaced 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.

Section 3862 - Financial Instruments-Disclosure and Section 3863 - Financial Instruments-Presentation, which replaced 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. Section 3862 requires entities to provide disclosures in their financial statements which allow the users to evaluate both the significance of financial instruments for the entity’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The purpose of Section 3863 is to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows.

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## Impact of Adoption of Sections 1535, 3031, 3862 and 3863

Our consolidated financial statements include additional disclosures on capital management (NOTE 12) and financial instruments (NOTE 13).

There was no material impact to the consolidated financial statements on adoption of Section 3031 by the Trust.

## Bill C-52

On June 22, 2007, Bill C-52 received Royal Assent in Canada. As a result of this, under Canadian GAAP, 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.

## Impact of Bill C-52

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 specified investment flow-through ("SIFT") rules, and as such has recorded an estimate of its the future income tax liability 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 December 31, 2007 of \$99.9 million, which was revised upward by \$2.8 million to \$102.7 million at March 31, 2008. At a future time, once it has been deemed that the Trust would be in compliance with the SIFT rules, the amount of the adjustment will be reversed. Although the adjustment to earnings and cumulative earnings at March 31, 2008 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 this time, it is the belief of the Trust that it will be in compliance with the existing and or amended legislation prior to the effective date of January 1, 2011.

At March 31, 2008, 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.

## Hedging Relationships

During the three months ended March 31, 2008, the Trust entered into a forward bond transaction with a major Canadian financial institution. In total, the transaction, which comprised of bond forward contracts on specific mortgages set to mature in 2008, was for \$101.6 million with a weighted average term and interest rate of 7.2 years and 3.63%, respectively. Subsequent to entering into this transaction, the Trust initiated changes to the terms of one of the contracts in the transaction and negotiated a settlement amount of \$100,000 related to the changes. The contract was assessed to be ineffective and the settlement amount of \$100,000 has been included in financing costs. The balance of the remaining contracts in the transaction have been assessed as effective.

During the three months ended March 31, 2008, the Trust entered into an interest rate swap agreement on the mortgages of specific properties within its portfolio in an effort to hedge the variability in cash flows attributed to fluctuating interest rates. These interest rate swap agreements were designated as cash flow hedges on March 11, 2008. The effective date of the hedge is May 1, 2008 and will continue to be designated as such until May 1, 2015. Settlements on both the fixed and variable portion of the interest rate swap will occur on a monthly basis. The fixed interest rate is 4.15%, plus a stamping fee, while the total amount of the mortgage debt subject to the interest rate swap is \$91.5 million. Hedge accounting will be applied to these agreements in accordance with CICA Handbook section 3865.

The Trust has assumed that there is no ineffectiveness in the hedge of its interest rate exposure. The effectiveness of the hedging relationship will be reviewed on a quarterly basis and measured at fair value. The portion of the gain or loss on the swap transaction that is determined to be an effective hedge will be recognized in other comprehensive income ("OCI"). The ineffective portion of the gain or loss on the swap transaction will be recognized immediately in net earnings. On recognition of the financial liability of the hedged item on the balance sheet, the associated gains or losses that were recognized in OCI will be reclassified into net earnings in the same period or periods during which the interest payments of the hedged item affected net earnings. However, if all or a portion of the net loss recognized in OCI will not be recovered in one or more future periods, the amount not expected to be recovered will be immediately reclassified into net earnings.

## 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 one new accounting standard that is effective for the Trust's fiscal year commencing January 1, 2009:

- a) Section 3064 – Goodwill and Intangible Assets

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

## BOARDWALK REAL ESTATE INVESTMENT TRUST

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.

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

#### 4. REVENUE PRODUCING PROPERTIES

##### Acquisitions

	3 months ended March 31, 2008	3 months ended March 31, 2007
Cash paid	\$-	\$160,191
Debt assumed	-	31,209
<hr/>		
Total purchase price	-	191,400
Fair value adjustments to debt	-	376
<hr/>		
Book value	\$-	\$191,776
Allocation of book value to revenue producing properties	\$-	\$185,949
Allocation of book value to other assets	-	5,827
<hr/>		
	\$-	\$191,776
Multi-family units acquired	-	1,543

##### Dispositions

	3 months ended March 31, 2008	3 months ended March 31, 2007
Cash received	\$8,381	\$-
Cost of dispositions	-	-
<hr/>		
Total proceeds	8,381	-
Net book value	6,114	-
<hr/>		
Gain on dispositions	\$2,267	\$-
Multi-family units sold	24	-

Included in dispositions are the sales and closings of 24 units in a 90-unit property located in Calgary, Alberta that is being developed into condominium units for sale (see NOTE 6). Under the percentage of completion method, sales of \$8.4 million for the three months ended March 31, 2008 were recorded against cost of sales of \$6.1 million.

#### 5. OTHER ASSETS

	March 31, 2008	December 31, 2007
Corporate technology assets (net of accumulated amortization)	\$3,138	\$3,100
Head office building (net of accumulated amortization)	2,421	2,307
Deposits on potential property acquisitions	250	-
Prepaid parts and supplies	2,701	2,791
In-place lease and customer relationship intangibles (net of accumulated amortization)	1,747	3,686
Prepaid property taxes	3,143	1,312
Prepaid and other	3,103	2,580
<hr/>		
	\$16,503	\$15,776

# BOARDWALK REAL ESTATE INVESTMENT TRUST

Accumulated amortization for corporate technology assets and head office building at March 31, 2008 were \$13.8 million and \$1.1 million, respectively (December 31, 2007 - \$13.5 million and \$1.1 million, respectively). Accumulated amortization for in-place lease and customer relationship intangibles at March 31, 2008 was \$17.1 million (December 31, 2007 - \$15.2 million)

## 6. DISCONTINUED OPERATIONS

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 (See NOTE 4). This Calgary property formed 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 totalling 51 apartments. Prior to the closing of the acquisition, the Trust received an unsolicited offer to sell this property to an unrelated third party, which the Trust accepted. This property was, therefore, classified as discontinued operations upon acquisition.

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

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
<b>Revenue</b>		
Rental income	\$-	\$188
<b>Expenses</b>		
Revenue producing properties:		
Operating expenses	-	87
Utilities	-	45
Utility rebate	-	(5)
Property taxes	-	23
Administration	-	53
Financing costs	-	13
Amortization of capital assets	-	24
	-	240
Gain on dispositions	2,267	(52)
	2,267	-
<b>Earnings (loss) from discontinued operations</b>	<b>\$2,267</b>	<b>\$(52)</b>
	<b>March 31, 2008</b>	<b>December 31, 2007</b>
<b>Discontinued Assets</b>		
Properties held for redevelopment and sale	<b>\$7,577</b>	<b>\$6,293</b>

## 7. 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 were 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. At March 31, 2008 the Trust was in compliance with all the covenants reported in the debenture, the covenants are discussed in NOTE 13(c).

## 8. DEFERRED UNIT PLAN

During 2006, the Trust implemented a deferred unit plan. 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

## BOARDWALK REAL ESTATE INVESTMENT TRUST

deferred unit plan was approved by unitholders on May 10, 2006. The deferred units had a weighted average fair value of \$38.87 per unit at the grant dates in 2008 (2007 - \$45.87; 2006 - \$25.48). For the quarter ended March 31, 2008, total compensation costs of \$0.5 million (2007 - \$0.6 million) were recognized in income related to employee awards under the deferred unit plan.

The status of the outstanding deferred units is as follows:

Summary of Deferred Unit Plan	Outstanding	Vested
<b>December 31, 2006</b>	73,746	-
Deferred units granted	51,722	-
Additional deferred units earned on unvested units	3,487	-
Deferred units cancelled	(10,478)	-
<b>December 31, 2007</b>	118,477	-
Deferred units granted	24,781	-
Additional deferred units earned on unvested units	1,548	-
<b>March 31, 2008</b>	144,806	-

### 9. 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. 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 will entitle the holder to receive notice of, attend and vote at all meetings of unitholders. There is no value assigned to the Special Voting units. The LP Class B units issued are included in the unitholders' capital contributions on the balance sheet. The changes in unitholders' capital contribution are as follows:

Summary of Unitholders' Capital Contributions	Units	Amount
December 31, 2006	56,351,783	\$365,744
Units issued under distribution reinvestment plan	205,185	8,917
Issue costs	-	(151)
Deferred unit plan	-	1,750
Units issued for vested deferred units (NOTE 8)	8,413	400
Units purchased and cancelled (NOTE 8)	(856,447)	(38,576)
December 31, 2007	55,708,934	\$338,084
Units issued under distribution reinvestment plan	56,718	2,121
Deferred unit plan (NOTE 8)	-	461
Units purchased and cancelled	(620,800)	(23,009)
<b>March 31, 2008</b>	55,144,852	\$317,657

In August 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 620,800 REIT units in the first quarter of 2008, representing a total market value of approximately \$23.0 million, or an average of \$37.06 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:

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## (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	50,669,852	
Special Voting Units issued to holders of LP Class B units	4,475,000	
Total trust units	55,144,852	\$317,657

## 10. DISTRIBUTABLE INCOME AND PER UNIT INFORMATION

### Distributable income per unit

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 as defined in the Declaration of Trust for Boardwalk REIT. However, distributable income and the per unit information are non-GAAP measures that do not have any standardized meaning prescribed by Canadian GAAP and they are, therefore, unlikely to be comparable to similar measures presented by other real estate companies and trusts.

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
Total operating cash flows	\$23,879	\$23,881
Net change in operating working capital	5,273	155
Deduct:		
Deferred financing costs amortization post May 2, 2004	(731)	(326)
Amortization of net premium on long-term debt assumed after May 2, 2004	(124)	(89)
	\$28,297	\$23,621
Distributable income	\$28,297	\$23,621
Distributions declared to unitholders	\$24,958	\$20,861
Distributable income withheld	\$3,339	\$2,760
	\$28,297	\$23,621

## BOARDWALK REAL ESTATE INVESTMENT TRUST

Weighted average units outstanding – basic and diluted	55,424,413	56,387,144
Distributable income earned per unit	\$0.511	\$0.419
Actual distributions declared per unit	\$0.450	\$0.370

### Earnings per unit

	3 months ended March 31, 2008	3 months ended March 31, 2007
<b>Numerator</b>		
Earnings from continuing operations	\$3,365	\$3,683
Earnings (loss) from discontinued operations	\$2,267	\$(52)
<b>Denominator</b>		
Denominator for basic earnings per unit - weighted average units	55,424,413	56,387,144
Denominator for diluted earnings per unit adjusted for weighted average units and assumed conversion	55,424,413	56,387,144
<b>Earnings per unit from continuing operations</b>		
Basic	\$0.06	\$0.06
Diluted	\$0.06	\$0.06
<b>Earnings per unit from discontinued operations</b>		
Basic	\$0.04	\$0.00
Diluted	\$0.04	\$0.00

## 11. INCOME TAXES

Boardwalk REIT is a “mutual fund trust” as defined under the Income Tax Act (Canada) and, accordingly, is not taxable on its income to the extent that its income is distributed to its unitholders. This exemption does not extend to the corporate subsidiaries of Boardwalk REIT that are subject to income tax. On June 22, 2007, Bill C-52 received royal assent (see Note 3 for further details). As such, the Trust, to be in compliance with Canadian GAAP, was required to estimate what the impact of the reported tax amount would be on January 1, 2011. This estimate is reviewed quarterly and adjusted, if necessary.

	3 months ended March 31, 2008	3 months ended March 31, 2007
Continuing operations	\$2,381	\$(232)
Total future income taxes (recovery)	\$2,381	\$(232)

Future income taxes (recovery) consist of the following:

	3 months ended March 31, 2008	3 months ended March 31, 2007
Tax expense based on expected rate	\$60	\$109
Adjustment to future income tax liabilities	2,321	(341)
Future income taxes (recovery)	\$2,381	\$(232)

The future income tax liability is calculated as follows:

	March 31, 2008	December 31, 2007
Tax asset (liability) related to operating losses	\$334	\$(90)
Tax liability related to differences in tax and book basis	(103,002)	(100,197)
Future income tax liability	\$(102,668)	\$(100,287)

# BOARDWALK REAL ESTATE INVESTMENT TRUST

## 12. CAPITAL MANAGEMENT

The Trust defines capital resources as the aggregate of unitholders' equity, debt (both secured and unsecured), internally generated funds and cash on hand. The Trust's capital management framework is designed to maintain a level of capital that allows it to implement its business strategy while complying with investment and debt restrictions pursuant to Boardwalk's DOT as well as existing debt covenants while continuing to build long-term Unitholder value. The main components of the Trust's capital allocation are approved by its unitholders as stipulated in the Trust's DOT and on a regular basis by its Board of Trustees ("Board") through their annual review of the Trust's strategic plan and budget, supplemented by periodic Board and Board Committee meetings. Capital adequacy is monitored by the Trust by assessing performance against the approved annual plan throughout the year, which is updated accordingly, and by monitoring adherence to investment and debt restrictions contained in the DOT and debt covenants. Boardwalk REIT's DOT provides for maximum total debt levels up to 70% of Gross Book Value ("GBV") as defined in the DOT as total assets plus accumulated amortization of income properties as recorded by the Trust (and calculated in accordance with GAAP) and to this amount an additional amount of \$231 million ("Bump") is added as was previously approved by the Trust's Unitholders. As a matter of internal policy the Trust has a target of total debt levels not to exceed 65% of GBV, however, subsequent to the current quarter ended the Trust has requested its Unitholders to vote and approve an additional bump to its existing GBV (see NOTE 17). The following table highlights Boardwalk REIT's existing leverage ratio:

As at	March 31, 2008	December 31, 2007
Total assets	\$2,277,925	\$2,195,888
Amortization	533,123	513,514
Exchange value bump	231,460	231,460
	\$3,042,508	\$2,940,862
Mortgages payable	\$1,892,239	\$1,770,015
Unsecured debentures	118,844	118,768
Adjustment to debt	8,005	10,560
	\$2,019,088	\$1,899,343
Adjusted Debt-to-GBV	66%	65%

With a DOT limit not to exceed 70% on Adjusted Debt-to-Gross Book Value, Boardwalk REIT has the ability to add additional leverage on its existing portfolio. Additionally, the Trust's DOT contains provisions that have the effect of limiting capital expended by the Trust.

As outlined in NOTE 13(d), both the debenture agreement and the credit facility agreement contain financial covenants.

Boardwalk REIT's available capital is comprised of long-term fixed rate debt (both secured and unsecured), unitholders' capital and drawings under lines of credit and totalled \$2.3 billion as at March 31, 2008 (December 31, 2007 – \$2.3 billion). As at March 31, 2008, the Trust was in compliance with all covenants in both its DOT and all existing debt facilities.

## 13. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The Trust's financial instruments consist of mortgages and accounts receivable, tenants' security deposits, cash or bank indebtedness, mortgages payable, debentures and accounts payable and accrued liabilities. All of the Trust's financial instruments were classified as either held for trading (cash), loans and receivables (carried at amortized cost) or other financial liabilities (carried at amortized cost using the effective interest rate method). The fair values of the Trust's financial instruments were determined as follows:

- i) The carrying amounts of mortgages and accounts receivable, tenants' security deposits, cash or bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short-term nature.
- ii) The fair values of the Trust's mortgages payable and debentures are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Trust for similar financial instruments subject to similar risks and maturities. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in estimates could significantly affect fair values. The significant financial instruments of Boardwalk REIT and their carrying values as at March 31, 2008 are as follow:

As at	March 31, 2008
Mortgages and accounts receivable	
Carrying value	\$10,067
Fair market value	\$10,067
Mortgages payable and debentures	
Carrying value	\$2,011,083

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Fair market value

\$2,060,062

At January 1, 2008 and for the three months ended March 31, 2008, the Trust had no embedded derivatives requiring separate recognition.

The nature of these financial instruments and the Trust's operations expose the Trust to certain principal financial risks. The main objective of the Trust's risk management process is to properly identify financial risks and minimize the exposure to potential losses arising from those risks. The principal financial risks to which the Trust is exposed are described below.

## **Risk Management**

### **a) Interest rate risk**

The Trust is exposed to interest rate risk as a result of its mortgages payable, debentures and credit facilities, however this risk is minimized through the Trust's current strategy of having the majority of its mortgage payable and debentures in fixed terms arrangements. As such, the Trust's cashflows are not significantly impacted by a change in market interest rates. 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 also 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. In addition, management is constantly reviewing its credit facility (floating-rate debt) and, if market conditions warrant, the Trust has the ability to convert its existing floating-rate debt to fixed rate debt.

As at March 31, 2008, the Trust had zero credit facility debt outstanding and as such of the Trust's total debt at March 31, 2008, 100% is fixed-rate debt and 0% is floating-rate debt. For the three months ended March 31, 2008, all else being equal, the increase or decrease in net earnings for each 1% change in interest rates amounts to \$0.

### **b) Credit risk**

The Trust is exposed to credit risk as a result of its mortgages and accounts receivable. This balance is comprised of mortgage holdbacks and refundable mortgage fees, accounts receivable from significant customers and tenant receivables. As at March 31, 2008, no balance relating to mortgage holdbacks, refundable mortgage fees or accounts receivable from significant customers was past due.

In relation to mortgage holdbacks and refundable mortgage fees, the Trust's exposure to credit risk is low given the nature of these balances. These funds will be advanced when the Trust has met the conditions pursuant to the mortgage agreement (in the case of the mortgage holdback) or when financing is completed (in the case of refundable mortgage fees), both of which are expected to occur.

Similar to mortgage holdbacks and refundable mortgage fees, the Trust assesses the credit risk on accounts receivable to be low due to the assured collection of these balances. The majority of the balance relates to money owing from an energy provider as a result of the Alberta government natural gas rebate program and the Trust's revenue sharing initiatives. Given the Trust's collection history and the nature of these customers, credit risk is assessed as low. An amount was owing pursuant to the unit sales (see NOTE 4) all of which was collected subsequent to March 31, 2008. Additionally, an amount is owed by insurance companies in relation to current outstanding claims. In all circumstances, the insurance deductible has been paid and amounts incurred and owing for reimbursement are due to an insurable event. Recoverability may differ from the amount owing solely due to discrepancies between the Trust and the insurance provider regarding the value of replacement costs. The remainder of the balance relates to a property tax adjustment which was collected subsequent to March 31, 2008.

With tenant receivables, credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

As stated above, the carrying amount of tenant receivables reflects management's assessment of the credit risk associated with its tenants; however, 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.

Past due receivables are reviewed by management on a monthly basis and tenant receivables are considered for impairment on a case-by-case basis. The Trust takes into consideration the tenant's payment history, their credit worthiness and the current economic environment however tenant receivable balances exceeding 60 days are typically written off to bad debt expense as the Trust does not utilize an allowance for doubtful accounts. The amount of the loss is recognized in the consolidated statement of earnings and comprehensive income within operating expenses. Subsequent recoveries of amounts previously written off are credited against operating expenses during the period of settlement. As tenant receivables are typically written off after 60 days, none of the balance is considered to be past due by the Trust.

### **c) Liquidity risk**

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they become due. The Trust maintains what it believes to be a conservatively leveraged balance sheet and can finance any future growth through one or a combination of internally generated cash flows, borrowing under existing credit facility, the issuance of debt or the issuance of equity, according to its capital management objectives. In addition, the Trust structures its financings so as to stagger the maturities of its debt, thereby minimizing the Trust's exposure to liquidity risk in any one year. In addition, cash flow projections are completed on a regular basis to ensure the Trust has sufficient cash flows

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to make its monthly distributions to its Unitholders. Given the Trust's currently available liquid resources (from both financial assets and on-going operations) as compared to its contractual obligations, management assesses the Trust's liquidity risk to be low.

### d) Debt covenants

As outlined in its mortgages payable agreements, the Trust is required to make equal monthly payments of principal and interest based on the respective amortization period. Additionally, the Trust must ensure that all property taxes have been paid in full when they become due and that no arrears exist.

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 the CMHC and be subject to certain restrictive covenants, including limitation on additional debt, payment of distributions in respect to 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.

Per the debenture agreement, the Trust is required to pay semi-annual interest instalments on January 23 and July 23 of each year. The Trust is also required to maintain in good condition, repair and working order all of the properties owned by it or any of its Subsidiaries while maintaining property and liability insurance.

The debenture agreement contains three financial covenants as follows:

- i) the Trust will maintain a Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") to Consolidated Interest Expense of not less than 1.50 to 1. As at March 31, 2008, this ratio was 2.1 to 1 and as such the Trust is in compliance.
- ii) the Trust will not incur or assume any indebtedness unless the quotient obtained by dividing the Adjusted Consolidated Indebtedness by the Adjusted Gross Book Value would be less than or equal to 70%. As outlined in NOTE 12, as at March 31, 2008, this amount was 66% and as such the Trust is in compliance.
- iii) the Trust will maintain at all times, an Adjusted Unitholders' Equity of at least \$300 million. Adjusted Unitholders' Equity was \$859 million as at March 31, 2008.

The Trust has a credit facility in the form of an acquisition and operating line with a major financial institution. This credit facility was secured by a first or second mortgage charge of specific real estate assets (carrying value of \$292 million). The maximum amount varies with the value of the pledged assets to a maximum not to exceed \$200 million.

The credit facility contains three financial covenants as follows:

- i) the Trust will maintain an overall Debt Service Coverage Ratio of at least 1.20. As at December 31, 2007, this ratio was 1.68 and as such the Trust is in compliance.
- ii) the Trust will maintain a Debt Service Coverage Ratio, specific to the Security Portfolio of at least 1.15. As at December 31, 2007, this ratio was 1.29 and as such the Trust is in compliance.
- iii) Total indebtedness of the Trust will not exceed 70% of the GBV of all assets as defined in the DOT. As outlined in NOTE 12, as at March 31, 2008, this amount was 66% and as such the Trust is in compliance.

As at March 31, 2008, the Trust was in compliance with all covenants.

### e) Utility risk

The trust is exposed to utility risk as a result of fluctuations in the prices of natural gas and electricity service charges. As outlined in NOTE 14, the Trust has committed to utility contracts to reduce the risk of exposure to adverse changes in commodity prices.

## 14. COMMITMENTS AND CONTINGENCIES

At March 31, 2008, the Trust had a long-term supply arrangement with one electrical utility company to supply the Trust with its electrical power needs for its southern Alberta properties for the next nine 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.

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. The extension of the natural gas rebate program will 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 January to March 2008, Boardwalk REIT was eligible for rebates totalling approximately \$1.3 million.

## **BOARDWALK REAL ESTATE INVESTMENT TRUST**

The Trust also entered into 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 21, 2008. The supply contract provides the commodity at a price of \$8.95/GJ.

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.

### **15. GUARANTEES**

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

In connection with the sales of properties, a mortgage assumed by the purchaser will have an indirect guarantee provided to the lender until the mortgage is refinanced by the purchaser. In the event of default by the purchaser, the seller would be liable for the outstanding mortgage balance. Boardwalk REIT's maximum exposure at March 31, 2008 is approximately \$4.9 million (March 31, 2007 - \$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 will cover, and in most likelihood exceed, the maximum potential liability associated with the amount being guaranteed. Therefore, at March 31, 2008, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

### **16. 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.

## BOARDWALK REAL ESTATE INVESTMENT TRUST

	<b>3 months ended March 31, 2008</b>	<b>3 months ended March 31, 2007</b>
<b>Alberta</b>		
Revenue	\$61,119	\$49,166
Expenses		
Operating	10,483	7,536
Utilities	8,865	6,648
Utility rebates	(1,255)	(922)
Property taxes	3,491	3,196
	21,584	16,458
Net operating income	\$39,535	\$32,708
<b>Saskatchewan</b>		
Revenue	\$10,682	\$9,212
Expenses		
Operating	1,664	1,594
Utilities	2,363	1,725
Property taxes	1,132	1,171
	5,159	4,490
Net operating income	\$5,523	\$4,722
<b>Ontario</b>		
Revenue	\$9,435	\$9,376
Expenses		
Operating	1,593	1,515
Utilities	2,012	2,028
Property taxes	1,573	1,756
	5,178	5,299
Net operating income	\$4,257	\$4,077
<b>British Columbia</b>		
Revenue	\$2,966	\$2,771
Expenses		
Operating	620	621
Utilities	497	401
Property taxes	150	148
	1,267	1,170
Net operating income	\$1,699	\$1,601
<b>Quebec</b>		
Revenue	\$17,470	\$17,014
Expenses		
Operating	3,563	2,965
Utilities	2,892	2,994
Property taxes	1,303	1,889
	7,758	7,848
Net operating income	\$9,712	\$9,166
<b>Total</b>		
Net operating income	\$60,726	\$52,274
Unallocated revenue*	537	31
Unallocated expenses**	(55,631)	(48,674)
Net earnings for the period	\$5,632	\$3,631

# BOARDWALK REAL ESTATE INVESTMENT TRUST

As at	March 31, 2008	December 31, 2007
<b>Alberta</b>		
Identifiable assets		
Revenue producing properties	\$1,242,355	\$1,244,328
Mortgages and accounts receivable	5,378	5,863
Tenants' security deposits	10,579	10,385
	\$1,258,312	\$1,260,576
<b>Saskatchewan</b>		
Identifiable assets		
Revenue producing properties	\$167,885	\$168,581
Mortgages and accounts receivable	189	202
Tenants' security deposits	2,264	2,096
	\$170,338	\$170,879
<b>Ontario</b>		
Identifiable assets		
Revenue producing properties	\$205,203	\$206,366
Mortgages and accounts receivable	205	237
	\$205,408	\$206,603
<b>Quebec</b>		
Identifiable assets		
Revenue producing properties	\$419,958	\$421,473
Mortgages and accounts receivable	1,444	800
	\$421,402	\$422,273
<b>British Columbia</b>		
Identifiable assets		
Revenue producing properties	\$104,817	\$104,491
Mortgages and accounts receivable	1,064	1,049
Tenants' security deposits	456	444
	\$106,337	\$105,984
<b>Total assets</b>		
Identifiable assets	\$2,161,797	\$2,166,315
Unallocated assets***	116,128	29,573
	\$2,277,925	\$2,195,888

\* 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 and cash equivalents and other assets.

## 17. SUBSEQUENT EVENT

Subsequent to March 31, 2008, Boardwalk REIT acquired a property in Calgary, Alberta, totaling 297 apartment units from an unrelated third party for an aggregate purchase price of \$48.8 million. The transaction is scheduled to close June 13, 2008 and will be funded using cash-on-hand.