

NEWS RELEASE FOR IMMEDIATE DISTRIBUTION

Boardwalk REIT Announces Solid Fourth Quarter and Full Year 2006 Financial Results; FFO Per Unit Up 29.4% YOY for the Fourth Quarter; Acquisition of 1435 Residential Units in Western Canada; and its February 2007 Distribution.

CALGARY, February 16, 2007 - 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 2006 and fiscal 2006; FFO Per Unit up 29.4% YOY for the fourth quarter; the acquisition of 1435 residential units in Western Canada; and its February 2007 Distribution.

For the fourth quarter ended December 31, 2006, the Trust reported Funds From Operations¹ ("FFO") of \$25.0 million and FFO per unit of \$0.44 on a diluted basis, compared to FFO of \$17.8 million and FFO per unit of \$0.34 for the same period last year. Distributable income ("DI") for the quarter was \$25.9 million and DI per unit was \$0.46 on a diluted basis, compared to \$18.8 million and \$0.35 per unit for the same period last year.

Highlights of the Trust's fourth quarter 2006 financial results include:

- Rental revenues of \$83.6 million, an increase of 10.7%, compared to \$75.5 million for the three-month period ended December 31, 2005.
- Net operating income of \$50.5 million, representing a 15.6% increase, from \$43.7 million in the same period last year.
- FFO of \$25.0 million, an increase of 40.4%, compared to \$17.8 million for the three-month period ended December 31, 2005.
- FFO per unit was \$0.44 on a diluted basis, up 29.4%, compared to \$0.34 for the three-month period ended December 31, 2005.
- DI was \$0.46 per unit, up 31.4%, from \$0.35 for the three months ended December 31, 2005.

Highlights of the Trust's financial results for fiscal 2006 include:

- Rental revenues of \$319.4 million, an increase of 7.7% compared to \$296.5 million for the twelve-month period ended December 31, 2005.
- Net operating income of \$192.1 million, representing a 10.0% increase from \$174.7 million in the same period last year.
- FFO from continuing operations of \$91.4 million, an increase of 22.2% compared to \$74.8 million for the twelve-month period ended December 31, 2005.
- FFO per unit from continuing operations of \$1.64 on a diluted basis, up 16.3% compared to \$1.41 for the twelve-month period ended December 31, 2005.
- DI from continued operations was \$1.69 per unit, up 15.8% compared to \$1.46 for the twelve months ended December 31, 2005.

Commenting on the Trust's Q4 2006 results, Sam Kolias, President and C.E.O., said: "Fiscal 2006 will be remembered as Boardwalk's best operating year to date. We are pleased not only to have delivered financial and operating results that beat all of our expectations, but to have done so while remaining firmly committed to our Customer-focused operating policies. In 2006, Boardwalk maximized return by responding to exceptionally strong rental market fundamentals. As occupancy tracked upward due to positive supply and demand forces, rental rates followed suit, resulting in strong revenue growth for the Trust."

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"With 52% of our property portfolio located in Alberta, Alberta's strong market fundamentals yielded an extraordinary year for the Trust. Our years of experience, quality assets, superior people, and proactive operating policies allowed Boardwalk to gain early and on-going advantage of the market fundamentals, maximizing value for our Unitholders. Looking forward, we believe that our geographic diversity and accretive acquisitions, our proven and Customer-focused business strategy, our strong financial position, and our judiciously cultivated corporate sustainability will keep opportunities knocking over the long term."

"Vacancy continued to decrease across Alberta, declining from 3.73% in the third quarter of 2006 to 3.51% in the fourth quarter of 2006. This decrease is of particular note because traditionally we expect to see vacancy increase slightly in the fourth quarter due to seasonally decreased demand. As maximizing revenues is a balancing act of supply and demand, we continue to monitor our markets on a constant basis, adjusting rents and incentives with agility and market sensitivity. On a year-over-year basis, occupancy remains higher than last year, despite higher rental rates."

"While we are certainly pleased by the positive gains noted in Alberta, our priority remains balanced and sustainable growth. Today's most exciting investment story surrounds our Alberta portfolio. However, our key objective remains to provide Unitholders with a stable and growing cash flow distribution while building long term value. We continue to be pleased with Boardwalk's ability to fulfill this objective. Our diversification into 18 markets across five provinces greatly increases our sustainability over the long term and makes Boardwalk a proven and attractive investment."

Operational Highlights

The average vacancy rate across the Trust's portfolio for the fourth quarter of 2006 was 3.51%, down from 3.73% in the third quarter of 2006, and down from 3.73% compared to the same period last year.

The average monthly rent on our entire portfolio realized in the fourth quarter of 2006 was \$820 per rental unit, up \$54 from \$766 per rental unit for the same period last year.

The average market rent for the Trust's properties at the end of December 2006 was an estimated \$995 per rental unit per month, which compares to an average in-place monthly rent per occupied unit of \$850 for the quarter ended December 31, 2006.

At the end of December 2006, the potential between occupied rents and market rents (mark-to-market) totaled \$55.9 million, or \$0.97 per unit, down from \$57 million or \$1.01 at the end of September 2006.

More detail on our operations will be found in our conference call presentation to be posted on our web site today at www.boardwalkreit.com/FinancialReports/r2006/. The conference call audio for this presentation can also be found on our web site at www.boardwalkreit.com/FinancialReports/r2006/ 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, 2006 showed rental revenue growth of 7.9% on a year-over-year basis. Operating expenses increased 0.1%, resulting in an increase in NOI of 13.4% compared to the same period last year. The "same-property" results for the twelve-month period ended December 31, 2006 showed rental revenue growth of 5.1%, and an increase in total operating expenses of 1.8%, resulting in an increase in NOI of 7.3% compared to the same period last year. A total of 31,689 units, representing approximately 93% of Boardwalk's total portfolio, were classified as stabilized as at December 31, 2006.

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Same-Property Results - Stabilized Portfolio

Dec 31 2006 - 3 M	Revenue	Operating Expenses	NOI	% of NOI
Calgary	16.9%	-6.0%	29.0%	20%
Edmonton	10.9%	-4.2%	22.2%	33%
Other Alberta	16.3%	-5.3%	28.7%	7%
Saskatchewan	5.0%	3.0%	6.5%	11%
Ontario	2.1%	3.4%	0.8%	10%
Quebec	-0.3%	7.6%	-5.4%	19%
	<u>7.9%</u>	<u>0.1%</u>	<u>13.4%</u>	<u>100%</u>

Dec 31 2006 - 12 M	Revenue	Operating Expenses	NOI	% of NOI
Calgary	11.0%	-3.4%	18.1%	19%
Edmonton	6.6%	-2.3%	12.3%	34%
Other Alberta	12.1%	-4.8%	21.7%	6%
Saskatchewan	3.0%	4.2%	2.0%	11%
Ontario	1.8%	2.9%	0.7%	10%
Quebec	0.0%	10.2%	-6.3%	20%
	<u>5.1%</u>	<u>1.8%</u>	<u>7.3%</u>	<u>100%</u>

Commenting on Boardwalk's same-property results, President and CEO, Sam Koliass, said, "In the fourth quarter, we were pleased to see revenue growth accelerating more quickly than expense increases on a stabilized property basis for the fifth straight quarter. Overall, our portfolio operating expenses continued to rise. However, increasing expenses were somewhat tempered by savings in natural gas expenditures, and property taxes were flat after the massive increases of the past couple years."

Real Estate Acquisition/Disposition Activity

Acquisitions

Building Name	City	Closing Date	Type	Units	Price	Year 1		Avg. Sq. Ft.	\$/Sq.Ft.
						Cap Rate	\$/Unit		
Complexe Deguire (Blouin Portfolio) *	Montreal, QC	March 13, 2006	High Rise	322	\$ 24,000,000	7.10%	\$74,534	858	\$87
Braemar/Gateway (Jones Portfolio) *	Vancouver, BC	March 30, 2006	Walk Up	238	\$ 17,550,000	6.39%	\$73,739	1,022	\$72
Sturgeon Point Villas *	St. Albert, AB	May 25, 2006	Walk Up	280	\$ 18,500,000	7.00%	\$66,071	1,018	\$65
Parkwest Apartments *	Victoria, BC	November 9, 2006	Low Rise	96	\$ 9,400,000	5.83%	\$97,917	745	\$131
California Gardens	Burnaby, BC	December 19, 2006	Walk Up	79	\$ 9,350,000	5.00%	\$118,354	1,046	\$113
Parke Avenue Square	Red Deer, AB	December 19, 2006	Walk Up	88	\$ 9,300,000	5.52%	\$105,682	992	\$107
				<u>1,103</u>					
Subsequent to December 31, 2006									
Ridgement Apartments	Coquitlam, BC	January 25, 2007	Low Rise	41	\$ 3,700,000	5.03%	\$90,244	634	\$142
St. Charles Place & Parkview Manor	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
				<u>1,268</u>					
Total				<u>2,371</u>	<u>\$ 239,450,000</u>	<u>5.94%</u>	<u>\$100,991</u>	<u>949</u>	<u>\$106</u>

* Denotes previously announced acquisitions.

** The acquisition of West Edmonton Village will be financed through the assumption of \$31 million in mortgages and the leveraging of existing rental properties and/or cash from Boardwalk's acquisition and operating line.

Dispositions

Building Name	City	Closing Date	Type	Units	Price	Cap Rate	\$/Unit	Avg. Sq. Ft.	\$/Sq.Ft.
Glamis Green	Calgary, AB	March 6, 2006	Walk Up	156	\$ 16,700,000	5.50%	\$107,051	1,115	\$96
Leighton House	Calgary, AB	March 10, 2006	Mid Rise	40	\$ 4,000,000	5.40%	\$100,000	684	\$146
Total				<u>196</u>	<u>\$ 20,700,000</u>	<u>5.48%</u>	<u>\$105,612</u>	<u>1,027</u>	<u>\$103</u>

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At the end of the third quarter of 2006, one property, consisting of 90 units located in Calgary, Alberta, was reclassified as properties held for redevelopment as a result of Boardwalk's plan to convert these suites to condominium units for sale.

Commenting on the Trust's property acquisitions and dispositions, Bill Chidley, Senior Vice President, Corporate Development, said: "The acquisitions completed in 2006 and the beginning of 2007 add quality assets in the traditionally strong rental markets of British Columbia, Alberta and Quebec to our overall portfolio. We are pleased to have met our acquisition target of approximately 1000 units in 2006."

"The acquisition market for multi-family rentals in Canada continues to be a highly competitive 'seller's market'. We are in discussion on a number of possible acquisitions; however, we cannot be certain of closing on any of these transactions. While market forces are making acquisitions more difficult, Cap Rate compression continues to positively impact our portfolio's overall value. This compression is expected to continue, further increasing our portfolio's value as we look forward. Our key growth over the short term will be based on internal growth, enhanced through external acquisition."

Continued Financial Strength

The Trust strengthened its financial position through 2006 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 \$1.54 billion as at December 31, 2006, virtually unchanged to that owing at December 31, 2005. As at December 31, 2006, the Trust's total debt had an average term maturity of 3 years with a weighted average interest rate of 5.31%. The Trust's debt-to-total-market-capitalization ratio was approximately 40%. 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 2.29 times for the three months ended December 31, 2006, compared to 1.93 times for the same period last year. During the fourth quarter of 2006, Boardwalk successfully completed approximately \$67.6 million in mortgage refinancings and renewals. Of note in 2006, the Trust sold a total of 2.9 million trust units into the public market on a bought deal basis through a group of underwriters led by National Bank Financial. This transaction was completed in March of 2006, with an issue price of \$22.80 per unit.

Outlook and 2007 Financial Guidance

Commenting on the outlook for the Trust, Rob Geremia, Senior Vice President, Finance and CFO, said "We are confirming our previously announced fiscal 2007 guidance for FFO and Distributable Income is between \$1.85 to \$2.00 and \$1.87 to \$2.02, respectively. These forecasts are based on the assumptions of approximately 8.0% stabilized NOI growth and new property acquisitions of between 1,000 to 2,000 new residential units for the year. In the fourth quarter, our final results exceeded our revised guidance due to lower-than-expected utility expenses. Because these same decreased expense pressures can not be estimated for 2007, we are not increasing the 2007 guidance, originally stated at the beginning of the fourth quarter of 2006, at this time. As is Boardwalk's current policy, we will update the market on our Annual 2007 Guidance on a quarterly basis.

Given Alberta's strong rental market fundamentals, we expect strong internal rental revenue growth through 2007. This growth will be tempered slightly by increasing turnover and operating expenses, particularly due to inflationary pressures on wages and supply costs in our Alberta markets. The 2007 guidance assumes that the existing Alberta Natural Gas Rebate program will be extended in its current form. It is Management's intention to update the market on a quarterly basis regarding our guidance estimates."

February 2007 Monthly Distribution

The Trust has declared its February 2007 distribution in the amount of 12.33 cents per unit (\$1.48 annualized). The February distribution will be payable on March 15, 2007 to unitholders of record on February 28, 2007. To encourage participation and reward unitholders, investors registered in the Distribution Reinvestment Plan ("DRIP") will continue to receive a "bonus" distribution of additional Trust Units representing 3% of the amount of their cash distributions reinvested pursuant to the Plan. A full copy of the DRIP can be found on Trust's

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website at www.boardwalkREIT.com.

Supplementary Information

Boardwalk produces Quarterly Supplemental Information that provides detailed information regarding the Trust's activities during the quarter. The fourth quarter 2006 Supplemental Information is available on our investor website at 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 prior to the call.

Participation & Registration: Please RSVP to Investor Relations at 403-531-9255 or by email to investor@bwalk.com.

Teleconference: The telephone numbers for the conference are: 416-644-3418 (within Toronto) or toll-free 1-800-814-4861 (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=1697520>

Replay: An audio recording of the teleconference will be available from 1:00 pm ET on Friday, February 16, 2007 until 11:59 pm ET on Friday, February 23, 2006. You can access it by dialing 416-640-1917 and using the passcode 21216134 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 35,400 units totalling approximately 29 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.

¹ 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

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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. 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.

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CONSOLIDATED BALANCE SHEETS

(CDN\$ THOUSANDS)

As at	December 31, 2006	December 31, 2005
Assets		
Revenue producing properties (NOTE 5)	\$1,836,429	\$1,782,648
Deferred financing costs (NOTE 4)	43,405	42,853
Other assets (NOTE 8)	13,873	11,328
Future income taxes (NOTE 14)	316	929
Mortgages and accounts receivable (NOTE 7)	4,388	9,039
Segregated tenants' security deposits	9,998	7,280
Cash and cash equivalents	-	11,145
Discontinued operations (NOTE 6)	5,456	18,164
	<u>\$1,913,865</u>	<u>\$1,883,386</u>
Liabilities		
Mortgages payable (NOTE 9)	\$1,422,431	\$1,409,375
Debentures (NOTE 10)	120,000	120,000
Accounts payable and accrued liabilities	35,423	32,196
Refundable tenants' security deposits and other	13,102	10,486
Bank indebtedness	4,042	-
Discontinued operations (NOTE 6)	-	15,587
	<u>\$1,594,998</u>	<u>\$1,587,644</u>
Unitholders' Equity		
Unitholders' equity	318,867	295,742
	<u>\$1,913,865</u>	<u>\$1,883,386</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BOARDWALK REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EARNINGS

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

	Three Months ended December 31, 2006 (Unaudited)	Three Months ended December 31, 2005 (Unaudited)	Year ended December 31, 2006 (Audited)	Year ended December 31, 2005 (Audited)
Revenue				
Rental income	\$83,635	\$75,548	\$319,440	\$296,516
Expenses				
Revenue producing properties:				
Operating expenses	14,690	12,985	56,797	51,617
Utilities	11,097	11,683	40,443	39,618
Utility rebate (NOTE 2 (g) (iii))	(605)	(1,205)	(2,032)	(1,823)
Property taxes	7,942	8,340	32,143	32,445
Administration	4,360	4,271	17,072	15,050
Financing costs	20,115	20,473	80,806	81,796
Deferred financing costs amortization	960	1,243	3,193	3,941
Amortization of capital assets (NOTE 2 (e))	18,805	19,020	73,425	74,693
	77,364	76,810	301,847	297,337
Earnings (loss) from continuing operations before the following	6,271	(1,262)	17,593	(821)
Gain on extinguishment of option to acquire property	(750)	-	(750)	-
Recovery of write-down on technology business unit	-	-	-	(739)
Earnings (loss) from continuing operations before income taxes	7,021	(1,262)	18,343	(82)
Large corporations taxes (recovery)	(38)	243	(30)	613
Future income taxes (recovery) (NOTE 14)	391	311	613	(493)
Earnings (loss) from continuing operations	6,668	(1,816)	17,760	(202)
Earnings from discontinued operations, net of tax (NOTE 6)	(139)	3,019	7,629	5,232
Net earnings	\$6,529	\$1,203	\$25,389	\$5,030
Basic earnings (loss) per unit (NOTE 13)				
- from continuing operations	\$0.12	\$(0.04)	\$0.32	\$(0.01)
- from discontinued operations	0.00	0.06	0.14	0.10
Basic earnings per unit	\$0.12	\$0.02	\$0.46	\$0.09
Diluted earnings (loss) per unit (NOTE 13)				
- from continuing operations	\$0.12	\$(0.04)	\$0.32	\$(0.01)
- from discontinued operations	0.00	0.06	0.14	0.10
Diluted earnings per unit	\$0.12	\$0.02	\$0.46	\$0.09
Weighted average number of units	56,326,003	53,213,332	55,542,918	53,167,640

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CDN\$ THOUSANDS, EXCEPT NUMBER OF UNITS)

	Year ended December 31, 2006	Year ended December 31, 2005
Trust units (NOTE 12)		
Balance, beginning of year	\$295,696	\$293,503
Units issued under equity financing, net of issue costs	63,583	-
Units issued under distribution reinvestment plan	5,784	2,202
Restructuring costs	(140)	(9)
Deferred unit plan (NOTE 11)	821	-
Balance, end of year	<u>\$365,744</u>	<u>\$295,696</u>
Cumulative earnings		
Balance, beginning of year	\$129,528	\$124,498
Net earnings	25,389	5,030
Balance, end of year	<u>\$154,917</u>	<u>\$129,528</u>
Cumulative distributions to unitholders		
Balance, beginning of year	\$(129,482)	\$(62,485)
Distributions declared to unitholders (NOTE 13)	(72,312)	(66,997)
Balance, end of year	<u>\$(201,794)</u>	<u>\$(129,482)</u>
Total unitholders' equity	<u>\$318,867</u>	<u>\$295,742</u>
Units issued and outstanding (NOTE 12)	<u>56,351,783</u>	<u>53,224,194</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BOARDWALK REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CDN\$ THOUSANDS)

	Three Months ended December 31, 2006 (Unaudited)	Three Months ended December 31, 2005 (Unaudited)	Year ended December 31, 2006 (Audited)	Year ended December 31, 2005 (Audited)
Operating activities				
Net earnings	\$6,529	\$1,203	\$25,389	\$5,030
Earnings from discontinued operations, net of tax	139	(3,019)	(7,629)	(5,232)
Future income taxes (recovery)	391	311	613	(493)
Amortization of capital assets	18,805	19,020	73,425	74,693
Gain on extinguishment of option to acquire property	(750)	-	(750)	-
Recovery of write-down on technology business unit	-	-	-	(739)
Funds from continuing operations	25,114	17,515	91,048	73,259
Funds from discontinued operations	(75)	326	308	1,536
Net change in operating working capital	3,846	6,373	4,458	6,401
Total operating cash flows	<u>28,885</u>	<u>24,214</u>	<u>95,814</u>	<u>81,196</u>
Financing activities				
Issuance of trust units (net of issue costs) (NOTE 12)	1,765	405	69,367	2,202
Restructuring costs	25	(9)	(140)	(9)
Distributions paid	(18,753)	(16,760)	(70,952)	(66,990)
Issuance of debentures (NOTE 10)	-	-	-	120,000
Financing of revenue producing properties	47,566	18,656	67,605	146,245
Repayment of debt on revenue producing properties	(33,184)	(25,483)	(72,987)	(149,361)
Capital lease obligations	-	(84)	-	(84)
Deferred financing costs incurred (net of amortization)	8	227	(371)	(4,545)
	<u>(2,573)</u>	<u>(23,048)</u>	<u>(7,478)</u>	<u>47,458</u>
Investing activities				
Purchases of revenue producing properties (NOTE 5)	(25,017)	215	(85,812)	(103,074)
Improvements to revenue producing properties	(7,825)	(11,176)	(37,448)	(29,676)
Net cash proceeds from sale of properties (NOTE 5)	-	10,318	20,274	19,723
Net cash proceeds from extinguishment of option to acquire property	750	-	750	-
Additions to corporate technology assets	(280)	(235)	(1,287)	(1,759)
	<u>(32,372)</u>	<u>(878)</u>	<u>(103,523)</u>	<u>(114,786)</u>
Net increase (decrease) in cash and cash equivalents balance	(6,060)	288	(15,187)	13,868
Cash and cash equivalents (bank indebtedness), beginning of year	2,018	10,857	11,145	(2,723)
Cash and cash equivalents (bank indebtedness), end of year	<u>\$ (4,042)</u>	<u>\$ 11,145</u>	<u>\$ (4,042)</u>	<u>\$ 11,145</u>
Supplementary cash flow information:				
Capital taxes paid	\$446	\$200	\$120	\$1,100
Interest paid	\$18,595	\$22,256	\$81,129	\$79,787

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BOARDWALK REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(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 and May 10, 2006, 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. All 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 sales of property held for resale 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.

Prior to 2005, certain excess land located in the province of Saskatchewan that was being developed and readied for sale was classified as “Properties Held For Resale”. The Trust capitalized all direct costs, including financing and property tax costs, net of related revenue, associated with the land. In 2005, the excess land in the amount of \$8.0 million was reclassified as part of revenue producing properties.

Revenue producing properties 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 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 is 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.

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(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) 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. Costs of refinancing are amortized on a straight-line basis over the term of the new loan.

(g) 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 \$6.2 million at December 31, 2006 (December 31, 2005 - \$nil). 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 allow 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, 2006, 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 twenty-four 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 2006, Boardwalk REIT was eligible for estimated rebates totalling approximately \$1.4 million. For October through December 2006, Boardwalk REIT was eligible for estimated rebates totalling \$0.6 million. For January to March 2005, Boardwalk REIT was eligible for rebates totalling approximately \$0.6 million. For October through December 2005, Boardwalk REIT was eligible for rebates totalling approximately \$1.2 million.

The Trust has also entered into three natural gas supply contracts, which provide a degree of price certainty for natural gas usage in the provinces of Saskatchewan, Ontario and Quebec. The contracts cover between 75 - 100% of the Trust's natural gas requirements for each of the provinces. The physical supply agreement for Saskatchewan runs from November 1, 2006 to October 31, 2007 and provides the commodity at a price of \$8.48/GJ. The physical supply agreements for Eastern Canada run from June 1, 2006 to June 1, 2007 and provide the commodity near \$8.00/GJ.

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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, representing net working capital, approximate their recorded values at December 31, 2006 and 2005 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, 2006 and 2005 are as follows:

AS AT	December 31, 2006	December 31, 2005
Mortgages and accounts receivable		
Carrying value	\$4,388	\$9,039
Fair market value	\$4,388	\$9,039
Mortgages payable and debentures (including discontinued operations)		
Carrying value	\$1,542,431	\$1,544,962
Fair market value	\$1,575,664	\$1,588,024

The fair value of the Trust's mortgages payable and debentures exceed the recorded value by approximately \$33.2 million at December 31, 2006 (December 31, 2005 - \$43.1 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, 2006 and 2005, respectively; the amount is subject to change and the future amounts will converge. There are no additional costs to Boardwalk REIT, assuming no early extinguishment of existing debt is delivered upon.

(h) 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 5; and
- iv. amount of utility accrual for charges related to the current period.

Actual results may differ from these estimates.

(i) Cash and cash equivalents

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

(j) Disposal of long-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.

(k) 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.

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Hedge accounting was applied to a bond forward contract (see NOTE 10) entered into by the Trust to mitigate future cash interest payments associated with our unsecured debentures, which was completed on January 21, 2005.

(l) 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.

(m) 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

a) DEFERRED UNIT PLAN

The deferred unit plan is described in NOTE 11. 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 deferred 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. 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 income per unit calculations.

4. DEFERRED FINANCING COSTS

As at	December 31, 2006	December 31, 2005
Legal and financing costs	\$17,273	\$16,048
CMHC fees	46,357	44,724
Total deferred financing costs	63,630	60,772
Less: accumulated amortization	(20,225)	(17,475)
	<u>\$43,405</u>	<u>\$43,297</u>
Continuing operations	\$43,405	\$42,853
Discontinued operations (NOTE 6)	-	444
	<u>\$43,405</u>	<u>\$43,297</u>

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5. REVENUE PRODUCING PROPERTIES

As at	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Land	\$162,839	\$149,508
Building and non-building assets	2,117,315	2,022,306
<hr/>		
Total revenue producing properties	2,280,154	2,171,814
Less: accumulated amortization	(438,269)	(371,446)
	<u>\$1,841,885</u>	<u>\$1,800,368</u>
Continuing operations	\$1,836,429	\$1,782,648
Discontinued operations (NOTE 6)	5,456	17,720
	<u>\$1,841,885</u>	<u>\$1,800,368</u>
Acquisitions		
	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>
<hr/>		
Cash paid	\$85,812	\$103,074
Debt assumed	3,539	13,144
<hr/>		
Total purchase price	89,351	116,218
Fair value adjustments to debt	19	(207)
<hr/>		
Book value	\$89,370	\$116,011
Allocation of book value to revenue producing properties	\$86,338	\$112,354
Allocation of book value to other assets (NOTE 2 (d))	3,032	3,657
	<u>\$89,370</u>	<u>\$116,011</u>
Multi-family units acquired	<u>1,103</u>	<u>1,325</u>
Dispositions		
	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2005</u>
<hr/>		
Cash received	\$20,274	\$19,723
Cost of dispositions	426	309
<hr/>		
Total proceeds	20,700	20,032
Net book value	13,173	15,564
<hr/>		
Gain on dispositions	<u>\$7,527</u>	<u>\$4,468</u>
Multi-family units sold (excluding commercial property)	<u>196</u>	<u>186</u>

Included in revenue producing properties is capitalized wages of \$3.9 million for the year ended December 31, 2006 (December 31, 2005 - \$4.1 million) relating to capital upgrades.

BOARDWALK REAL ESTATE INVESTMENT TRUST

6. DISCONTINUED OPERATIONS

During the first quarter of 2006, the Trust completed the sale of a 156-unit and a 38-unit rental property, both located in Calgary, Alberta. During the end of the third quarter of 2006, a revenue producing property 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. These three properties 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, 2006	Year ended December 31, 2005
Revenue		
Rental income	\$1,167	\$4,192
Expenses		
Revenue producing properties:		
Operating expenses	186	209
Utilities	151	707
Property taxes	96	335
Administration	42	130
Financing costs	208	1,236
Deferred financing cost amortization	176	39
Amortization of capital assets	206	662
	1,065	3,318
	102	874
Gain on disposition	7,527	4,468
Operating earnings from discontinued operations before income taxes	7,629	5,342
Future income taxes	-	110
Earnings from discontinued operations	\$7,629	\$5,232
As at		
Discontinued Assets		
Revenue producing properties held for sale	\$-	\$12,490
Properties held for redevelopment	5,456	5,230
Other assets on properties held for sale	-	268
Other assets on properties held for redevelopment	-	176
Total	\$5,456	\$18,164
Discontinued Liabilities		
Mortgages payable on properties held for sale	\$-	\$9,562
Mortgages payable on properties held for redevelopment	-	6,025
Total	\$-	\$15,587

BOARDWALK REAL ESTATE INVESTMENT TRUST

7. MORTGAGES AND ACCOUNTS RECEIVABLE

The mortgages and accounts receivable comprise an aggregate amount of \$4.4 million at December 31, 2006 (December 31, 2005 - \$9.0 million). The balance consists mainly of mortgage holdbacks and income earned but not yet received.

As at	December 31, 2006	December 31, 2005
Accounts receivable	\$4,388	\$4,481
Mortgage holdbacks and refundable mortgage fees	-	4,558
	\$4,388	\$9,039

8. OTHER ASSETS

As at	December 31, 2006	December 31, 2005
Corporate technology assets (net of amortization)	\$3,436	\$3,502
Head office building (net of amortization)	2,329	2,350
Deposits on potential property acquisitions	814	200
Prepaid parts and supplies	2,097	2,037
Lease goodwill and customer relationship intangibles, net of accumulated amortization	1,271	125
Prepaid property taxes	1,193	1,151
Prepaid and other	2,733	1,963
	\$13,873	\$11,328

Accumulated amortization for corporate technology assets and head office building at December 31, 2006 were \$12.1 million and \$1.0 million, respectively (December 31, 2005 - \$10.8 million and \$0.8 million, respectively).

9. MORTGAGES PAYABLE

As at	December 31, 2006	December 31, 2005
(a) Revenue producing properties		
Mortgages payable bearing interest at rates ranging between 3.82% and 8.85% per annum with a weighted average rate of 5.31% per annum at December 31, 2006 (December 31, 2005 - 5.39%), payable in monthly principal and interest instalments totalling \$9.0 million for the year ended December 31, 2006 (December 31, 2005 - \$9.7 million), mature from 2007 to 2020 and are secured by specific charges against specific properties. All interest rates are fixed for the term of the respective mortgage.	\$1,420,748	\$1,423,237
(b) Other assets		
Mortgage payable bearing interest at the rate of 7.92% per annum at December 31, 2006 and 2005, payable in monthly principal and interest instalments totalling \$15 thousand for the years ended December 31, 2006 and 2005, 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.	1,683	1,725
	\$1,422,431	\$1,424,962
Continuing operations	\$1,422,431	\$1,409,375
Discontinued operations (NOTE 6)	-	15,587
	\$1,422,431	\$1,424,962

BOARDWALK REAL ESTATE INVESTMENT TRUST

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

	Revenue Producing Properties	Other Assets	Total
2007	\$351,278	\$45	\$351,323
2008	238,884	48	238,932
2009	223,849	53	223,902
2010	264,007	1,537	265,544
2011	117,951	-	117,951
Subsequent	224,732	-	224,732
	<u>\$1,420,748</u>	<u>\$1,683</u>	<u>\$1,422,431</u>

Estimated principal payments required to meet mortgage obligations as at December 31, 2005 are as follows:

	Revenue Producing Properties	Other Assets	Total
2006	\$212,755	\$42	\$212,797
2007	269,070	45	269,115
2008	226,677	48	226,725
2009	200,556	53	200,609
2010	243,960	1,537	245,497
Subsequent	270,219	-	270,219
	<u>\$1,423,237</u>	<u>\$1,725</u>	<u>1,424,962</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, distribution of dividends 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 assets. The maximum amount available varied with the value of pledged assets to a maximum not to exceed \$110 million. Approximately \$103.0 million was available from this facility on December 31, 2006 (December 31, 2005 - \$95.0 million). The amount of \$6.2 million of the facility was outstanding at December 31, 2006 (December 31, 2005 - \$nil). In addition, three 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 LC in the amount of \$250 thousand was issued in favour of a utility company, Hydro Quebec. The third 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. Subsequent to year end, the maximum amount available under the acquisition and operating line demand facility increased from \$110 million to \$200 million (NOTE 19).

10. 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.

11. 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 deferred unit plan was approved by unitholders on May 10, 2006. At the end of December 31, 2006, total compensation costs of \$0.8 million were recognized in income related to employee awards under the deferred unit plan.

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The status of the outstanding deferred units is as follows:

	Outstanding	Vested
Deferred units granted	72,746	-
Additional deferred units earned on unvested units	1,000	-
December 31, 2006	73,746	-

12. 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 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 follow:

Summary of Unitholders' Capital Contributions	Units	Amount
December 31, 2004	53,107,567	\$293,503
Units issued under distribution reinvestment plan	116,627	2,202
Restructuring costs	-	(9)
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 11)	-	821
December 31, 2006	56,351,783	\$365,744

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

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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:

	Units	Amount
Boardwalk REIT Units	51,876,783	
Special Voting Units issued to holders of LP Class B units	4,475,000	
Total trust units	56,351,783	\$365,744

13. DISTRIBUTABLE INCOME AND PER UNIT INFORMATION

Distributable income per unit

Boardwalk REIT makes distributions to unitholders on a monthly basis on or about the 15th 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.

	Year ended December 31, 2006	Year ended December 31, 2005
Total operating cash flows	\$95,814	\$81,196
Net change in operating working capital	(4,458)	(6,401)
Add:		
Deferred financing costs amortization	3,369	3,980
Amortization of net discount on long-term debt assumed after May 2, 2004	67	9
Deduct:		
Deferred financing costs amortization post May 2, 2004	(1,183)	(916)
Distributable income	\$93,609	\$77,868
Distribution declared to unitholders	\$72,312	\$66,997
Distributable income withheld	\$21,297	\$10,871
Weighted average units outstanding – basic and diluted	55,542,918	53,167,640
Distributable income earned per unit	\$1.685	\$1.465
Actual distributions declared per unit	\$1.302	\$1.260

Earnings per unit

	Year ended December 31, 2006	Year ended December 31, 2005
Numerator		
Earnings (loss) from continuing operations	\$17,760	\$(202)
Earnings from discontinued operations	7,629	5,232
Denominator		
Denominator for basic earnings per unit – weighted average units (THOUSANDS)	55,543	53,168
Denominator for diluted earnings per unit adjusted for weighted average units and assumed conversion (THOUSANDS)	55,543	53,168
Earnings (loss) per unit from continuing operations		
Basic	\$0.32	\$(0.01)
Diluted	\$0.32	\$(0.01)
Earnings per unit from discontinued operations		

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Basic	\$0.14	\$0.10
Diluted	\$0.14	\$0.10

14. 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. The adjustment for change in effective tax rate reflects the reduction of the current combined federal and provincial substantially enacted rate in the province of Alberta.

	Year ended December 31, 2006	Year ended December 31, 2005
Continuing operations	\$613	\$(493)
Discontinued operations	-	110
Total future income taxes (recovery)	\$613	\$(383)

Future income taxes (recovery) consists of the following:

	Year ended December 31, 2006	Year ended December 31, 2005
Tax (recovery) expense based on expected rate	\$546	\$719
Non-taxable portion of capital gains	-	(470)
Adjustment to future income tax liabilities	158	(552)
Adjustment for change in effective tax rate	(91)	(80)
Future income taxes (recovery)	\$613	\$(383)

The future income tax asset is calculated as follows:

As at	December 31, 2006	December 31, 2005
Tax asset related to operating losses	\$294	\$403
Tax asset related to differences in tax and book basis	22	526
Future income tax asset	\$316	\$929

15. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2006 and 2005, there were no related party transactions.

16. COMMITMENTS AND CONTINGENCIES

Boardwalk REIT has long-term supply arrangements with electrical utility companies and commitments for fixed-price natural gas supply contracts as described in Note 2(g)(iii).

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, 2006 is approximately \$5.4 million (December 31, 2005 - \$5.7 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

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amount being guaranteed. Therefore, at December 31, 2006, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

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, 2006	Year ended December 31, 2005
Alberta		
Revenue	\$170,261	\$154,721
Expenses		
Operating	27,116	26,144
Utilities	20,188	20,862
Utility rebates	(1,988)	(1,842)
Property taxes	12,278	13,055
	<u>57,594</u>	<u>58,219</u>
Net operating income	<u>\$112,667</u>	<u>\$96,502</u>
Saskatchewan		
Revenue	\$35,485	\$34,460
Expenses		
Operating	6,375	6,234
Utilities	4,815	4,040
Property taxes	4,813	4,977
	<u>16,003</u>	<u>15,251</u>
Net operating income	<u>\$19,482</u>	<u>\$19,209</u>
Ontario		
Revenue	\$37,573	\$36,901
Expenses		
Operating	6,059	6,158
Utilities	6,368	6,270
Property taxes	7,169	6,588
	<u>19,596</u>	<u>19,016</u>
Net operating income	<u>\$17,977</u>	<u>\$17,885</u>
Quebec		
Revenue	\$67,141	\$64,164
Expenses		
Operating	13,680	10,203
Utilities	7,878	7,683
Property taxes	7,335	7,356
	<u>28,893</u>	<u>25,242</u>
Net operating income	<u>\$38,248</u>	<u>\$38,922</u>
British Columbia		
Revenue	\$8,358	\$5,567
Expenses		
Operating	1,943	1,001
Utilities	1,015	560
Property taxes	465	411
	<u>3,423</u>	<u>1,972</u>
Net operating income	<u>\$4,935</u>	<u>\$3,595</u>
Total		
Net operating income	\$193,309	\$176,113
Unallocated revenue*	22,489	24,927
Unallocated expenses**	(190,409)	(196,010)
Net earnings for the period	<u>\$25,389</u>	<u>\$5,030</u>

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As at	December 31, 2006	December 31, 2005
Alberta		
Identifiable assets		
Revenue producing properties	\$933,628	\$929,273
Mortgages and accounts receivable	863	5,277
Deferred financing costs	26,636	25,908
Tenants' security deposit	7,988	5,688
	\$969,115	\$966,146
Saskatchewan		
Identifiable assets		
Revenue producing properties	\$172,269	\$176,116
Mortgages and accounts receivable	195	185
Deferred financing costs	4,213	4,320
Tenants' security deposits	1,491	1,341
	\$178,168	\$181,962
Ontario		
Identifiable assets		
Revenue producing properties	\$208,927	\$213,490
Mortgages and accounts receivable	126	236
Deferred financing costs	3,645	3,508
	\$212,698	\$217,234
Quebec		
Identifiable assets		
Revenue producing properties	\$419,962	\$398,109
Mortgages and accounts receivable	819	5,032
Deferred financing costs	5,547	5,927
	\$426,328	\$409,068
British Columbia		
Identifiable assets		
Revenue producing properties	\$107,321	\$62,014
Mortgages and accounts receivable	46	285
Deferred financing costs	598	-
Tenants' security deposits	408	250
	\$108,373	\$62,549
Total assets		
Identifiable assets	\$1,894,682	\$1,836,959
Unallocated assets***	19,183	46,427
	\$1,913,865	\$1,883,386

* Unallocated revenue includes discontinued operations, interest income and other non-rental income.

** Unallocated expenses include discontinued operations, non-rental operating expenses, administration, financing costs, amortization, income taxes and other provisions.

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

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2006, Boardwalk REIT contracted to acquire the following properties:

- a) a property consisting of 41 units located in Coquitlam, British Columbia from unrelated third parties for an aggregate purchase price of \$3.7 million. The acquisition is scheduled to close on January 25, 2007 and will be funded by Boardwalk REIT's credit facility.
- b) a property consisting of 51 units located in Edmonton, Alberta from unrelated third parties for an aggregate purchase price of \$4.2 million. The acquisition is scheduled to close on January 26, 2007 and will be funded by Boardwalk REIT's credit facility.
- c) a property consisting of 1,176 units located in Edmonton, Alberta from unrelated third parties for an aggregate purchase price of \$143.5 million. The acquisition is scheduled to close on February 28, 2007 and will be funded by the assumption of mortgages totaling approximately \$31.0 million and the balance from Boardwalk REIT's credit facility.

Subsequent to December 31, 2006, Boardwalk REIT increased the maximum amount available on its acquisition and operating line demand facility from \$110 million to \$200 million.