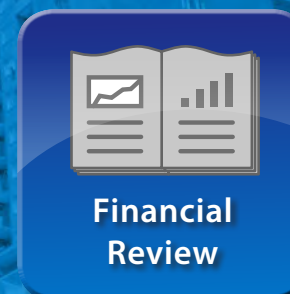
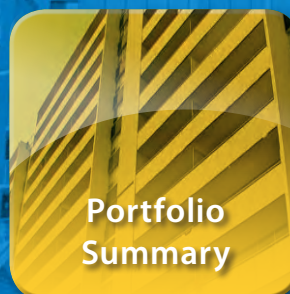


ANNUAL REPORT  
**2011**

# CREATING COMMUNITY



**BOARDWALK REAL ESTATE INVESTMENT TRUST**

**TSX: BEI.UN**





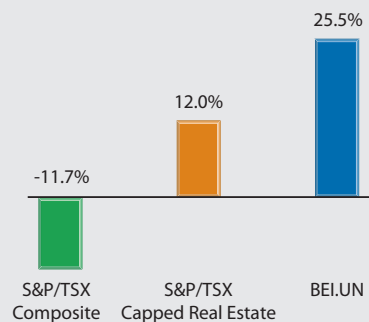
## Boardwalk is Canada's leading public owner/operator of multi-family rental communities

### Corporate Profile

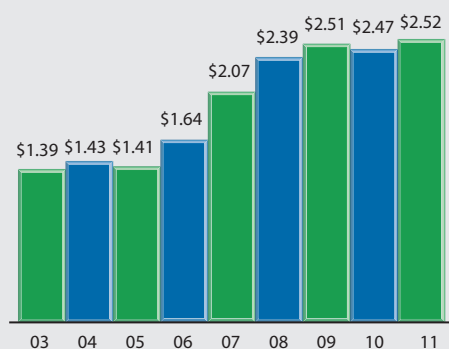
Boardwalk REIT is Canada's friendliest landlord and currently owns and operates more than 225 properties with 35,277 residential units (as at December 31, 2011) totaling approximately 30 million net rentable square feet. Boardwalk's principal objectives are to provide its Residents with the best quality communities and superior customer service, while providing Unitholders with sustainable monthly cash distributions, and increase the value of its Trust Units through selective acquisition, disposition, and effective management of its residential multi-family properties. Boardwalk REIT is vertically integrated and is Canada's leading owner/operator of Multi-Family Communities with 1,600 Associates bringing Customers home to properties located in Alberta, Saskatchewan, Ontario, Quebec, and British Columbia.

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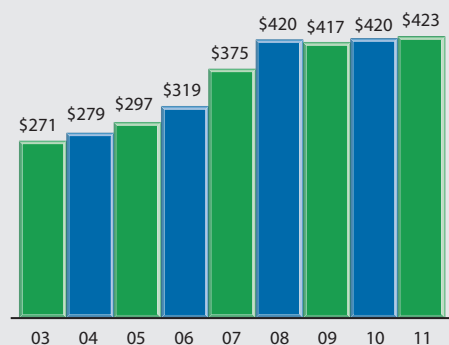
**Total Return Index**  
(Jan.1, 2011 to Dec. 31, 2011)



**Funds From Operations Per Unit (Cdn\$)**



**Rental Revenue (Cdn\$ millions)**



## 2011 HIGHLIGHTS

### Operating Results

- ▲ Rental revenues increased by 0.5% to \$422.7 million.
- ▲ Net Operating Income ("NOI") decreased by 0.9% to \$262.7 million.
- ▲ Funds From Operations ("FFO") from continuing operations increased by 1.6% to \$131.8 million.

### Performance

- ▲ Boardwalk Trust Units provided 25.5% total return to investors during fiscal 2011.
- ▲ The Trust maintained its distribution of \$1.80 per outstanding Trust Unit on an annualized basis during fiscal 2011.
- ▲ The Trust demonstrated one of the lowest distribution payout ratios among Canadian REITs during fiscal 2011 at approximately 71% of FFO.

### Financing

- ▲ The Trust renewed \$224.0 million, and up financed \$100.7 million in CMHC Insured Mortgages in fiscal 2011 and reduced its average interest rate on these mortgages from 4.58% to 3.60%.
- ▲ The Portfolio Weighted Average interest rate has been reduced to 4.14%.
- ▲ 99% of the Trust's mortgages are NHA-Insured.
- ▲ At December 31, 2011, the Trust had over \$256 million in cash liquidity on its balance sheet in addition to a \$196 million undrawn credit facility.



# LETTER TO UNITHOLDERS



## Our Mission:

*"To serve and provide our Residents with quality rental communities."*

◀ (From left to right):  
Roberto Geremia, President; William Wong, Chief Financial Officer; William Chidley, Senior Vice President, Corporate Development; Sam Kolias, Chief Executive Officer and Chairman of the Board; and Van Kolias, Senior Vice President, Quality Control.

## Creating Community

We are pleased to report on a solid year for Boardwalk REIT ("Boardwalk" or the "Trust"). In 2011, our focus on Creating Communities for our residents has contributed to sustainable organic growth. The continued efficiency improvements in our vertically integrated structure has led to continued improvements in the quality of our communities while residents reward us with loyalty and high retention levels. As a result, the Trust reported a solid Funds from Operation ("FFO") performance of \$2.52 per Trust unit.

## Portfolio Highlights

- ▲ Overall occupancy for 2011 was 97.5%, up from 97.1% in 2010.
- ▲ Average Rent for the fourth quarter was \$1,012 per unit per month, up from \$985 in the same period last year.
- ▲ Interest coverage ratio for fiscal 2011 was 2.42 times compared to 2.34 for the same period last year

We entered 2011 with a balanced rental market in most municipalities. To maintain high occupancy, our rental strategy of continuous monitoring of occupancy levels, adjusting market rents, and offering suite specific incentives improved our revenue.

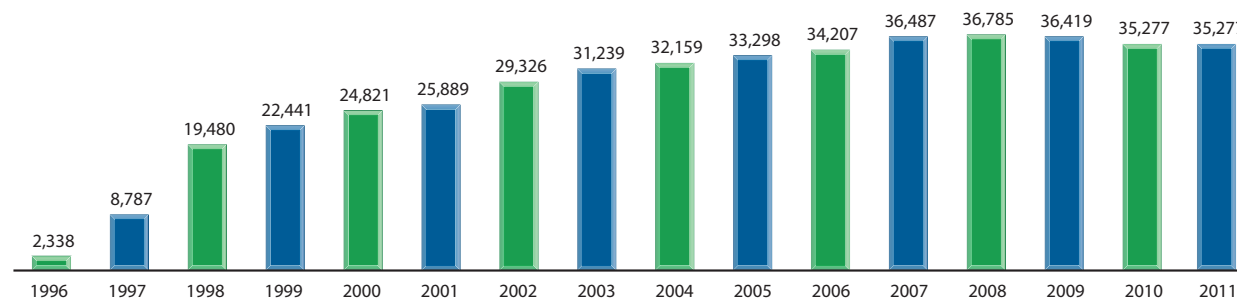
Our commitment to our communities and our residents remain a priority. Our customer-focused programs, including our Internal Subsidy programs, which provide rental increase forgiveness to those Customers who can prove financial hardship from a rental increase and our Self-Imposed Rent Protection program, which limits the amount of rental increases in a year for our existing residents, has contributed to further customer loyalty. We believe that these programs contribute to the establishment of long-term relationships with our residents. As in past years, we continue to be committed to the quality of the product we offer our residents and, with this in mind, we invested close to \$74 million for another consecutive year to further enhance the quality of our communities.

Through our relationships with our residents, our superior customer service, our quality communities, and our operational strategy, we believe that we continue to offer the best value in rental communities and are well positioned to lead long-term sustainability for all of our stakeholders.

## 2011 Economic Environment

Despite ongoing macroeconomic challenges and market volatility, the Canadian Real Estate Market remained healthy in 2011 as assets were transacting at especially high prices. Driven by the quality and relative safety of the Canadian Real Estate and ultra-low interest rate environment, investment grade real estate continues to be in high demand. Debt financing continued to be strong in 2011, with no shortage of demand for both Canadian Government and corporate debt in capital markets. Similarly, we were able to capitalize further on the low interest rate environment by renewing our maturing debt at rates well below our maturing interest rates. With the vast majority of our financing carrying CMHC insurance, the maturing mortgages, which were renewed with historically low interest rates, will positively affect our bottom line for many years to come.

Alberta, our largest market, continues to lead most economic forecasts in growth driven by the strong resource sector in the Prairies. With oil prices hovering near \$100 per barrel, we are optimistic that continued investment will be made in the province, leading to the creation of more jobs and continued high employment levels. In 2011, the Province of Alberta reported a record \$3.5 billion in revenue from land sales in 2011, which provides a positive indication of the health of the petroleum industry in the province. In contrast, natural gas prices remained low throughout 2011, as a result of excess supply in North America, and benefitted the Trust's utility expense during the winter months.



Boardwalk REIT – Total Number of Units



A report from Canada Mortgage and Housing Corporation ("CMHC"), estimates that Net Migration into Alberta in 2011 exceeded 35,000, nearly double the number from 2010. Net migration continues to be an excellent leading indicator, particularly for the rental market, as many migrants are attracted by prospective jobs and generally seek short-term housing.

CMHC cited that housing starts remained relatively flat year over year in Alberta as excess supply of existing homes in the resale market tempered demand for newly constructed homes. In addition, CMHC predicts that for 2011, employment growth will exceed 3%, which will continue to maintain Alberta as one of the highest employed provinces in the country. Both of these outlooks are positive leading indicators for the demand for rental housing.

The economic environment for 2011 for Canadian Real Estate was one of stability and balance. Interest rates, flight to quality, and inherent safety were the cornerstones of the year's activity. We are optimistic that public stimulative policy along with market risk aversion continues to keep interest rates low for an extended period of time. The leading indicators relating to demand for rental housing are positive and with 65% of the Trust's portfolio in resource driven Alberta and Saskatchewan, we are optimistic that this will translate into positive results for the Trust.

## Balanced and Sustainable Growth

With over 35,000 units across 18 markets, in 5 provinces, the Trust continues to pursue balanced and sustainable growth for all of our stakeholders. The Trust is, and continues to be, in a good position to deliver stable cash distributions and provide Unitholders with long-term sustainability. In 2011, the Trust distributed regular monthly distributions totaling \$1.80 per unit on an annualized basis equating to a conservative FFO payout ratio of approximately 71%.

We believe that the largest growth opportunity for the Trust remains through organic growth opportunities. The Trust's average market rent at the end of 2011 was \$1,053, versus the average occupied rent of \$1,033 for the same period. The narrowing of this loss to lease gap continues to be a key revenue growth opportunity; however, we believe that the best method of closing this loss to lease is through our revenue strategy, monitoring occupancy, adjusting rent and offering suite specific incentives on a suite-by-suite basis.

As a result of this strategy, the Trust's portfolio occupancy for 2011 averaged 97.5%, up from 97.1% in 2010 and inline with CMHC's average occupancy across the country.

## Financial Strength and Flexibility

Throughout 2011, the Trust strengthened its balance sheet to remain prepared for any potential opportunities. As interest rates remained historically low for much of 2011, we are pleased to have renewed approximately \$224 million of maturing CMHC mortgage principal, while also financing approximately \$101 million of CMHC additional funds to repay the Trust's maturing unsecured debenture in January of 2012. The weighted average new interest rate on these funds was 3.60%, versus the maturing rate of 4.58%; a significant decrease to our interest expense. As of early February 2012, 5- and 10-year CMHC Insured Mortgages were estimated to be 2.20% and 3.00%, respectively. In 2011, the Trust successfully capitalized on the continued low interest rate environment, by forward locking a significant portion of 2012 mortgage maturities.

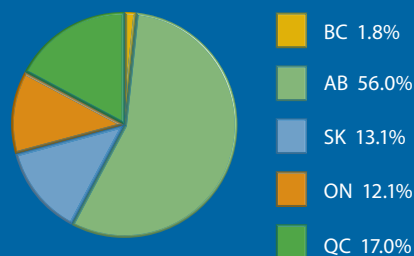
At the end of 2011, the Trust had approximately \$452 million in liquidity, comprised of approximately \$256 million of cash, and \$196 million from an undrawn revolving credit facility. This represented approximately 19% of the trust's outstanding debt as of December 31, 2011. Though approximately \$112.4 million of the cash was invested towards the repayment of the Trust's unsecured debenture, the holding of a significant liquidity position was central in the Trust's strategy to maximize the number of choices.

## Financial and Operating Highlights

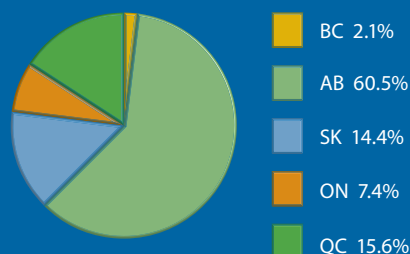
- ▲ Rental revenues of \$422.7 million, an increase of 0.5% compared to \$420.4 million for the twelve-month period ended December 31, 2011.
- ▲ Net Operating Income of \$262.7 million, representing a 0.9% decrease from \$265.1 million in the same period last year.
- ▲ FFO from continuing operations of \$131.8 million, an increase of 1.6% compared to \$129.7 million year-over-year.
- ▲ FFO per unit from continuing operations of \$2.52 on a diluted basis, up 2.0% compared to \$2.47 for the twelve-month period ended December 31, 2011.
- ▲ AFFO from continuing operations was \$115.9 million, an increase of 2.0% compared to \$113.6 million year-over-year.
- ▲ AFFO per unit from continuing operations was \$2.22 on a diluted basis, up 2.8% compared to \$2.16 for the twelve-month period ended December 31, 2011.

**Unit Breakdown by Province**

As at Dec 31, 2011

**NOI Breakdown by Province**

As at Dec 31, 2011



Region	City	CMHC Occ. 2011	CMHC Occ. 2010	CMHC Occ. 2009	2011 v. 2010 % Chg.
BC	Vancouver	98.9%	98.1%	97.9%	0.8%
	Victoria	97.9%	98.5%	98.6%	-0.6%
Prairies	Calgary	98.1%	96.4%	94.7%	1.8%
	Edmonton	96.7%	95.9%	95.5%	0.8%
	Regina	99.4%	99.0%	99.4%	0.4%
	Saskatoon	97.4%	97.5%	98.1%	-0.1%
Ontario	London	96.2%	95.1%	95.0%	1.2%
	Windsor	91.9%	89.1%	87.0%	3.1%
Quebec	Montreal	97.5%	96.7%	97.5%	0.8%
	Quebec	98.4%	99.0%	99.4%	-0.6%
		97.8%	97.4%	97.2%	0.4%

Boardwalk's Debt (net of cash) to Fair Value at the end of 2011 was a conservative 45%. Our interest coverage ratio, measured as Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA") to interest expense (excluding gains), increased to 2.42 times versus 2.34 times for the same period last year.

Through a combination of high occupancy and an increase in occupied rents, though tempered by an increase in operating expenses mainly attributable to higher wages and salaries as a result of an increase in staff as we internalize more maintenance and value added projects, the Trust posted an increase of 0.7% in Net Operating Income, well within our original guidance range of -1% to 1% growth.

**Boardwalk Stabilized Buildings NOI Growth for 2011**

Original Objective	-1% to 1%
Revised Objective	-1% to 1%
Actual Results	0.7%

**In Summary**

Creating Communities for our residents has been a cornerstone of our business model since 1984. In 2011, we were excited to introduce a team dedicated solely to share this message with all 1600 of our associates. We have begun to see the success of this work with our

valuable team members and it has translated into positive results in all aspects of our communities, both within and outside of our property boundaries. We believe this will lead to long-term sustainability for all of our stakeholders.

For fiscal 2011, our reported FFO increased by 2% versus the same period last year at \$2.52, and landed at the high end of our revised guidance range of \$2.45 - \$2.53, despite the loss of FFO from the sale of properties last year. The positive FFO growth can be attributed to an increase in NOI and reduced financing costs, tempered by an increase in administration expense.

**Funds from Operations – 2011**

Original Objective	\$2.35 to \$2.55
Revised Objective	\$2.45 to \$2.53
Actual Results	\$2.52

**Outlook for 2012**

Fiscal 2011 was a pivot year for the Trust, as we are well positioned to capitalize on the potential increased demand for rental housing in Canada. In addition, the low interest rate environment has presented a significant opportunity for the Trust to reduce its interest expense for an extended period of time.

The current positive mark-to-market in rents, combined with the Trust's high occupancy levels, has positioned the Trust to appropriately increase rents in selective markets, while also reducing the number of incentives previously provided. We believe this organic growth opportunity will drive NOI expansion in 2012.

In 2012, approximately \$577 million of debt with an average interest rate of 4.87% will be maturing, made up of \$465 million of CMHC Insured mortgages, and \$112 million from the Trust's unsecured debenture. As of mid-February 2012, the Trust has already locked in approximately 60% of these maturing mortgages with lower interest rates by approximately 1.5% compared to the existing maturing rates. Although consensus estimates forecast that interest rates will remain low throughout 2012, the Trust is constantly monitoring the situation and if it feels it is warranted may forward commit additional maturing mortgages in 2012 in an attempt to lock in the lower interest rates than are currently in place.

With this in mind, we are optimistic for 2012. As is customary, at the end of the third quarter of 2011, the Trust provided a financial outlook for the upcoming year to increase transparency in our financial reporting by sharing our own perspectives on the Trust's current position and objectives. This guidance is updated quarterly and is first reported during our quarterly conference calls and press releases.

#### Financial Guidance 2012

FFO	\$2.65 to \$2.85
Stabilized Building NOI Growth	1% to 4%
Acquisitions Target	None

In 2012, we expect to remain well capitalized, and foresee a solid year with FFO in the range of \$2.65 to \$2.85 and Stabilized Building NOI growth of 1% to 4%. At this time, we are not anticipating any new apartment acquisitions in 2012, as we continue to believe that our largest opportunity is organic growth and investment in our existing communities.

In February of 2012, Boardwalk's Board of Trustees approved an increase to Boardwalk's annual distributions to \$1.86 per Trust Unit, an increase of 3.3% from the previous distribution of \$1.80 per Trust Unit on an annualized basis, effective with the commencement of the February 29, 2012 record date. The Board of Trustees will continue to review the distributions made on the Trust's Units on a quarterly basis.

### A Special Thank You

We would like to take this opportunity to thank all of our stakeholders as well as financial and operating partners for their continued support. We would especially like to thank CMHC, our largest financial partner, as they continue to provide mortgage insurance products, which maintain low interest rates and mitigates renewal risks, and allows Boardwalk to provide the best value in rental housing for Canadians.

Also, we would like to thank our Board of Trustees for their ongoing guidance and leadership.

As always, thank you to our residents for continuing to reward us with their loyalty and trust as we strive to provide the best quality communities for which they call home.

Lastly, we would like to thank our nearly 1,600 associates across Canada for their persistent commitment to our values, which have led to great Customer Service, innovation, professionalism, and dedication. It is our associates who have made our communities a success, and will continue to create community for our residents and stakeholders alike.

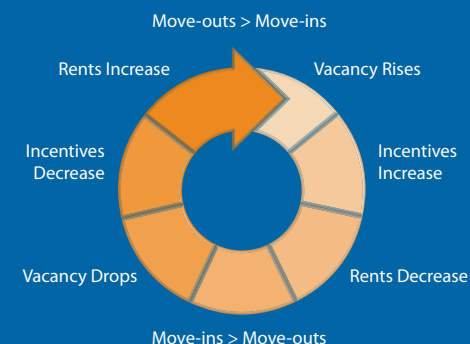
Sincerely,

(signed)

Sam Kolias  
Chief Executive Officer and Chairman

February 16, 2012

#### Rental Revenue Cycle







# TABLE OF QUALITATIVE AND QUANTITATIVE GOALS AND TARGETS







Boardwalk Park Estates 2, Grande Prairie AB




Boardwalk's mission is, "To serve and provide our Residents with quality communities." By adapting and creating strategies as well as implementing policies that aim to help us achieve our mission, the benefits will not just be felt by our Customers, but will be widespread and will be felt by our Associates, our Organization, our Community, and our Unitholders. We believe that these benefits include:

- ▲ The ability to obtain cash flow that is sustainable and long-term, as well as continued appreciation of our property values. The results of this will enhance value for our Unitholders;
- ▲ The opportunity to create a work environment for our Associates that is dependable, rewarding, safe and healthy;
- ▲ The opportunity to create a positive influence in our immediate and global communities; and
- ▲ The ability to remain Canada's leading residential landlord by diversifying geographically through strategic and accretive acquisitions, as well as internally with the implementation of creative and innovative work practices as we are always looking for ways in which to improve.




Our goals and targets are explained in the table below, and as always, we aim not to just meet these goals and targets, but to exceed them. Outside market forces can often have an effect on our expenses and returns, and as a result, we recognize that exceeding our targets is not always achievable in each area, but as an organization, we strive to overcome these obstacles and improve where and when we can. It is important to note that our goals and targets listed below are all intertwined and heavily reliant upon one another, and while one stakeholder may place an emphasis on one target, others may place priority on another. As we firmly believe in always holding ourselves accountable, we hope that our goals, targets and performance will encourage and inspire discussion between all of our stakeholders. Boardwalk actively pursues all of our goals and targets as we believe that by doing so we are creating positive results for all of our stakeholders, as well as creating a strong and lasting community for our Customers and Associates.

- Key:
-  = Achieved, and Aim to Improve Still Further
  -  = Achieved
  -  = Partly Achieved
  -  = Did Not Achieve

**CUSTOMERS:** To work proactively to ensure Boardwalk remains Canada's multi-family residential landlord of choice.




2011 Targets	2011 Results	2012 Targets
Continually improve the Customer Service we provide.	 <p>One of our ongoing goals is to continually improve our Customer Service in an effort to ensure that all of our Customer's needs and concerns are responded to promptly. As a result of this, our Customer Call Centre provides nationwide service 24 hours a day and seven days a week. We also offer our Customers 24-hour on-call maintenance at each of our buildings. We want to make sure that our Customers can reach us at anytime with any concerns or questions, and as part of our 24-hour Customer Service, our Customers are able to connect to us by phone, email or by our live chat link on <a href="http://www.bwalk.com">www.bwalk.com</a>. Throughout 2011, our Customer Service team received and responded to 133,144 phone calls, 46,023 emails and 16,423 live chats.</p> <p>In order to better serve our Customers, we monitor the reasons why they choose to move out of our buildings. In 2011, our move-outs totaled 13,554, a decrease from 14,903 in 2010 and 15,660 in 2009. The number of Customers who cite "rent too expensive" as their reason of moving out has steadily declined since 2009, from 1,051 in 2010 to 979 in 2011.</p> <p>At the beginning of 2010, we launched our automated telephone Customer survey in an effort to better measure Customer satisfaction. These surveys are administered to Customers who have either recently moved in or have had maintenance work completed. If we receive a negative response through one of these surveys, we ensure that we follow up with the Customer and the issue until the Customer is completely satisfied. In 2011, we also conducted Customer research to determine where and how we can improve. We had Customers fill out surveys and conducted focus groups to gather feedback. Our Customers were able to provide us with valuable information and suggestions that we are now working on implementing.</p> <p>In 2011, we also revised and updated our Customer Handbook. Each Customer receives a Handbook at the time of their move-in. We were able to give our Customer Handbook a new design, as well as revise it to ensure that our Customers were receiving current and relevant information.</p>	Continually improve the Customer Service we provide.
Develop innovative ways to further improve our long-term relationships with our Customers.	 <p>Throughout 2011, we continued to remain committed to our Customer-focused operation policies. As always, these policies include a Rent Protection Program and an Internal Subsidy Program. We believe that these policies help us in continuing to build strong and lasting relationships with our Customers. We are also always looking for new and innovative ways to increase value and provide the best rental communities for our Customers.</p> <p>Our internal rent control continued through 2011, and will continue into 2012. This is a control we have offered since 1999 and is a self imposed limit on how much we allow rents to increase in any given year.</p> <p>In 2011, we placed a large focus on Customer retention. Throughout the year we held many events and activities in an effort to show our Customers across Canada how much they are appreciated. We also made an effort to begin including our Customers in any charity initiatives Boardwalk participated in. By showing our Customers our appreciation, as well as encouraging them to volunteer alongside of us, we hope that we will further build and strengthen our relationship with them.</p>	Develop innovative ways to further improve our long-term relationships with our Customers.
Respond to the changing priorities of our Customers.	 <p>At the end of 2010, we launched the redesign of our website <a href="http://www.bwalk.com">www.bwalk.com</a> to the public. The redesign of the site has been a huge success throughout 2011. We average approximately 2,000 visits per day and, on average, just over half of those visitors are new to the site, an increase from 2010. In order to represent our focus on community, one of the pages of the website is a Media Gallery which is devoted to hosting pictures from Boardwalk community events across Canada.</p> <p>Throughout 2011, we took a closer look at our secure Customer Website. In 2012 we are looking forward to re-launching the website with a completely new look and feel and with a wide variety of brand new features. The goal of this project was to redesign the website to better suit our Customers needs and we are excited to launch this newly designed website to our Customers and collect their feedback. We view this site as an excellent opportunity to encourage increased communication with our Customer's as well as to ensure that their experience with Boardwalk is as good as it can be.</p>	Respond to the changing priorities of our Customers.

**ASSOCIATES:** Invest in our people to provide them with supportive, engaging, long-term employment.




2011 Targets	2011 Results	2012 Targets
<p>Strive to cultivate a corporate culture of on-going, open, two-way dialogue between all levels of staff.</p> <p>Continue to implement our new communications strategic plan.</p>	 <p>Throughout 2011 we have been adding new content and features to our intranet to ensure that it remains a relevant and useful tool for all of our Associates. Thus far, it has proven to be very valuable with regards to communicating with our Associates in a timely fashion, however, in the future we will be looking for ways to increase our intranets usability, function and appeal to Associates.</p> <p>At the end of 2011, we made the decision to combine our Quarterly Updates with our internal newsletter and distribute a quarterly magazine to all Associates that contains information regarding Boardwalk's community involvement, Associates across the country as well as financial information. We have received positive feedback with regards to this decision from our Associates, and we are continuing to look for ways to improve the content and quality of our internal magazine.</p> <p>In 2011, we once again hosted our annual Luncheons for Associates and Executives. This year, we were pleased to rebrand these events to have a larger focus on Associate contributions to Boardwalk and their communities. The feedback we received from these events was very positive, and we look forward to making these events even better in 2012.</p>	<p>Strive to cultivate a corporate culture of on-going, open, two-way dialogue between all levels of staff.</p> <p>Continue to implement our new communications strategic plan.</p>
<p>Encourage a positive workplace that effectively engages Associates.</p> <p>Encourage work-life balance.</p> <p>Constantly adjust internal policy and focuses to the changing priorities of our Associates, innovatively maintaining a balance between our Associates, Customers, Unitholders and Communities.</p>	 <p>In 2011 we offered a Site Staff and Corporate Compensation Plan that was improved to include an updated Profit Share Program as well as a change in our High Performance Program to a High Potential Program. We always want to ensure that we are offering our Associates competitive salaries and benefits.</p> <p>Boardwalk has an internal foundation that raises money to provide Associates and their families with gifts of hope during times of need. Boardwalk matches the fundraising for this foundation 100% and each Region has its own committee that responds and grants the wishes of Associates in need.</p> <p>In 2011 we offered an improved Scholarship Policy, Zero Injury Campaign, and Best Doctors. In 2012 we are pleased to introduce even more new benefits including: Critical Illness Update, additional charities for our Charitable Donations program and Online Training.</p>	<p>Encourage a positive workplace that effectively engages Associates.</p> <p>Encourage work-life balance.</p> <p>Constantly adjust internal policy and focuses to the changing priorities of our Associates, innovatively maintaining a balance between our Associates, Customers, Unitholders and Communities.</p>
<p>Foster safe and respectful work practices and environments, and further develop the training, orientation and support offered to new Associates.</p>	 <p>We invested over \$130,000 in Associate training and development through tuition, books and professional dues. This number has decreased since last year as we have efficiently internalized some training such as: WHMIS, Forklift Training, Ladder Safety Training, etc.</p> <p>We invested \$1,862,000 in comprehensive benefits for Associates, as well as \$1,780,000 through our Group RRSP Employer Match program.</p> <p>Throughout 2011 we continued our efforts to create building manuals for each of our properties. These manuals contain important information including the shutdown procedures for the buildings mechanical systems. We have completed approximately 18% of these manuals across Canada, and have completed 75% of these manuals in Southern Alberta.</p>	<p>Foster safe and respectful work practices and environments, and further develop the training, orientation and support offered to new Associates.</p>




**ASSOCIATES:** Invest in our people to provide them with supportive, engaging, long-term employment. *(continued)*

2011 Targets	2011 Results	2012 Targets
Educate and enforce our Health and Safety Procedures to all Associates.	 <p>At the beginning of 2011, we launched our Zero Injury Campaign in order to focus on our goal of eliminating all workplace injuries and illnesses, with a specific focus on those that are classified as lost-time or disabling injuries. All Associates had a Health and Safety objective added to their performance reviews in order to reemphasize the importance of being safe in the workplace. Sites that remain injury free for a period of one year will be recognized at our annual lunches with our Executive team, on our internal website and in our internal newsletter. In 2011, we were pleased to have 190 Sites remain injury free.</p> <p>In addition, during 2011 our Safety Procedures Manual was re-written and communicated to all Associates.</p> <p>In October of 2011 an external audit for Alberta was conducted with regards to Health and Safety. We are pleased to report that our results indicate an overall score of 98%.</p>	Continue to create a safe work environment by educating our Associates and enforcing our Health and Safety Procedures.
Strive to constantly enhance our ability to attract, support, encourage and recognize high-performing and innovative team members.	 <p>In 2011, we presented 13 Associates with Foundation of Excellence Awards. These awards go to individuals who strive to live Boardwalk's Mission, Vision and Values everyday and are nominated by their colleagues. In addition to these awards, we were also pleased to award 20 Chairman Scholarships to the children of Associates across Canada. These scholarships amounted to \$90,750.</p> <p>Our Bravo program, which was introduced in 2009 as an effort to better recognize our Associates for their efforts to go above and beyond in Customer Service, continues to be a success. In 2011 over 260 of our Associates were awarded Bravos as the result of receiving a compliment from one of our Customers.</p> <p>When our Associates refer friends and family to work at Boardwalk, if the candidate they referred is hired, our Associates receive a referral bonus. We continued this program in 2011 and it will stay in place throughout 2012.</p> <p>As always, we continue to review compensation and conduct ongoing research in an effort to ensure that our Associates are receiving wages and benefits that align with market trends and standards.</p>	Strive to constantly enhance our ability to attract, support, encourage and recognize high-performing and innovative team members.
Decrease turn-over to 25-30%, retain long-term Associates, and further develop succession planning policy and procedures.	 <p>In an effort to provide appropriate and thorough training to our site Associates we developed our Mentorship Program which was expanded in 2010 as we made specific Mentor Guides for each position at the site level. We continued this program throughout 2011 and seen a positive effect on the training of our Associates. In order to keep this program current, correct and relevant, we update our Mentor Guides on a quarterly basis.</p> <p>We continued our succession planning policy through 2011. This policy requires all Leaders to select a successor for their role as well as to estimate a time frame in which their successor will be ready to take on this role.</p> <p>We currently have over 1,550 Associates. Of those Associates, 34% have been with Boardwalk for over five years, and 20% of them have been with us for over 10 years.</p> <p>Our Associate turnover for 2011 was 18.75%, a decrease from 19.4% in 2010.</p>	Decrease turn-over to 15-25% in 2011, retain long-term Associates, and further develop succession planning policy and procedures




**COMMUNITY:** To positively impact the communities in which we operate and in the larger global community.

2011 Targets	2011 Results	2012 Targets
Expand and continue to focus on our Community Development Department in order to further foster collaboration with Government and Social Services.	 <p>Boardwalk is proud to commit housing units to a program called Housing First. This program allows us the opportunity to help homeless individuals in Alberta find affordable housing. In 2011 we committed 295 units in Edmonton, 140 units in Calgary and 3 suites for community programming.</p> <p>We have a total rent supplement number of 1,000. This number represents the number of rent supplements from government agencies that are paid directly to Boardwalk.</p> <p>Boardwalk is always looking for ways to contribute further in the creation of affordable housing and as a result we also partner with municipal housing companies that include: Calgary Housing Company, Capital Region Housing Corporation and the London Middlesex Housing Corporation. Through these partnerships we are pleased to provide over 1,000 units of affordable housing.</p> <p>Slave Lake, AB, experienced devastating fires in 2011. In an effort to help the victims of these fires, Boardwalk partnered with Alberta Housing and Capital Region Housing Corporation and provided 160 apartment units in Edmonton, AB, and Grande Prairie, AB, to these individuals.</p> <p>In 2011 we were also able to partner with the Calgary Parks Foundation to construct two playgrounds near Boardwalk buildings in Calgary, AB. Associates, Customers and members of the local community were able to assist in these builds.</p> <p>In Regina, SK, we partnered with Habitat for Humanity and Rebuilding Dreams to complete two home builds and renovations for families in need.</p>	Expand and continue to focus on our Community Development Department in order to further foster collaboration with Government and Social Services.
Continue to assist our Customers who are in financial need.	 <p>In an effort to assist our Customers who are in financial need we have an Internal Subsidy Program, which offers help in the form of rental increase forgiveness. In 2011 we offered internal subsidies to approximately 70 families. In 2011 we invested \$100,000 for this program.</p>	Continue to assist our Customers who are in financial need.
Focus on encouraging corporate and individual contribution and involvement in our communities.	 <p>We participated in our annual Boardwalk National Week of Caring in December 2011. Throughout the course of this week, every Associate is given the opportunity to volunteer in their community for up to four hours of paid work time.</p> <p>We give each of our Associates the opportunity to participate in our Company Matched Payroll Charitable Deductions program. Associates who participate in this program can select one of our registered charities and Boardwalk will match this donation 100% up to \$1,000 per year. In 2011 we were pleased to match \$17,600 of Associates donations to registered charities.</p> <p>In 2011 we provided 75 volunteers for Feed the Hungry in Calgary, AB, and Christmas Dinner in Edmonton, AB. In Quebec City, QC, Associates also participated in the daffodil sales for cancer research and in Montreal, QC, Associates participated in a Christmas program at St. Wilibords Church.</p> <p>Our Associates in Edmonton, AB, received a 2011 Recognizing Outstanding Organizations and People in Housing (ROOPH) award for Partnerships For Success. This award recognizes Boardwalk's efforts and success in providing affordable housing as well as helping to end homelessness and supporting their communities in Edmonton, AB.</p>	Focus on encouraging corporate and individual contribution and involvement in our communities.
To expand our boundaries by taking an active role in our global community.	 <p>At the beginning of 2011, due to the Canadian Government travel warning, we were unable to travel to Tijuana, Mexico, to participate in our Homes of Hope trips with Youth With a Mission. In the interim we were able to go to New Orleans, Louisiana, to build homes for the victims of Hurricane Katrina. During this trip we were able to renovate 3 homes. Towards the end of 2011 we were able to resume our trips to Tijuana, Mexico, and build 3 homes for families in need. For the first time we invited Customers to Tijuana with us and had six participate. The total number of volunteers for both trips was 96. We plan to continue our Homes of Hope program to Tijuana, Mexico, through 2012 and continue to invite Customers.</p> <p>In 2011 Associates again participated in Operation Christmas Child through Samaritan's Purse. This year, we asked for our Customers to get involved and help us pack shoeboxes full of gifts for children in need around the world. Boardwalk Associates and Customers collectively put together 1,929 shoeboxes.</p>	To expand our boundaries by taking an active role in our global community.

**THE ENVIRONMENT:** To positively impact the environment through sustainable practices.






2011 Targets	2011 Results	2012 Targets
Increase corporate sustainability by creating opportunities for positive environmental change.	 <p>We have electrically metered 5,900 suites in Alberta and Saskatchewan. We install low-flow shower heads and toilets in our suites whenever and where ever possible. Our sites are equipped with timers and photocells on our outdoor lighting to ensure the lights do not stay on all the time, and we also use LED lights in our emergency fixtures. In addition to these efforts, we also use paint that has minimal VOCs and meets all of the new standard to ensure that it is environmentally friendly. We are pleased that approximately 85 of our buildings have recycling programs and we are investigating other options to make recycling much more accessible to our Customers.</p> <p>All of our Investor materials are available online on our Investor Website <a href="http://www.BoardwalkREIT.com">www.BoardwalkREIT.com</a> which helps us reduce our paper usage. As well, this year we are pleased to produce an electronic Annual Report and have reduced the number of printed Annual Reports to zero. We are encouraging our registered Unitholders to access our financials through our investor website.</p> <p>We use FSC-certified mixed sources paper for our annual reports.</p>	Increase corporate sustainability by creating opportunities for positive environmental change.

**CORPORATE GOVERNANCE:** To provide fully transparent, on-going corporate information to all stakeholders, meeting or exceeding the guidelines set out by the TSX regarding effective corporate governance.

2011 Targets	2011 Results	2012 Targets
Maintain independence of the Board.	 <p>Boardwalk currently has 5 Trustees, 4 of whom are independent.</p>	Maintain independence of the Board.
Strive to continually improve transparency and open, honest dialogue with all Unitholders.	 <p>We provide the public with the opportunity to call in and listen to all of our quarterly conference calls. There is also an audio recording of our webcasts made available for one week after the teleconference.</p> <p>Our senior management as well as our dedicated Investor Relations team have committed to making ourselves available to answer and address specific Unitholder questions.</p>	Strive to continually improve transparency and open, honest dialogue with all Unitholders.
Further enhance procedures and systems for the consistent, timely dissemination of corporate and industry information.	 <p>In 2011, we continued to see success and improvement with our quarterly reporting format. We are always looking for ways in which to make our reporting format more efficient.</p> <p>We provide webcasts of all of our quarterly conference calls to the public. We also strive to make all of our documents and webcasts easily accessible. There are links to all of our current and past documents containing our corporate information on our investor website.</p>	Further enhance procedures and systems for the consistent, timely dissemination of corporate and industry information.



**UNITHOLDERS:** To provide a consistent, sustainable and attractive investment option focused on providing stable monthly cash flow and increasing overall returns for Unitholders.

2011 Targets	2011 Results	2012 Targets
Realize FFO target of \$2.45 to \$2.60.	 Boardwalk realized FFO from rental operations of \$2.52.	Realize FFO target of \$2.65 to \$2.85.
Stabilized Buildings NOI growth of -3% - 1%.	 Stabilized Buildings NOI increased 0.7%.	Stabilized Buildings NOI growth of -1.0% to 4.0%.
Realize a total return on the REIT units that outperforms the S&P / TSX Composite and the S&P / TSX Capped Real Estate Indices.	 In 2011, Boardwalk Unitholders realized a total return of 25.5% on their REIT units, compared to posted returns of -11.7% for the S&P / TSX Composite and 12.0% for the S&P / TSX Capped Real Estate Indices.	Realize a total return on the REIT units that outperforms the S&P / TSX Composite and the S&P / TSX Capped Real Estate Indices.
We have no plans to acquire new units at this time, as we feel it is more advantageous to invest in our existing assets through our Unit Buyback program.	 No units were acquired or sold in 2011. The REIT continues to feel that investing in the Trust's existing portfolio through quality enhancements and through the Trust's Unit Buyback Program are the most accretive for Unitholders.	We have no plans to acquire new units at this time, as we feel it is more advantageous to invest in our existing assets through our Unit Buyback program.
Complete performance enhancing transactions to maximize Unitholder value.	 In 2011, the Trust continued to focus on Customer Service, and enhanced Unitholder value through organic growth. In addition, the Trust continued to renew existing mortgage financing at accretive levels as the maturing interest rates continue to be significantly higher than current CMHC mortgage rates.	Complete performance enhancing transactions to maximize Unitholder value.



## CUSTOMERS



Boardwalk is focused on providing excellent Customer Service, and in 2011, part of this focus included an emphasis on Creating Community with and between our Customers. As always, we offered our Customers a Customer Service Centre that is open 24 hours a day, 7 days a week, 365 days a year, as well as 24 hour on-call maintenance to ensure that any and all of their concerns are answered or attended to promptly. In 2011, our Customers were able to contact us in person, using the telephone, sending an email, or participating in our live chat available on our website. Throughout 2011, in an effort to better understand the needs and satisfaction of our Customers, we continued to conduct an automated telephone survey for Customers who had either just moved into their suite, or who had just had maintenance requests completed. If a negative response is received as a result of this survey, we make sure to follow up until the Customer is completely satisfied.





In 2011 we also conducted Customer research. This took the form of handing out surveys for our Customers to complete as well as hosting focus groups in order to gather feedback. Our Customers provided us with some excellent feedback and suggestions on how we can improve and what we are doing right. As we value this feedback, we have tracked it and are working to implement their suggestions and comments in 2012 to ensure that our Customer's Boardwalk community is the best it can be.

Towards the end of 2011 we undertook the project of completely revising our Customer Handbook. We not only updated the look of the Handbook, but rewrote it to include updated and revised information to ensure that our Customers are receiving our more current information. Each Customer receives a Handbook at the time of their move in.

In response to the constantly changing needs of our Customers, in 2011 we took a closer look at our secure Customer Website. As a result of customer feedback, we are expecting to launch this site with a brand new look and feel to our Customers in early 2012. The redesign site will also have many new and exciting features for Customers to take advantage of, and we will strive to constantly update the site to ensure that the information is current and relevant.

At the end of 2010 we were excited to launch our redesign of our website [www.bwalk.com](http://www.bwalk.com), and over the course of 2011 the site has been a huge success. We monitor our analytics on the site monthly, to track our successes and see where there is room for improvement. In 2011, [www.bwalk.com](http://www.bwalk.com) averaged over 2,000 visits per day, and approximately 50% of those visitors were new to the site. In addition to our rental property pages, one of our top five pages visited consistently is our Careers page.

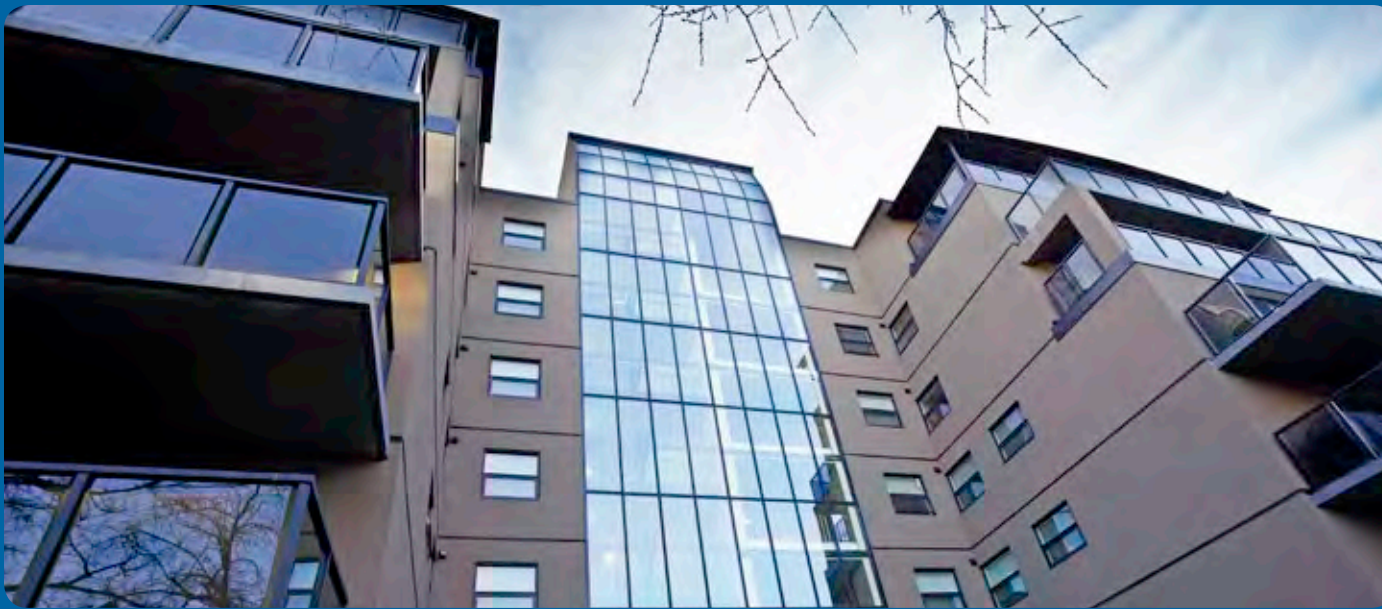
A huge part Boardwalk's Customer Service experience involves responding to and meeting our Customer's needs and then exceeding their expectations, and for us, part of this is realizing that financial hardships can happen to anyone, and as a result we are proud to offer our Customers an Internal Subsidy Program, which offers help in several different ways, from waiving rental increases, to temporary rent freezes or temporary rent reductions, we want to help. We also pride ourselves on our internal rent control, in place since 1999, which is a self imposed limit on how much we will raise rents in any given year.

As 2011 was a year of Creating Community, we placed a large focus on Customer retention. All across Canada we hosted Customer Appreciation Events including barbeques, sporting events and much more. All of these events were a success and our Customers wrote and called in with positive feedback from these events. We were also excited to invite our Customers to participate in many of our volunteer initiatives. From helping out at soup kitchens, to putting together shoeboxes for Operation Christmas Child, and to inviting them to come to Tijuana, Mexico, to build homes for families in need, we created community with our Customers the best way we know how, through helping others.





# UNITHOLDERS



For over 25 years, Boardwalk has built a diverse portfolio of assets spanning over 18 major centres and consisting of over 225 properties. The diversity of our portfolio allows us to weather regional volatility, as well as mitigate any risks of individual markets. Conversely, we still maintain a significant presence in each of our communities allowing us to achieve operating efficiencies in conjunction with gains in our strategically located markets. With over 60% of the Trust's portfolio located in Alberta and Saskatchewan, the Trust is well positioned to take advantage of these two growth markets as the resource sector continues to drive economic growth. We are, however, not immune to global market instability and, as such, have remained prudent in ensuring that the financial position of the Trust remains strong with ample liquidity to ensure that we are able to capitalize on potential opportunities.



Westmount Ridge, London ON

◀ Centre Pointe West, Calgary AB



The Trust continues to monitor the marketplace for acquisition opportunities and, through diligent analysis, will ensure that any acquisitions are accretive under the appropriate conditions. Portfolio growth through acquisitions has not been prevalent in recent years for the Trust, as the trading prices of our Trust Units did not reflect the full value of the REIT; therefore, instead of pursuing new acquisitions, the Trust was active in the purchasing and cancellation Trust Units through a Normal Course Issuer Bid, which allows the Trust, an opportunity to invest back into its high quality portfolio while creating further value to our existing Unitholders.

Organic growth within the Trust's portfolio remains as a significant opportunity for the Trust to enhance value to Unitholders. The closing of the Trust's loss-to-lease (the difference between market rents and the actual rent received) on rents grew to \$20 per unit per month at the end of 2011; and represents nearly \$8.5 million in revenue. As the Trust continues to balance vacancy, with rent adjustments, and suite specific incentives in its revenue optimization strategy; the closing of this loss-to-lease presents a significant opportunity for the Trust.

In 2011, FFO per unit was strong at \$2.52 per Trust Unit. The Trust was able to sustainably provide our Unitholders with \$1.80 per Unit, on an annualized basis, of regular cash distribution, which equated to 71% of FFO in 2011, and remains one of the most conservative payout ratios among our peers. In total, the Trust distributed \$94 million in 2011, with an estimated 65% allocated to a return of capital and 35% allocated to income.

As interest rates remained historically low for much of 2011, Boardwalk is pleased to have renewed approximately \$224 million of maturing CMHC mortgage principal, while also financing approximately \$101 million of additional CMHC funds to repay the Trust's maturing unsecured debenture in January of 2012. The weighted average new interest rate on these funds was 3.60%, versus the

maturing rate of 4.58%, a significant decrease to Boardwalk's interest expense.

Moving into 2012, interest rates are expected to remain exceptionally low; and presents an excellent opportunity for the Trust to significantly reduce the maturing interest rates on 2012 mortgages. The Trust will continue to proactively monitor interest rate markets, and has prepared optional forward interest rate fix contracts on a significant number of mortgage maturities in 2012.

Subsequent to the end of 2011, the Trust was pleased to retire the Unsecured Debenture which matured January 23, 2012. The unsecured debenture carried an interest rate of 5.61%, and was repaid in full with existing liquidity.

With the Trust's seasoned management team, Boardwalk continues to be an industry leader in transparency and financial disclosure. Boardwalk's quarterly financial reports are an excellent source of information, which we encourage all of our stakeholders to review. All of the Trust's financial reports can be found on our website: [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com). Boardwalk also continues to be one of the few REITs who provide financial guidance on a quarterly basis. Full transparency allows prospective and current Unitholders the opportunity to fully evaluate the Trust's long-term value proposition including, but not limited to: the Trust's stable cash distributions, healthy balance sheet, and conservative fiscal management.





## ASSOCIATES



Boardwalk's success can be attributed to our team of outstanding Associates. We strive to create a happy and healthy workplace for our Associates, and in 2011, we worked to create a community of Boardwalk Associates that worked together as a team for our residents, and stakeholders alike.

We currently have over 1,600 Associates, and of these Associates, 34% have been with us for over five years, and 21% of them have been with us for over 10 years. In 2011, our Associate turnover was 18.8%, a decrease from 19.4% in 2010. We are proud of our Associates and value their contributions to our team and strive to encourage people to join and stay in the Boardwalk community. Over the course of 2011, we invested \$1,862,000 in comprehensive benefits for our Associates. In 2011 we were pleased to provide our Associates with an updated Profit Share Program as well as improve our High Performance Program to a revised High Potential Program. The goal of this program is to reward our Associates who we recognize as "high potential" and who may be eligible to receive a bonus should they be nominated for this program by their Leaders. We also offer our Associates a referral bonus when a candidate they refer to Boardwalk successfully joins our team.





Boardwalk associates are encouraged to support their communities and give back to those around them. Boardwalk continues to provide a Company Matched Charitable Donations program. This program offers Associates the opportunity to give a charitable donation to one of the Trust's selected registered charities, which, Boardwalk will match 100% up to \$1,000 per year for each Associate. In 2011 we were pleased to match \$18,000 of Associates donations to registered charities.

Our Associates are a key component to the Trust's success, and to ensure we provide a work environment where they can constantly learn and develop their skills, we are pleased to assist with further training and development for them. In 2011 we offered training courses such as: WHMIS, Forklift Training, and among others, Ladder Safety; each of which was taught in-house. In addition, we also invested \$131,000 in Associate training and development through the payment of tuition, books and professional dues. In order to ensure that our Associates feel comfortable with their roles and are properly trained we continued our Mentorship Program throughout 2011, and in an effort to keep this program relevant, we update our Mentor Guides on a quarterly basis. We also continued our succession planning in 2011, which requires all Leaders to select

a successor for their role, as well as estimate the time frame in which they will be ready to assume this role. We continue these programs in an effort to ensure not only that our Associates are properly trained, but also to provide them with the ability to grow and excel within Boardwalk.

In 2011 we introduced new benefits to our Associates including: an improved Scholarship Policy, Zero Injury Campaign and Best Doctors. In 2012, we are pleased to offer our Associates three new benefits. Boardwalk appreciates their Associates and wants to provide them with the best care possible, so we have updated our Critical Illness policy that gives our Associates coverage to the age of 70, rather than the previous age of 65. This update also includes the addition of Occupational HIV coverage, and an additional six conditions added to the list of our optional Coverage for Children. We have also updated our list of charities applicable for our Charitable Donations program. In order to give our Associates every opportunity to give back to their local and global communities, we have included the Red Cross and War Amps to our growing list of charities. In order to ensure that our Associates are properly trained for their positions, we are now offering Online Training. These online training programs can be utilized in addition to our current mentor

### Chairman's Scholarship Recipients 2011

STUDENT NAME	ASSOCIATE NAME	STUDENT NAME	ASSOCIATE NAME
David Herbut	Oxana Herbut	Shaheer Ahmad Meenai	Sobia Shakil
Kasra Niktash	Mohsen Niktash	Magdalena Kurniewicz	Slawomir Cwik
Vlaho Dragic	Dolres Dragic	Nicholas Rickards	Samantha Rickards
Michael Banno	John Banno	Sunshine Siruno	Virginia Siruno
Denis Dinella	Kozetta Dinella	Semeon Shouster	Vladimir Shouster
Serena Ker-Yin Tan	Lu See Lim	Elina Stop	Volodymyr Stop
Rebekah Gray	James Gray	Vanessa Hill	John Hill
Audree St-Jean	Sylvain St-Jean	Patrick Lefebvre	Luc Lefebvre
Amanda Bolan	Wendy Bolan	Kailee McCallum	Randy McCallum
Daniel Neuman	Perry Neuman	Courtney Jamieson	Bryan Jamieson

training and Health and Safety programs. Boardwalk strives to acknowledge and recognize our Associates and their achievements, and in 2011, we presented 13 of our Associates with Foundation of Excellence Awards. These awards are given to individuals who are nominated by their peers as best representing and living our Mission, Vision and Values. The Trust also recognized our Associates through our Bravo Program, which was implemented in 2009. This program honours our Associates' determination to go above and beyond in Customer Service and in 2011 over 260 of our Associates received Bravos as a result of compliments from our Customers, we are proud that many of these Associates received more than one Bravo throughout 2011. In addition, 20 Chairman's Scholarships were presented to the children of Associates across Canada. These scholarships amounted to \$90,750.

An important part to creating community for our Associates is to create a strong network of communication between all associates. As a result, we have placed an increased emphasis on ensuring that we constantly update our intranet. We strive to ensure that this site is a place where Associates can go to find all of the Boardwalk information they need as well as a place where they can connect with other associates across the country. In 2012, we are planning to take an even closer look at this site and research how we can make

improvements on it further for our Associates. In 2011, we made the decision to publish our internal newsletter four times a year to coincide with our fiscal quarters, as opposed to three times a year, and this decision was met with positive feedback from our Associates. This newsletter includes information about community initiatives Associates are taking across Canada as well as Boardwalk financial information. As always, we continue to look for new and exciting content to publish in our newsletter and ways to make it an even more valuable communication tool for our Associates.

While our intranet and our newsletter are great communication tools, we have conducted research regarding our internal communication with our Associates and found that 76% of our Associates preferred face-to-face communication versus any other method. In order to ensure that all of our Associates across Canada experience face-to-face communication with our Executive Team, Management hosts annual breakfasts and luncheons with every associate across Canada. In 2011, we were pleased to rebrand these get-togethers to include a larger focus on our Associates' contributions not only to Boardwalk, but also to their communities. The feedback we received from these events was very positive and we are looking forward to further improving these events in 2012.



# HEALTH AND SAFETY



Part of making Boardwalk a great place to work is taking measures to ensure that it is a safe place to work. Health and Safety was a major focus for Boardwalk throughout 2011, and many programs were developed and communicated to our Associates. In October, an external health and safety audit for Alberta was conducted and our results indicated an overall score of 98%.

We use a wide variety of communication vehicles to ensure that our Associates are receiving all information regarding Health and Safety in a timely manner. These vehicles include our presentations at our annual breakfasts and lunches with our Executive team, our intranet, our internal newsletter, monthly Health and Safety Bulletins, new hire orientation, our Safety Procedures Manual and site bulletin boards.

In 2011, we made substantial progress in our efforts to create building manuals for each Boardwalk property. These building manuals provide information regarding the shutdown procedures for building mechanical systems. In 2011, we continued our efforts to create these and have managed to complete roughly 18% of these manuals for across Canada, including 75% of those required in Southern Alberta. We were also able to rewrite our Safety Procedures Manual

and communicate this to our Associates. In addition to these efforts, we also launched our Zero Injury Campaign in 2011. This Campaign is an effort to eliminate all workplace injuries and illnesses. In accordance with this Campaign, all Associates have had a Health and Safety objective added to their performance reviews. In addition, sites that remain injury-free for a period of one year will be recognized at our annual get-togethers with our Executive team, on our intranet and in our internal newsletter. In 2011, we are pleased to report that 190 of our sites remained injury free.

We are implementing the following programs in an effort to significantly reduce our injuries and related WCB costs. We expect that it may take up to four years to see the reduction as WCB uses the past four years to calculate our premiums for the current year.



- |                                       |   |   |   |
|---------------------------------------|---|---|---|
| ▲ Asbestos Management Plan            | ▲ First Aid                                 | ▲ Modified Duties                       | ▲ Safety Infractions  |
| ▲ Associate Training                  | ▲ Forklift Safety                           | ▲ Monthly Site Safety Inspections       | ▲ Site Safety Meetings                                      |
| ▲ Bed Bugs                            | ▲ Hazard Detection Program                  | ▲ Mould Remediation                     | ▲ Slip, Trip & Fall   |
| ▲ Bodily Fluids & Dead Animal Cleanup | ▲ Hazardous Materials, Storage and Disposal | ▲ Needle / Syringe Safety               | ▲ Snow Shoveling  |
| ▲ Chainsaw Safety                     | ▲ Housekeeping                              | ▲ Noise Exposure & Hearing Conservation | ▲ Sun & Heat Protection                                     |
| ▲ Communication                       | ▲ Incident Reporting                        | ▲ Office Ergonomics                     | ▲ Transportation of Dangerous Goods                         |
| ▲ Company Vehicle Safety              | ▲ Indoor Air Quality                        | ▲ Pandemic Response                     | ▲ Visitor Policy  |
| ▲ Confined Spaces                     | ▲ Job Hazard Analysis                       | ▲ Personal Protective Equipment         | ▲ Workplace Hazardous Materials Information Systems (WHMIS) |
| ▲ Electrical Safety                   | ▲ Joint Health & Safety Committee           | ▲ Pesticides                            | ▲ Working Alone   |
| ▲ Emergency Response                  | ▲ Ladder Safety                             | ▲ Pool Safety                           | ▲ Workplace Violence  |
| ▲ Environmental Policy                | ▲ Lockout and Tagging                       | ▲ Power Tool Safety                     | ▲ Zero Injury Campaign                                      |
| ▲ Fall Protection                     | ▲ Material Safety Data Sheets (MSDS)        | ▲ Respirator Code of Practice           |   |
| ▲ Firearms / Weapons Found on Site    |   | ▲ Right to Refuse Unsafe Work           |   |





## COMMUNITY



Radisson Playground Build

Community was a large focus for Boardwalk in 2011 and will continue to be a top priority for the Trust. Our goal was to Create Community not only within Boardwalk property boundaries and our Associates, but also between Boardwalk, our Residents and surrounding communities both near and abroad. What better way to Create Community amongst ourselves than to support the communities that surround us all.

In an effort to support our local communities and provide affordable housing we commit a certain number of units to a program called Housing First. Working with this program allows us the opportunity to help homeless individuals in Alberta find affordable housing. In 2011 we committed 295 units in Edmonton, 140 units in Calgary, and 3 suites for community programming to this program. We also commit two suites and office space to Community Living in London, ON. Boardwalk also partners with municipal housing companies that include: Calgary Housing Company, Capital Region Housing Corporation and the London Middlesex Housing Corporation. Between all of these partnerships, we are pleased to be able to provide over 1,000 units of affordable housing in our communities across Canada.



Habitat Build Regina



Tijuana Homes of Hope



Boardwalk aims not only to Create Community, but to also strengthen and support community in times of need. In 2011, Slave Lake, AB, was devastated by fire. During this time, Boardwalk partnered with Alberta Housing and Capital Region Housing Corporation to provide 160 apartment units in Edmonton, AB, and Grande Prairie, AB, to those affected by the fires.

In 2011 our team in Edmonton, AB, was proud to receive a Recognizing Outstanding Organizations and People in Housing (ROOPH) award. We received this award in the category of Partnerships for Success which recognizes outstanding partnerships between private, not-for-profit, and/or public agencies who work together in an effort to address and end homelessness or to create affordable housing and support their community.

In the summer of 2011 Boardwalk had the opportunity to partner with the Calgary Parks Foundation to build two parks in Calgary, AB. These parks are both located near two Boardwalk properties. Each playground build took approximately three days to build and we were pleased to not only have Associates participate in the build efforts, but also our Customers and other members of the local community. The building of these parks helped bring Boardwalk together as a community, and we hope that they will continue to provide joy and strengthen the communities in which they reside.

Throughout 2011 Boardwalk Associates volunteered and took part in many different charity initiatives. We provided 75 volunteers for Feed the Hungry in Calgary, AB and Christmas Dinner in Edmonton, AB. In Quebec City, QC, Boardwalk Associates participated in the daffodil sales with the proceeds going towards cancer research and in Montreal, QC, Associates participated in a Christmas program at St. Wilibords Church. Our Associates also volunteered at the Edmonton Community Challenge. Boardwalk was pleased to sponsor this event with a donation of \$10,000 in 2011. The winners of this challenge take home money that is to be used however they choose to improve their communities. With our focus of Creating Community, Boardwalk was pleased to be involved in this event again in 2011.

Every year we participate in the Boardwalk Week of Caring. This week was established to help us encourage our Associates to get out into their communities and volunteer. The Boardwalk Week of Caring took place in December 2011, and allows Associates the opportunity to volunteer for up to four hours of paid work time. This year was a solid year for us, and we are pleased to report that across Canada we had 463 Associates participate in the Week of Caring for a grand total of 1,373.5 hours of volunteer work.

Unfortunately, at the end of 2010, due to a Canadian Government Travel Warning, we were unable to continue our trips to Tijuana, Mexico, to build homes through our Homes of Hope program in partnership with Youth With a Mission. As we wanted to continue to help our global community, we looked for destinations to go until the travel warning was lifted. In the interim, in May 2011 we sent a team of Associates to New Orleans, Louisiana, to build and restore homes of the families who were affected by Hurricane Katrina. Throughout this trip, Associates were able to fully renovate three homes. Towards the end of 2011, we were finally able to resume our trips to Tijuana, Mexico. This time around we invited Customers to accompany us on our Homes of Hope build for a total of 96 volunteers over the two trips. We were pleased to have six Customers accompany us on short notice, and we received positive feedback from all of them. We plan to continue this Customer involvement as an effort to build our local communities as well as strengthen our global communities.

In 2011, Boardwalk was also excited to partner with both Habitat for Humanity and Rebuilding Dreams to complete two home-building projects in Regina, SK. In September 2011, Boardwalk donated \$75,000 to Habitat for Humanity, as well as partnered with Rebuilding Dreams to help out the family of a Boardwalk Associate. These partnerships and home builds are our efforts of always looking for ways in which we can continue to Create Community.



ROOPH Award



Feed the Hungry: St John's Kitchen



Week of Caring



# ENVIRONMENT & SUSTAINABILITY

## Environment

We believe that part of Creating Community is supporting our environment. As a result, we remain committed to making our operations and our communities as environmental-friendly as possible. By being accountable to our environment, we are able to further 'Create Community', both locally and globally, as our communities will continue to have healthy environments in which to grow.

One of the actions we take to help our Customers remain conscious of their environment is sub-metering. By sub-metering the units in our buildings, our Customers are responsible for their own energy and water usage. By doing this, we make our Customers more aware of the amount of energy and water they are using. We have currently sub-metered 6,500 units, and have electrically metered everything that we are able to in Alberta and Saskatchewan. We ensure that all of our meters meet Canada Measurement Certification Requirements.

Boardwalk installs low-flow shower heads and 6L low-flow toilets; we are also beginning to move towards the 4.8/4.9L toilets. In addition, we also install energy efficient fixtures and take advantage of any rebates that are offered by local municipalities in an effort to help reduce our impact on the environment. We make use of timers and photocells for our outdoor lighting; this ensures that the lights are not on all the time. We also use LED lights in our emergency exit fixtures. We use paint that has minimal VOCs and meets all of the new standards to be environmentally friendly.

We encourage Associates to turn off their lights and computers when they leave for the evening. We also have recycling programs at our offices for paper and cardboard, and we also recycle our used computer and printer parts. We have approximately 85 projects with recycling programs at them and are investigating other options to make recycling more accessible to our Customers.

In 2011, we also made efforts to decrease our use of printed materials, both internally and externally. By placing an emphasis on our intranet, as well as combining two of our regular internal publications, we have managed to cut down our paper usage significantly. Externally, we make all of our Investor materials online, which helps us to reduce our paper usage. We have eliminated printing our Annual Reports on paper; in 2011, we are excited to exclusively distribute an electronic edition of our Annual Report.





## Sustainability

Boardwalk strives to achieve sustainability in three ways: environmental, social and financial.

Boardwalk's commitment to environmental sustainability can be more effectively measured in a qualitative fashion. Boardwalk implemented recycling programs in all of their offices and has made efforts to significantly reduce our paper usage. The promotion of energy conservation to Customers through sub metering, and having environmentally minded Customers, helped Boardwalk to substantially lower their impact on the environment. Significant efforts to install low-flow and low-energy fixtures and appliances continue to be on-going in Boardwalk's Communities.

Social sustainability for Boardwalk is led by its associates. Highlighted in the Community section of this annual report, Boardwalk associates are committed to creating communities both within and outside of Boardwalk's property lines. The Trust supports our associates with various programs including, charitable donation match program, and among others, Boardwalk's change a life benefit.

Our commitment to our communities and our residents remain a priority. Our customer-focused programs, including our Internal Subsidy programs, which provide rental increase forgiveness to those Customers who can prove financial hardship from a rental increase and our Self-Imposed Rent Protection program, which limits the amount of rental increases in a year for our existing residents, has contributed to further customer loyalty. We believe that these programs contribute to the establishment of long-term relationships with our residents.

Financial sustainability is driven by the Trust's Board of Directors, Management Team, and most importantly Stakeholders. From the Trust's strong balance sheet, to conservative fiscal management, and among others consistent Capital Improvement Expenditures the Trust is able to provide sustainable cash distributions to its Unitholders.

Creating Community will further enhance sustainability in all three areas as the Trust continues to build long-term relationships with its residents and stakeholders.





## PORTFOLIO SUMMARY



◀ Les Jardins de Merici, Quebec City QC

Over the past 25 years, Boardwalk has accumulated over 225 buildings that span across 18 major centres and five provinces. Our diverse portfolio allows us to manage any economic changes and provides the ability to adapt to changing rental conditions. We continue to look for accretive acquisitions, as well as dispositions of non-core assets when market conditions are favorable.





Radisson Village, Calgary AB



West Edmonton Village, Edmonton AB



Spruce Ridge Estates, Calgary AB

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Calgary, AB</b>				
Beltline Towers	Highrise	115	80,424	699
Boardwalk Heights	Highrise	202	160,894	797
Brentview Towers	Highrise	239	151,440	634
Centre Pointe West	Highrise	123	110,611	899
Chateau	Highrise	145	110,545	762
Elbow Tower	Highrise	158	108,280	685
Flintridge Place	Highrise	68	55,023	809
Glamorgan Manor	Garden	86	63,510	738
Hillside Estates	Garden	76	58,900	775
Lakeside Estates	Garden	89	77,732	873
Lakeview	Walkup	120	107,680	897
McKinnon Court	Garden	48	36,540	761
McKinnon Manor	Garden	60	43,740	729
Northwest Pointe	Garden	150	102,750	685
Oak Hill Estates	Townhouse	240	236,040	984
O'Neil Tower	Highrise	187	131,281	702
Patrician Village	Garden	392	295,600	754
Pineridge	Garden	76	52,275	688
Prominence Place Apts.	Garden	75	55,920	746
Radisson Village I	Townhouse	124	108,269	873
Radisson Village II	Townhouse	124	108,015	871
Radisson Village III	Townhouse	118	124,379	1,054
Ridgeview Gardens	Townhouse	160	151,080	944
Royal Park Plaza	Highrise	86	66,137	769
Russet Court	Townhouse	206	213,264	1,035
Sarcee Trail Place	Highrise/ Midrise	376	301,720	802
Skygate Tower	Highrise	142	113,350	798
Spruce Ridge Estates	Garden	284	196,464	692
Travois	Garden	89	61,350	689
Varsity Place	Walk-up	70	47,090	673
Varsity Square	Midrise/ Lowrise	297	241,128	812
Vista Gardens	Garden	100	121,040	1,210
Westwinds Village	Garden	180	137,815	766
Willow Park Gardens	Garden	66	44,563	675
		5,071	4,074,849	804

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Edmonton, AB</b>				
Alexander Plaza	Garden	252	203,740	808
Aspen Court	Garden	80	68,680	859
Boardwalk Arms A & B	Garden	78	64,340	825
Boardwalk Centre	Highrise	597	471,871	790
Boardwalk Village I II & III	Townhouse	255	258,150	1,012
Breton Manor	Garden	66	57,760	875
Briarwynd Court	Townhouse	172	144,896	842
Brookside Terrace	Garden	131	196,779	1,502
Cambrian Place	Garden	105	105,008	1,000
Camelot	Garden	64	54,625	854
Capital View Tower	Highrise	115	71,281	620
Carmen	Garden	64	54,625	854
Castle Court	Garden	89	93,950	1,056
Castleridge Estates	Townhouse	108	124,524	1,153
Cedarville	Garden	144	122,120	848
Christopher Arms	Garden	45	29,900	664
Corian	Garden	153	167,400	1,094
Deville	Highrise	66	47,700	723
Ermieskin Place	Highrise	226	181,788	804
Fairmont Village	Garden	424	362,184	854
Fontana Place	Highrise	62	40,820	658
Fort Garry House	Highrise	93	70,950	763
Galbraith House	Highrise	163	110,400	677
Garden Oaks	Garden	56	47,250	844
Granville Square	Townhouse	48	53,376	1,112
Greentree Village	Garden	192	156,000	813
Habitat Village	Townhouse	151	129,256	856
Imperial Tower	Highrise	138	112,050	812
Kew Place	Townhouse	108	105,776	979
Lansdowne Park	Highrise	62	48,473	782
Leewood Village	Garden	142	129,375	911
Lord Byron I II & III	Highrise	158	133,994	848
Lord Byron Townhouses	Townhouse	147	172,369	1,173
Lorelei House	Garden	78	65,870	844
Maple Gardens	Garden	181	163,840	905
Marlborough Manor	Garden	56	49,582	885
Maureen Manor	Highrise	91	64,918	713
Meadowside Estates	Garden	148	104,036	703
Meadowview Manor	Garden	348	284,490	818
Monterey Pointe	Garden	104	83,548	803
Morningside Estates	Garden	221	166,315	753
Northridge Estates	Garden	180	103,270	574

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Edmonton, AB (continued)</b>				
Oak Tower	Highrise	70	51,852	741
Parkside Tower	Highrise	179	162,049	905
Parkview Estates	Townhouse	104	88,432	850
Pembroke Estates	Garden	198	198,360	1,002
Pinetree Village	Garden	142	106,740	752
Point West Townhouses	Townhouse	69	72,810	1,055
Primrose Lane	Garden	153	151,310	989
Prominence Place	Highrise	91	73,310	806
Redwood Court	Garden	116	107,680	928
Riverview Manor	Garden	81	62,092	767
Royal Heights	Highrise	74	41,550	561
Sandstone Pointe	Garden	81	83,800	1,035
Sir William Place	Garden	220	126,940	577
Solano House	Highrise	91	79,325	872
Southgate Tower	Highrise	170	153,385	902
Summerlea Place	Garden	39	43,297	1,110
Suncourt Place	Garden	62	55,144	889
Tamarack East & West	Townhouse	132	212,486	1,610
Terrace Garden Estates	Garden	114	101,980	895
Terrace Tower	Highrise	84	66,000	786
The Palisades	Highrise	94	77,200	821
The Westmount	Highrise	133	124,825	939
Tower Hill	Highrise	82	46,360	565
Tower On The Hill	Highrise	100	85,008	850
Valley Ridge Tower	Highrise	49	30,546	623
Victorian Arms	Garden	96	91,524	953
Viking Arms	Highrise	240	257,410	1,073
Village Plaza	Townhouse	68	65,280	960
Warwick	Garden	60	49,092	818
West Edmonton Court	Garden	82	73,209	893
West Edmonton Village	Various	1,176	1,138,368	968
Westborough Court	Garden	60	50,250	838
Westbrook Estates	Garden	172	148,616	864
Westmoreland	Garden	56	45,865	819
Westpark Ridge	Garden	102	99,280	973
Westridge Estates B	Garden	91	56,950	626
Westridge Estates C	Garden	90	56,950	633
Westridge Manor	Townhouse	64	69,038	1,079
Westwinds of Summerlea	Garden	48	53,872	1,122
Whitehall Square	Highrise/ Walkup	598	545,934	913
Wimbledon	Highrise	165	117,216	710
		12,057	10,598,614	879

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Fort McMurray, AB</b>				
Birchwood Manor	Garden	24	18,120	755
Chanteclair	Garden	79	68,138	863
Edelweiss Terrace	Garden	32	27,226	851
Heatherton	Garden	23	16,750	728
Hillside Manor	Garden	30	21,248	708
Mallard Arms	Garden	36	30,497	847
McMurray Manor	Garden	44	30,350	690
The Granada	Garden	44	35,775	813
The Valencia	Garden	40	33,850	846
		352	281,954	801
<b>London, ON</b>				
Abbey Estates	Townhouse	53	59,794	1,128
Castlegrove Estates	Highrise	144	126,420	878
Forest City Estates	Highrise	272	221,000	813
Heritage Square	Garden/ Highrise	359	270,828	754
Landmark Towers	Highrise	213	173,400	814
Maple Ridge On The Parc	Highrise	257	247,166	962
Meadowcrest	Garden	162	110,835	684
Noel Meadows	Garden	105	72,600	691
Ridgewood Estates	Townhouse	29	31,020	1,070
Sandford	Highrise	96	77,594	808
The Bristol	Highrise	138	109,059	790
Topping Lane Terrace	Highrise	189	177,880	941
Villages of Hyde Park	Townhouse	60	57,850	964
Westmount Ridge	Highrise	179	131,700	736
		2,256	1,867,146	828



Boardwalk Centre, Edmonton AB



Complexe Laudance, Quebec City QC



Lockwood Arms Apartments, Regina SK



201 Corot, Montreal QC



West Edmonton Village, Edmonton AB



Horizon Towers, Vancouver BC

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Montreal, QC</b>				
Domaine d'Iberville Apartments (Longueuil, QC)	Highrise	720	560,880	779
Le Bienville (Brossard, QC)	Walk-up	168	115,600	688
Les Jardins Viva (Longueuil, QC)	Walk-up	112	91,000	813
Nuns' Island Portfolio	Garden/Highrise/Townhouse	3,100	3,075,140	992
Complexe Deguire (St. Laurent, QC)	Highrise	322	276,324	858
Residence le Quatre Cent (Laval, QC)	Highrise	259	153,500	593
		4,681	4,272,444	913
<b>Quebec City, QC</b>				
Complexe Laudance (Sainte-Foy, QC)	Midrise	183	134,480	735
Les Appartements Du Verdier (Sainte-Foy, QC)	Garden	195	152,645	783
Les Jardins de Merici	Highrise	346	300,000	867
Place Charlesbourg	Midrise	108	82,624	765
Place du Parc	Highrise	111	81,746	736
Place Samuel de Champlain	Highrise	130	104,153	801
Place Chamonix	Townhouse	246	236,630	962
		1,319	1,092,278	828
<b>Red Deer, AB</b>				
Canyon Pointe	Garden	163	114,039	700
Cloverhill Terrace	Highrise	120	102,225	852
Inglewood Terrace	Garden	68	42,407	624
Parke Avenue Square	Walk-up	88	87,268	992
Riverdale Manor	Garden	150	114,750	765
Saratoga Tower	Highrise	48	53,762	1,120
Taylor Heights	Garden	140	103,512	739
Watson Tower	Highrise	50	43,988	880
Westridge Estates	Townhouse	112	113,664	1,015
		939	775,615	826

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Regina, SK</b>				
Ashok Portfolio	Garden	140	81,098	579
Boardwalk Estates	Garden	687	467,696	681
Boardwalk Manor	Garden	72	60,360	838
Centennial South	Townhouse	170	129,080	759
Centennial West	Garden	60	46,032	767
Eastside Estates	Townhouse	150	167,550	1,117
Evergreen Estates	Garden	150	125,660	838
Grace Manors	Townhouse	72	69,120	960
Greenbriar	Garden	72	57,600	800
Lockwood Arms	Garden	96	69,000	719
Pines of Normanview	Townhouse	133	115,973	872
Qu'appelle Village I & II	Garden	154	133,200	865
Qu'appelle Village III	Garden	180	144,160	801
Southpointe Plaza	Highrise	140	117,560	840
The Meadows	Townhouse	52	57,824	1,112
Wascana Park Estates	Townhouse	320	307,200	960
		2,648	2,149,113	812
<b>Saskatoon, SK</b>				
Carlton Tower	Highrise	158	155,138	982
Chancellor Gate	Garden	138	126,396	916
Dorchester Tower	Highrise	52	48,608	935
Heritage Townhomes	Townhouse	104	99,840	960
Lawson Village	Garden	96	75,441	786
Meadow Park Estates	Townhouse	200	192,000	960
Palace Gates	Garden	206	142,525	692
Penthouse	Highrise	82	61,550	751
Regal Tower I & II	Highrise	161	122,384	760
Reid Park Estates	Garden	179	128,700	719
St. Charles Place	Garden	156	123,000	788
St. James Place	Garden	140	105,750	755
Stonebridge	Garden	162	131,864	814
Stonebridge Townhomes I & II	Townhouse	100	135,486	1,355
Wildwood Ways B	Garden	54	43,961	814
		1,988	1,692,643	851
<b>Vancouver, BC</b>				
Horizon Towers (Burnaby, BC)	Highrise	206	139,160	676
Surrey Village (Surrey, BC)	Highrise	266	162,371	610
		472	301,531	639



Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Windsor, ON</b>				
Anchorage	Highrise	135	110,245	817
Anchorage on the Park	Townhouse	31	38,750	1,250
Askin Tower	Highrise	60	39,675	661
Buckingham Tower	Highrise	34	30,805	906
Caron Tower	Highrise	47	36,947	786
Empress Court	Garden	40	28,250	706
Frances Tower	Highrise	53	43,906	828
Glenwood	Highrise	33	25,619	776
Janisse Tower	Highrise	75	45,000	600
Karita Tower	Highrise	41	28,950	706
Lauzon Tower	Highrise	178	137,784	774
Marine Court	Highrise	68	49,206	724
Randal Court	Garden	47	38,775	825
Regency Colonade	Highrise	133	113,205	851
Riverdale Manor	Townhouse	97	77,850	803
Rivershore Tower	Highrise	96	63,300	659
Sandilands Tower	Highrise	47	38,775	825
Sandwich Tower	Highrise	66	40,650	616
Seaway Tower	Highrise	152	112,037	737
Sun Crest Tower	Highrise	58	43,100	743
Sun Ray Manor	Highrise	41	29,950	730
Tecumseh Terrace	Highrise	98	71,606	731
University Tower	Highrise	50	36,100	722
		1,680	1,280,485	762

Property Name	Building Type	Number of Units	Net Rentable Square Footage	Average Unit Size
<b>Other</b>				
Boardwalk Park Estates 2 (Grande Prairie, AB)	Townhouse	32	30,210	944
Parkview Portfolio (Grande Prairie, AB)	Garden	369	306,850	832
Prairie Sunrise Portfolio (Grande Prairie, AB) - see Note 1	Walk-up/Highrise	244	201,992	828
Elk Valley Estates (Banff, AB)	Garden	76	53,340	702
Tower Lane I & II (Airdrie, AB)	Garden	163	130,920	803
Springwood Place Apartments (Spruce Grove, AB)	Low Rise	160	122,640	767
Sturgeon Point Villas (St. Albert, AB)	Walk-up	280	284,953	1,018
Christie Point Apartments (Victoria, BC)	Townhouse/Walk-up	161	155,405	965
Kings Tower (Kitchener, ON)	Highrise	226	171,100	757
Westheights Place (Kitchener, ON)	Highrise	103	91,920	892
		1,814	1,549,330	854
<b>Total - As at Dec 31, 2011</b>		<b>35,277</b>	<b>29,936,001</b>	<b>849</b>
<b>Total - As at Dec 31, 2010</b>		<b>35,277</b>	<b>29,936,001</b>	<b>849</b>



Riverdale Manor, Windsor ON



Christie Point Apartments, Victoria BC



Prairie Sunrise Towers, Grande Prairie AB



One of Boardwalk's corporate values is integrity. Accordingly, we pride ourselves on being honest, accountable and transparent in all of our corporate reporting. As a result of our commitment to integrity, good corporate governance has been the foundation of all of Boardwalk's successes over the past 25 years. In 2009, we were proud to be recognized by The Journal of the Institute of Corporate Directors for effective communication regarding our transition to International Financial Reporting Standards (IFRS) in 2011. We aim to provide our stakeholders with important information in a timely manner, and encourage open and honest dialogue between, and with, our stakeholders in an effort to ensure Boardwalk's continued success. Our Board of Trustees follows a mandate described in their Statement of Corporate Governance Practices that explicitly defines the expectations and limits of both the Board and management. This comprehensive statement of our governance principles gives authority and autonomy to the Board through the articulation of key issues, including: specific functions of the Board, Board independence and integrity, selection and composition of the Board, and Board committees.

As a publicly traded Trust listed on the Toronto Stock Exchange (TSX), Boardwalk either meets or exceeds the guidelines set out by the TSX and Canadian Securities Administrators regarding effective corporate governance. The governance of our Trust is based on the mandate of our Board of Trustees, our Code of Business Conduct, as well as the guiding Mission, Vision and Values that all Associates and management are expected to uphold. These guiding principles, derived from the Golden Rule of "treating others as we would like to be treated," provide a framework for our Trustees and Associates as they deal with the often complex and sensitive issues that arise over the normal course of our business.

As per the mandate, a majority of Trustees must be independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Trustee's ability to act with a view to the best interests of the Trust and its Unitholders. Currently, four (4) of the five (5) Board members are independent. In addition to assuming responsibility for the stewardship of the Trust, Boardwalk's Board is specifically charged with:

## GOOD CORPORATE GOVERNANCE

- ▲ Reviewing, discussing and approving the Trust's strategic plan, which takes into account, among other things, the opportunities and risks of the business.
- ▲ Identifying the principal risks of the Trust's business, and ensuring implementation of appropriate systems to manage those risks. (Among other things, the Board reviews risk management policies and processes, including those concerning credit risk, market risk, liquidity risk and operational risk.)
- ▲ Reviewing the performance of the CEO and other senior executives of the Trust.
- ▲ Creating and maintaining the communication policy of the Trust, including
  - Approving the contents of major disclosure documents of the Trust.
  - Reviewing policies and programs related to the image of the Trust and ensuring appropriate processes are in place for communicating with all stakeholders.
  - Reviewing how the Trust communicates and interacts with analysts and the public to avoid selective disclosure.
- ▲ Managing the integrity of internal controls and management information systems.

In addition to its other accountabilities, the Board is responsible for two committees, the Compensation, Governance and Nominations Committee, as well as the Audit and Risk Management Committee, each of which is composed solely of outside and independent Trustees. The Compensation, Governance and Nominations Committee is charged with the responsibilities of identifying and evaluating candidates to fill Board vacancies, and assessing Board and committee effectiveness. The Audit and Risk Management Committee assists the Board in overseeing the integrity of the Board's financial statements, the performance of the Trust's external auditors, the adequacy and effectiveness of internal controls and compliance with legal and regulatory matters.

# MARKET AND UNITHOLDER INFORMATION

## SOLICITORS

### Stikeman Elliott

4300 Bankers Hall West  
888 – 3 Street SW  
Calgary, Alberta T2P 5C5

### Butlin Oke Roberts & Nobles

100, 1501 - 1 Street SW  
Calgary, Alberta T2R 0W1

## BANKERS

### Toronto Dominion Bank

355 – 4 Avenue SW  
Calgary, Alberta T2P 0J1

## AUDITORS

### Deloitte & Touche LLP

700, 850 – 2 Street SW  
Calgary, Alberta T2P 0R8

## REGISTRAR & TRANSFER AGENT

### Computershare Trust Company of Canada

Our Transfer Agent can help you with a variety of unitholder related services, including change of address, tax forms, accounts consolidation and transfer of stock.

600, 530 – 8 Avenue SW  
Calgary, Alberta T2P 3S8  
Telephone: 403 267-6800

## INVESTOR RELATIONS

Unitholders seeking financial and operating information may contact:

**James Ha**, *Director; Mortgage and Finance*

Telephone: 403 531-9255

Facsimile: 403 531-9565

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

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

## ONLINE INFORMATION

For an online version of the current and past annual reports, quarterly reports, press releases and other Trust information, please visit our investor website at [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com).

## SPECIAL MEETING

The Annual and Special Meeting of the Unitholders of Boardwalk REIT will be held at the Lougheed House, 707 - 13th Avenue SW, Calgary, Alberta, at 2:00 pm (Mountain Standard Time) on May 15, 2012.

Unitholders are encouraged to attend and those unable to do so are requested to complete the Form of Proxy and forward it at their earliest convenience.

## EXCHANGE LISTINGS

### The Toronto Stock Exchange

Symbol: **BEI.UN**

## TRADING PROFILE

TSX: Jan 1, 2011 to Dec. 31, 2011

High: \$53.32

Low: \$41.02

Year-end Closing Price: \$50.44

\*effective May 3, 2004, Boardwalk was converted into a Real Estate Investment Trust from its predecessor, Boardwalk Equities Inc.

## Monthly Distributions

Month	Per Unit	Record Date	Payable Date
Jan, 2011	\$0.15	Jan 31, 2011	Feb 15, 2011
Feb, 2011	\$0.15	Feb 28, 2011	Mar 15, 2011
Mar, 2011	\$0.15	Mar 31, 2011	Apr 15, 2011
Apr, 2011	\$0.15	Apr 29, 2011	May 16, 2011
May, 2011	\$0.15	May 31, 2011	Jun 15, 2011
Jun, 2011	\$0.15	Jun 30, 2011	Jul 15, 2011
Jul, 2011	\$0.15	Jul 29, 2011	Aug 15, 2011
Aug, 2011	\$0.15	Aug 31, 2011	Sep 15, 2011
Sep, 2011	\$0.15	Sep 30, 2011	Oct 17, 2011
Oct, 2011	\$0.15	Oct 31, 2011	Nov 15, 2011
Nov, 2011	\$0.15	Nov 30, 2011	Dec 15, 2011
Dec, 2011	\$0.15	Dec 30, 2011	Jan 16, 2012
Jan, 2012	\$0.15	Jan 31, 2012	Feb 15, 2012

**LISTEN TO Q4-2011 CONFERENCE CALL** 

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

## Forward-Looking Statements

### Caution regarding forward-looking statements

The terms "Boardwalk", "Boardwalk REIT", the "Trust", "we", "us" and "our" in the following Management's Discussion and Analysis ("MD&A") refer to Boardwalk Real Estate Investment Trust and its consolidated financial position and results of operations for the years ended December 31, 2011 and 2010. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and required by all Publicly Accountable Enterprises to be adopted effective January 1, 2011. This MD&A is current as of February 16, 2012 unless otherwise stated, and should be read in conjunction with Boardwalk's audited annual consolidated financial statements for the years ended December 31, 2011 and 2010, which have been prepared in accordance with IFRS, together with the MD&A related thereto, copies of which have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR web site at [www.sedar.com](http://www.sedar.com). Historical results and percentage relationships contained in the annual consolidated financial statements and MD&A related thereto, including trends, which might appear, should not be taken as indicative of future operations.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

### Forward-Looking Statement Advisory

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made concerning Boardwalk's objectives, its strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. All forward-looking statements in this MD&A are qualified by these cautionary statements.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Boardwalk's current estimates and assumptions, which are subject to risks and uncertainties, including those described in the MD&A of Boardwalk REIT's 2011 Annual Report under the heading "Risks and Challenges", which could cause actual events or results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, but are not limited to, those related to: liquidity in the global marketplace associated with current economic conditions, tenant concessions, occupancy levels, access to debt and equity capital, interest rates, joint ventures/partnerships, the relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, construction, environmental matters, legal matters, reliance on key personnel, Unitholder liability, income taxes and the ability of Boardwalk to qualify for the REIT Exemption (as defined below). Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: a less robust rental environment compared to several years ago; relatively stable interest costs; access to equity and debt capital markets to fund, at acceptable costs, the future growth program to enable the Trust to refinance debts as they mature; the availability of purchase opportunities for growth in Canada; and the impact of accounting principles adopted by the Trust effective January 1, 2011 under International Financial Reporting Standards ("IFRS") which includes application to the Trust's 2010 comparative financial results. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

The Income Tax Act (Canada) (the "Act") contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation"). The SIFT Legislation provides for a transition period until 2011 for publicly traded trusts, such as Boardwalk, which existed prior to November 1, 2006. In addition, the SIFT Legislation generally will not impose tax on a trust which qualifies under such legislation as a real estate investment trust (the "REIT Exemption") provided all of the Trust's income each year is paid or made payable to its Unitholders. Boardwalk qualified for the REIT Exemption commencing January 1, 2011. Further discussion of this is contained in this MD&A.

Except as required by applicable law, Boardwalk undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.



## EXECUTIVE SUMMARY

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### Business Overview

Boardwalk Real Estate Investment Trust ("Boardwalk REIT", "Boardwalk" or the "Trust") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated January 9, 2004, and as amended and restated on May 3, 2004, May 10, 2006, May 10, 2007, May 13, 2008, May 13, 2009, May 18, 2010 and May 12, 2011 (the "Declaration of Trust" or "DOT"), under the laws of the Province of Alberta. Boardwalk REIT was created to invest in revenue producing multi-family residential properties or interests, initially through the acquisition of the assets and operations of Boardwalk Equities Inc. (the "Corporation").

On May 3, 2004, the Corporation sold all of its assets and undertakings to Boardwalk REIT. Boardwalk REIT Units trade on the Toronto Stock Exchange ("TSX") under the trading symbol 'BEI.UN'. Boardwalk REIT's principal objectives are to provide its Unitholders ("Unitholders") with stable and growing monthly cash distributions, partially on a Canadian income tax-deferred basis, and to increase the value of its units through the effective management of its residential multi-family revenue producing properties and the acquisition of additional, accretive properties. At the end of 2011, Boardwalk REIT owned and operated in excess of 225 properties, comprising 35,277 residential units and totaling approximately 30 million net rentable square feet. As of December 31, 2011, Boardwalk REIT's property portfolio was concentrated in the provinces of British Columbia, Alberta, Saskatchewan, Ontario and Quebec.

At December 31, 2011, the fair value of Boardwalk's 'Investment Property' assets was \$4.8 billion, which generated a profit of \$120.3 million and \$116.1 million for the years ended December 31, 2011 and 2010 (before loss on sale of assets, fair value gains and income tax expense (recovery), respectively. Each of these figures was calculated based on the application of International Financial Reporting Standards ("IFRS"), which the Trust was required to adopt along with all Publicly Accountable Enterprises, effective January 1, 2011. Although the adoption of IFRS has not had an impact on the Trust's net cash flows, there have been material impacts on the Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Income as previously reported under pre-2011 Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), which are discussed further in this MD&A. During the years ended December 31, 2011 and 2010, the Trust earned \$131.8 million and \$129.7 million, respectively, of Funds From Operations.

### MD&A Overview

This Management's Discussion and Analysis ("MD&A") focuses on key areas from the audited consolidated financial statements and pertains to major known risks and uncertainties relating to the real estate industry, in general, and the Trust's business, in particular. This discussion should not be considered all-inclusive as it excludes changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur, which could affect the organization in the future. To ensure that the reader is obtaining the best overall perspective, this discussion should be read in conjunction with material contained in other parts of the Annual Report, the audited consolidated financial statements for the years ended December 31, 2011 and 2010 and the Annual Information Form ("AIF") dated February 16, 2012, along with all other publicly posted information on the Corporation and Boardwalk REIT. It is not our intent to reproduce information that is located in these other reported documents, but rather to highlight some of the key points and refer you to these documents for more detailed information.

### Outlook

The 2011 year continued to show strength for the multi-family industry in Canada. In a continuation of last year's trend, many real estate entities elected to access the equity and debt markets to improve their existing liquidity or assist in current or future acquisitions. Boardwalk continues to maintain a significant liquidity position earmarked for future acquisitions or value-added opportunities. Recent property transactions have shown that there has been an increased demand to own apartments in major Canadian markets, to the extent that we continue to witness a further compression of Capitalization Rates, resulting in material increases in the prices of properties in this asset class. Although Boardwalk did not acquire any new apartment units during 2011,

we continue to be active in the bidding process; however, Boardwalk has not been able to conclude that acquiring these assets at the offered selling prices would be in the best interest of the Trust on a risk-adjusted basis.

The Canadian multi-family real estate sector continues to have access to a very low cost of debt through the use of Government of Canada-backed debt with the NHA program, which is administered by Canada Mortgage and Housing Corporation ("CMHC"). With the continued turmoil in the world markets, Canada continues to stand out as a country of high regard and, as a result, is experiencing historical low interest rates in the bond markets, transcending close to historical lows for those who choose to use the NHA vehicle.

Boardwalk REIT believes that the fundamentals of its asset class and, in particular, its specific assets, generally remain strong, mainly due to the affordability of renting versus the cost of owning a home. This fact has kept overall occupancy at reasonable levels and, when combined with the non-exposure to any one or small group of customers, has kept revenue stable and risks low. In the debt capital market, the fact that close to 100% of the Trust's secured debt carries NHA insurance, the benefits of which will be detailed later in this report, has significantly assisted in renewing and obtaining new financing on its assets at rates that currently are better than the maturing interest rates. The Trust continues to be well positioned in this current market place with a regular distribution payout ratio of approximately 71.3% of Funds From Operations ("FFO") for the year ended December 31, 2011. This is consistent with the 73.0% for the year ended December 31, 2010. The Trust continues to have access to low-rate Government of Canada-backed debt in the form of NHA insurance.

As we move forward, we continue to look for ways to further enhance the returns provided to our stakeholders. We continue to focus inward on our operations, continuously looking for ways to reduce cost while focusing on our customers. In addition, we continue to maintain a conservative balance sheet with a Debt-to-Market Value at approximately 46%.

## Harmonized Sales Tax

Effective July 1, 2010, the provinces of British Columbia and Ontario merged their provincial sales tax ("PST") with the federal goods and services tax ("GST") into a single harmonized sales tax ("HST") that will be applied to many of the input costs currently incurred by the Trust. Many costs that prior to this tax implication were not subject to PST will, effective July 1, 2010, be subject to this tax. The affected costs include gas, heat, electricity and other operating costs. The ability of the Trust to pass these costs on to our Customers may be limited by existing rental legislation or rental market condition. The Trust's operations in British Columbia and Ontario, on an annualized basis, represented approximately 2.1% and 7.6%, respectively, of total 2011 net operating income (2.2% and 7.2%, respectively, of total 2010 net operating income) reported by the Trust.

In August of 2011, British Columbia residents voted to eliminate HST and restore PST and GST. Currently a firm transition date has not been set, but it is expected to take a minimum of 18 months.

## Declaration of Trust

The investment guidelines of the Trust are outlined in the Trust's DOT, a copy of which is available on request to all Unitholders. Further information of the DOT can also be located on page 39 of the AIF. Some of the main financial guidelines and operating policies as set out in the DOT are as follows:

### Investment Guidelines

1. Acquire, develop and operate multi-family residential property; and
2. No investment will be made that would disqualify Boardwalk REIT as a "mutual fund trust" or a "registered investment" as defined in the Income Tax Act (Canada).

### Operating Policies

1. Maximum debt capacity not to exceed 70% of Gross Book Value;

2. No guaranteeing of third-party debt unless related to direct or indirect ownership or acquisition of real property, including potential joint venture partner structures;
3. Third-party surveys of structural and environmental conditions are required prior to the acquisition of a multi-family asset; and
4. Commitment to expending at least 8.5% of its gross consolidated annual rental revenues generated from properties that have been insured by CMHC on on-site maintenance compensation to Associates, repairs and maintenance, as well as capital upgrades.

### Distribution Policy

Boardwalk REIT may distribute to holders of REIT Units on or about each Distribution Date<sup>1</sup>, respectively, such percentage of Funds From Operations for the calendar month then ended as the Trustees determine in their discretion. Distributions will not be less than Boardwalk REIT's taxable income, unless the Trustees, otherwise in their absolute discretion, determine another amount.

### Compliance with DOT

At December 31, 2011, the Trust was in material compliance with all investment guidelines and operating policies as stipulated in the DOT. More details will be provided later in this document with respect to certain detailed calculations.

## Values, Vision and Objectives

Boardwalk REIT is a fully integrated, Customer-oriented, multi-family residential real estate owner and property management organization. The Trust was built by focusing on its values and vision.

### A Commitment to Value

Boardwalk REIT's Vision and business strategy are targeted on effectively meeting the needs of our Customers. It is our belief that this focus will result in long-term value creation for all our stakeholders. Our key stakeholders include our Associates, major financial and mortgage partners, including CMHC, strategic operational partners and Unitholders.

### Our Vision

Boardwalk REIT's Vision is to be Canada's leading provider of multi-family residential housing. We believe we will accomplish this through the continued careful cultivation of internal growth, combined with a targeted and disciplined external acquisition program.

Our Associates are expected to adhere to the following guiding principles:

### We will:

- ▲ Work together in a team environment of mutual respect, trust and honesty between all Associates and Customers;
- ▲ Serve our Customers' need for an affordable, quality, well-kept home;
- ▲ Maintain building exteriors and landscaping, thereby increasing "curb appeal", have well-kept common areas and ensure our homes are clean and well maintained;
- ▲ Maintain a balance between the needs of our Customers, Associates, Unitholders, communities and families;
- ▲ Nurture and promote a learning environment where our Associates' skills and capabilities grow with the needs of both the Trust and our Customers, and accept that these needs will be consistently evolving and improving the definition of "Rental Communities";

<sup>1</sup> "Distribution Date" means with respect to a distribution by Boardwalk REIT, a business day determined by the Trustees for any calendar month to be on or about the 15th day of the following month.

- ▲ Provide access to the latest tools and technology and utilize the latest tools and technology designed to increase the operating efficiency of the Trust as a whole.

#### We value:

##### ▲ *Integrity*

We will be honest, accountable, transparent, respectful, and trusting in our dealings with others, appreciating their views and differences.

##### ▲ *Teamwork*

We will effectively work as a team, appreciating and benefiting from each other's unique talents and skills in an open environment while recognizing that the team's successes are our successes.

##### ▲ *Customer Service*

We will promptly respond to Customer concerns and needs with thoughtfulness, compassion and innovation. We will strive to develop proactive solutions through a support network and a positive service attitude.

##### ▲ *Social Responsibility*

We will contribute to our communities and encourage our Associates to contribute in ways that reflect the Golden Rule of treating others in a way we would wish to be treated, balancing our needs with those of others.

##### ▲ *Our Associates*

We will provide a safe and respectful work environment that attracts, supports, develops, and recognizes high-performing and innovative team members.

We believe that by adhering to our Vision and Values, and implementing strategies consistent with these principles, Boardwalk REIT will produce higher sustainable operating cash flows and a continued appreciation of its property values. The result will be enhanced value for all our stakeholders.

Achieving this goal requires the full integration of our core strategies of focused investing, superior property management and the implementation and effective use of new technologies. Boardwalk REIT can best achieve this goal by strategically:

- ▲ Maximizing Customer satisfaction by providing an above-average level of service and accommodation;
- ▲ Acquiring selected multi-family residential properties;
- ▲ Selling properties ("Non-Core") with lower future growth prospects or, on a limited basis, the conversion of properties into condominium units for sale, and the reinvesting of these funds back into other accretive opportunities;
- ▲ Purchasing Trust Units on the open market;
- ▲ Enhancing property values, operating returns and cash flows through pro-active management, property stabilization and capital improvements;
- ▲ Reviewing and considering the development of new selective multi-family projects if the economics support such projects;
- ▲ Managing capital prudently while maintaining a conservative financial structure;
- ▲ Pursuing opportunities to form selective partnership joint ventures or an exchange of assets; and
- ▲ Reinvesting the released equity from asset sales back into the Trust's portfolio to create additional value-added opportunities.

To support our overall operating strategy, it is necessary to:

- ▲ Ensure ample capital is available at all times for acquisitions and value-added enhancements;



- ▲ Appropriately allocate available capital to existing project enhancement and on-going new acquisitions;
- ▲ Utilize appropriate levels of debt leverage;
- ▲ Determine and utilize sources with the lowest cost of capital;
- ▲ Actively manage our exposure to interest rate and debt renewal risk;
- ▲ Optimize the use of NHA insurance, which is administered by CMHC, to access more cost-effective debt capital.

## Non-GAAP Financial Measures

Boardwalk REIT assesses and measures operating results based on performance measures referred to as "Funds From Operations" ("FFO"), and Adjusted Funds From Operations ("AFFO"). FFO is a widely accepted supplemental measure of the performance of a Canadian real estate entity; however, it is not a measure defined by IFRS. In recent periods, additional attention has been given to AFFO as a supplemental measurement as well. FFO does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other entities. The IFRS measurement most comparable to FFO is Profit. We define FFO, after the adoption of IFRS, as income before fair value adjustments, distributions on the LP B Units, gains (losses) on the sale of Investment Properties, depreciation, deferred income tax and certain other non-cash adjustments, if any. The reconciliation from Profit under IFRS to FFO can be found below, under the section titled, "Performance Measures". The reconciliation from FFO to AFFO can be found in the section titled, "Maintenance of Productive Capacity". FFO and AFFO, however, should not be construed as an alternative to profit determined in accordance with IFRS as indicators of Boardwalk REIT's performance. In addition, Boardwalk REIT's calculation methodology for FFO and AFFO may differ from that of other real estate companies and trusts.

Changes to accounting standards over the years have prompted the boards of certain public real estate investment trust entities ("REIT Entities") to revise their definition of Distributable Income, with the result being that it has become difficult to rely on Distributable Income as a relative financial measure amongst the various REIT Entities and a less reliable financial measure for any one REIT Entity over time. The Trust's definition of Distributable Income as adopted in 2004 was in response to the state of Canadian GAAP in effect at that time. Changes to accounting standards over time have further decreased the reliability of Distributable Income as it has become increasingly disconnected with cash flow from operations. Accordingly, at the Annual and Special Meeting of Boardwalk REIT Unitholders on May 18, 2010, it was proposed by management and accepted by Unitholders that, beginning January 1, 2011, the Trust no longer reported Distributable Income and, accordingly, have removed it from its Declaration of Trust.

## Investment Philosophy

Throughout Boardwalk REIT's history, the Trust has constantly looked for opportunities to create value for the Trust Unitholders. This is achieved by investing managerial resources and capital in activities that increase FFO per Trust unit and AFFO per Trust unit on a sustaining basis and/or increase Net Asset Value ("NAV") per unit. Prior to 2008, a large part of this opportunity was focused on investment opportunities, both in capital improvements of our existing portfolio and in acquisition of additional properties. However, our investment strategy is not simply one by which we are constantly looking to expand our existing footprint, but rather one by which we are constantly looking to create value. Starting in 2008, but more pronounced during 2009 and 2010, it was evident to us that the Trust's investment opportunities were not in the acquisition of additional apartment units, but rather in the deployment of capital to acquire additional Boardwalk REIT Trust Units in the public markets through our published Normal Course Issuer Bids ("NCIBs").

As part of its capital allocation program, there have been times in the past where Management and the Board determined that, based on the trading price of our Trust Units, an allocation was warranted to the purchase of these Trust units in the public market for cancellation. The following table reports our investment in this area from fiscal 2007 to the present as follows:

Year Ended December 31,	Cumulative Number of Trust Units Purchased and Cancelled	Cumulative Purchase Cost	Average Cost per Trust Unit
2007	856,447	\$ 38,577	\$ 45.04
2008	2,312,000	85,412	\$ 36.94
2009	790,000	22,756	\$ 28.80
2010	423,400	17,024	\$ 40.21
2011	160,900	6,740	\$ 41.89
	4,542,747	\$ 170,509	\$ 37.53

Cumulatively, since 2007, Boardwalk REIT purchased and cancelled approximately 4.5 million Trust Units for a total purchase price of \$170.5 million, or an average cost of \$37.53 per Trust Unit.

In 2010, Non-Core properties, consisting of 1,142 apartment units, were disposed for a total selling price of \$111.3 million. The implied capitalization rate on these sales was 5.95%, a valuation well-above the implied value of our Trust Units, thus, demonstrating a continued arbitrage between "Main Street" and "Bay Street" apartment pricing. Boardwalk REIT, therefore, believed the focused sale of these Non-Core properties was, and continues to be, the best investment at that time. Throughout 2011, the Trust Unit price showed consistent improvement, resulting in a smaller arbitrage than was evident in previous years. Although we continued to selectively invest in the purchase of our Trust Units for cancellation, the volume of such purchases have decreased from prior years.

As previously highlighted, the Trust has an on-going program of selling Non-Core properties in its portfolio and re-deploying the released capital to acquiring additional properties and/or investing it back in its existing properties to achieve superior returns. The Trust continues to review all available options that management believes will provide the greatest return to our Unitholders. The Trust, however, continues to proceed with caution regarding the sale of any of its real estate assets. This caution will continue until such time as there is further clarification from the Government of Canada on the treatment of income generated on such sales as it continues to be the Trust's intention to qualify as a REIT for Canadian income tax purposes. Additional information regarding the SIFT tax legislation and the Trust's qualification as a REIT under this legislation can be found in the section titled, "Income Tax Expense" later in this report.

## COST OF CAPITAL

In understanding Boardwalk REIT's investment strategy, it is also necessary to review its cost of capital. The Trust's cost of capital is generally defined as its weighted average cost of raising incremental capital and, thus, its hurdle rate for evaluating incremental investment opportunities. In other words, it can be thought of as the rate of return that the Trust would otherwise be able to earn given the same level of risk. As with most real estate entities, the cost of capital is the combination of the cost of debt and the cost of equity. As will be discussed in a later section, the Trust currently has access to a lower cost of debt through its access to the NHA insured market. However, even this market has different levels of risk that are mainly priced through the term selected on the related mortgage. That is, the longer the mortgage finance term, the longer the borrower is removing the interest rate risk from the investment. It is our view that on those investments where you do not have the benefit of hindsight, for example with the actual purchase, ownership and management of a particular building, there is an increased level of performance risk. To moderate this risk, it is necessary to hedge the interest rate risk, by taking a longer-term mortgage to allow you time to better understand the performance risk of the specific property investment. The other major component in the cost of capital relates to the cost of equity required for the investment. The determination of this cost has a number of different models and definitions. However, for simplicity purposes, Boardwalk determines its current cost of equity as the amount of FFO reported compared to its current market capitalization. For 2011, the Trust reported FFO per Trust Unit of \$2.52. When compared to the Trust Unit's simple average market price of \$51.28 for the month of December 2011, this equates to approximately 4.91% as its cost of equity.

Once we have determined the cost of capital, management then analyzes and evaluates the opportunities available to the Trust against a base case scenario. The base case will be determined on two distinct criteria:

- (i) whether the investment is accretive to the Trust's implied Capitalization Rate ("Cap Rate") adjusting for related risk, and
- (ii) given the existing leverage of the Trust, whether the investment is accretive on a FFO basis given its existing portfolio's internal growth profile.

The investment is also evaluated on a stabilized basis, that is, after considering the impact of funding deferred capital expenditures and leasing up the property. The base case of the Cap Rate test focuses on the implied Cap Rate on the Trust's underlying portfolio as the Trust best understands the operations and risk profile of its own apartment units, and its ability to purchase its own real estate through the use of NCIBs really does set the base. In general, for an investment to be accretive, not only does it have to generate a return above this level, it must also be of equivalent (or better) quality and location. The amount of expectation above this base rate is the anticipated risk premium adjustment. Each investment is looked at in isolation and evaluated accordingly. In response to the second question, it is necessary to understand that, historically, multi-family rental real estate has been an investment based on leverage. As such, it is necessary for us to analyze the underlying ability to obtain debt and the cost of that debt. Boardwalk currently does have access to NHA insurance from the Government of Canada, the details of which are discussed later in this document. As with other debt in most instances, the longer the proposed term maturity, the higher the price typically paid for this debt. This difference is the adjustment the market puts on the risk that the interest rates will be higher during the term of the loan. Accordingly, the investment consideration for the Trust also adjusts for this risk by building into its current cost of debt a balanced strategy of mortgage maturities of terms ranging from three to ten years.

## Hedging Activities

There were no new hedging activities in the fiscal year ended December 31, 2011.

In 2008, the Trust entered into forward hedging arrangements with respect to some of its mortgage interest obligations. The strategy consisted of hedging, or locking in, the interest rates on the underlying bonds used to set mortgage interest rates while layering an interest rate swap on top of this to reduce overall interest rates and variability in cash flows from fluctuating interest rates. The effect on the current and prior year's financial results is outlined below.

### Bond Forward Transaction

In the beginning of 2008, the Trust entered into a bond forward transaction (the "Transaction") with a major Canadian financial institution. In total, the Transaction, which comprised of bond forward contracts on specific mortgages that matured and was renewed in 2008, was for a total notional amount of \$101.6 million with a weighted average term and interest rate of 7.2 years and 3.63%, respectively. One of the bond forward contracts in the Transaction, which was assessed to be an effective hedge, was settled for a loss of \$284 thousand. This bond forward contract continues to be assessed as "effective" under IFRS and this loss continues to be amortized over the term of the new financing. As at December 31, 2011, the unamortized amount of this effective hedge was approximately \$176 thousand.

### Interest Rate Swap

During the first quarter of 2008, Boardwalk REIT 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 hedges was May 1, 2008, and will continue to be designated as such until the May 1, 2015 date of maturity. Hedge accounting has been applied to these agreements in accordance with International Accounting Standard ("IAS") -39: Financial Instruments: Recognition and Measurement ("IAS 39").

Boardwalk REIT has determined that there is no ineffectiveness in its hedging of its interest rate exposure in accordance with IFRS standards. The effectiveness of the hedging relationship is reviewed on a quarterly basis and measured at fair value. Any gains or losses, which arise as a result of the "effectiveness" of the hedge, will be recognized in Other Comprehensive Income ("OCI"). The ineffective portion of the hedging gain or loss on the swap transaction will be recognized immediately in profit. On recognition of the financial liability of the hedged item on the consolidated statement of financial position, the associated gains or losses that



were recognized in OCI would be reclassified into income in the same period or periods during which the interest payments of the hedged item affect profit. However, if all or a portion of the loss recognized in OCI will not be recovered in one or more future periods, this amount will be immediately reclassified into income.

As at December 31, 2011, the interest rate swap agreement was assessed to be an effective hedge in accordance with IFRS and, any gains or losses on the interest rate swap agreement were recognized in income in the periods during which the interest payments on the hedged items were recognized. For the year ended December 31, 2011, a loss of \$1.9 million was recognized in OCI (December 31, 2010 – loss of \$0.7 million).

### Unsecured Debentures

In January 2005, the Trust issued unsecured debentures with a face value of \$120.0 million with a maturity date of January 23, 2012. The majority of the net proceeds were used to assist in the acquisition of properties in British Columbia and Alberta, with the remainder being used for general corporate purposes. During the first quarter of 2009, the Trust acquired in the open market at a discount to face value a total of \$7.6 million of its unsecured debentures for cancellation. There has been no further debenture buybacks since the first quarter of 2009.

Upon transition to IFRS, Boardwalk has elected to use the fair value model in accordance with IAS-40 to value its investment properties. The impact of this election and the transition to IFRS standards on the debt covenants related to the debenture is outlined in the section titled "Impact of Adoption of IFRS". Throughout the entire term of the debenture, the Trust has been in compliance with all required covenants.

The unsecured debentures, with a coupon interest rate of 5.61% and a principal balance of \$112.4 million, matured on January 23, 2012 and were settled by way of cash on hand raised, to a large extent, from Boardwalk's past mortgage refinancings.

## Performance Review of 2011

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

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

In the past, Boardwalk REIT has generated additional income from the periodic sale of selective Non-Core real estate properties. The sale of these properties is part of Boardwalk REIT's overall operating strategy whereby the equity generated through the sale is then utilized by Boardwalk REIT for the acquisition of new rental properties, to assist in its property value enhancement program or for the acquisition of Boardwalk REIT's Trust Units in the public market. The Trust, however, is currently proceeding with extreme caution regarding the sale of any of its real estate assets in the short term. This decision is the direct result of the Trust's intention to qualify, and continue to qualify, as a REIT for Canadian income tax purposes and the ambiguity surrounding the current requirements to qualify for this exemption. Additional information regarding the SIFT tax legislation and the Trust's qualification as a REIT under this legislation can be found in the section titled, "Income Tax Expense" later in this report.

### Performance Measures

As was previously discussed, for fiscal years beginning after January 1, 2011, the Trust will no longer be referencing the term 'Distributable Income' or DI, but rather will focus more on what it feels to be the more relevant financial indicators of performance, namely, FFO and AFFO. It continues to be the intention of the Trust to pay out, at a minimum, all taxable income to Unitholders in the form of monthly distributions unless the Trustees, in their absolute discretion, determine a different amount. Under its current distribution program, the Trust is distributing \$1.80 per outstanding Trust and LP B Unit on an annualized basis (or \$0.15 per Trust and LP B Unit on a monthly basis). The Trust also declared and paid out a special distribution of \$0.50 per unit to all Unitholders of record as at August 31, 2010. This special distribution was in addition to the regular normal distribution the Trust declares and pays

on a monthly basis and was fully funded through the use of a portion of the cash received on past sales of Non-Core properties. The total dollar amount of this one-time special distribution was approximately \$26.3 million and was paid on September 15, 2010 in conjunction with the regular monthly distribution to Unitholders of record as at August 31, 2010. There have been no special distributions declared in the year ended December 31, 2011.

For the year ended December 31, 2011, the Trust declared regular distributions of \$94.0 million (this includes distributions paid to the LP Class B Unitholders), representing approximately 71.3% of FFO. The reader should note that the overall operating performance of the first and fourth quarters tend to generate the highest payout ratio, mainly due to the high seasonality in operating expenses. In particular, these quarters tend to be the highest demand periods for natural gas, a major operational cost for the Trust. The reader should not simply annualize these reported results. On a quarterly basis, the Trust's Board of Trustees reviews the current level of distributions and determines if any adjustment to the distributed amount is warranted.

Although the Trust believes it is important to distribute a significant portion of its FFO, it also maintains that it should withhold a portion of the available cash flow to assist with the execution of its business strategy. On an overall basis, the Trust aims to maintain a conservative payout ratio and reviews this with its Board of Trustees on a quarterly basis.

Over the past few years, AFFO has begun to surface as an additional performance measurement. AFFO is determined by taking the amounts reported as FFO and deducting what is commonly referred to as Maintenance Capital Expenditures. Maintenance Capital Expenditures are referred to as expenditures that by standard Accounting definitions are accounted for as capital in that the expenditure itself has a useful life in excess of the current financial year and also adds or maintains the value of the related asset. A more detailed discussion of this topic will be provided in the Maintenance of Productive Capacity section later in this document.

#### How Did We Do?

At the beginning of the 2011 fiscal year, certain selective performance targets were set out for fiscal 2011. The assumptions used in these performance targets were reviewed on a quarterly basis and the full-year guidance was adjusted if such assumptions have changed. The following table compares our forecasted performance to our actual results in fiscal 2011.

	2011 Actual	2011 Objectives Revised in Q3 2011	2011 Original Objectives
FFO per Trust Unit	\$ 2.52	\$ 2.45 to \$ 2.53	\$ 2.35 to \$ 2.55
AFFO per Trust Unit	\$ 2.22	\$ 2.15 to \$ 2.23	\$ 2.05 to \$ 2.25
Acquisitions	No new apartment acquisitions	No new apartment acquisitions	No new apartment acquisitions
Stabilized Building NOI Growth	0.7%	-1% to 1%	-3% to 1%

The reader is cautioned the financial objectives, when generated, were considered forward-looking information and that actual results may vary materially from these objectives reported.

Both actual FFO and AFFO for fiscal 2011 were within the revised guidance reported as part of the Trust's disclosures for the third quarter of 2011.

### FFO Reconciliation from 2010 to 2011

The following table shows a reconciliation of changes in FFO from December 31, 2010 to December 31, 2011. It should be noted that FFO as disclosed in the table below reflects FFO derived from the Trust's consolidated financial statements prepared in accordance with IFRS. As previously noted, we define the calculation of FFO under IFRS as net income before fair value adjustments, distributions on the LP Class B Units, gains (losses) on the sale of Investment Properties, depreciation, deferred income taxes and certain other non-cash items. A more detailed disclosure of the calculation of FFO will be provided later in this report.

FFO Reconciliation	12 Months
FFO Opening - Dec 31, 2010 <sup>(1)</sup>	\$ 2.47
NOI from Stabilized Properties	\$ 0.04
Financing Costs <sup>(2)</sup>	\$ 0.08
Administration and other	\$ (0.01)
FFO Loss from Sold Properties	\$ (0.06)
FFO Closing - Dec 31, 2011	\$ 2.52

(1) The calculation of FFO from the Trust's consolidated financial statements under IFRS did not materially differ from the calculation of FFO derived from the Trust's consolidated financial statements under Canadian GAAP. As a result, FFO Per Unit for the year ended December 31, 2010 calculated under IFRS and as previously reported under Canadian GAAP was \$2.47.

(2) Financing costs above exclude the distribution payments for LP Class B Units, which are classified as financial liabilities under IFRS. Further discussion related to this can be found later in this report.

### LIQUIDITY

In late 2008, with all the economic uncertainty that the market was experiencing, particularly in the area of availability of debt capital, management felt that the Trust's mortgage program (which focused on the use of NHA insurance on virtually all of its mortgages), presented an opportunity to access more credit than needed for the short term. In the past, the Trust accessed credit as and when needed; however, given the economic uncertainty and the potential for accretive acquisitions at the time, it was felt that increasing its overall cash liquidity position was prudent in order to be able to capitalize swiftly on any opportunities that would be in the best interest of the Trust. Even though the credit spread had increased dramatically, when combined with the unprecedented decrease in the underlying Government of Canada bonds, total overall interest rates were still at historical lows.

The Trust's cash position was \$255.9 million at December 31, 2011 as compared to \$228.1 million reported on December 31, 2010. This large cash position was achieved as a result of increasing the leverage on selective maturing mortgages and locking the reported interest rates at historically lows as well as net cash generated on the sales of selective non-core assets during 2010. The Trust continues to refinance existing maturing NHA-insured mortgages at rates well below the maturing rates while at the same time being able to raise additional funds for future opportunities. However, there is an opportunity cost to having this much liquidity on the statement of financial position, which is currently earning a relatively low but safe investment return. The Trust used part of this cash to retire the maturing unsecured debenture in January of 2012.

### FFO Reconciliations

The Trust's adoption of IFRS standards, effective January 1, 2011, has resulted in significant changes to the financial information presented, including the way the Trust reconciles FFO from its consolidated financial statements prepared in accordance with IFRS.

In the following table, Boardwalk REIT provides a reconciliation of FFO, a non-IFRS measure, to its closely related financial statement measurement for the years ended December 31, 2011 and December 31, 2010, adjusted for IFRS standards. Adjustments, which have arisen as a result of the adoption of IFRS, are explained in the notes below.

#### FFO Reconciliation

*In \$000's, except per unit amounts*

	12 months 2011	12 months 2010	% Change
Profit for the period	\$ 1,225,086	\$ 276,792	
Adjustments			
Fair value (gains) <sup>(1)</sup>	(364,389)	(211,157)	
Add back loss on sale of assets <sup>(2)</sup>	–	3,047	
Add back distributions to LP Class B Units recorded as financing charges <sup>(3)</sup>	8,055	10,293	
Deferred income tax expense (recovery)	(740,393)	47,448	
Depreciation expense on PP&E	3,449	3,305	
Funds from operations	\$ 131,808	\$ 129,728	1.6%
Funds from operations - per unit	\$ 2.52	\$ 2.47	2.0%

(1) Under IFRS, the Trust has a number of Statement of Financial Position items, which are measured using a fair value model with fluctuations related to these fair value amounts from period to period flowing through the Statement of Comprehensive Income. These fair value adjustments are considered "non-cash items" and are added back in the calculation of FFO.

(2) Under IFRS, investment properties are carried at fair value. Therefore, when they are sold a loss is incurred for the transaction costs of the sale

(3) Under IFRS, the LP Class B Units are considered financial instruments in accordance with IAS 32. As a result of this classification, their corresponding distribution amounts are considered "financing charges" under IFRS. The Trust believes these distribution payments do not truly represent "financing charges", as these amounts are only payable if the Trust declares distributions and only for the amount of any distributions declared, both of which are at the discretion of the Board of Directors as outlined in the DOT. Therefore, these distributions are excluded from the calculation of FFO, consistent with the treatment of distributions paid to all other Unitholders.

All other adjustments in the calculation of FFO above are consistent with those adjustment made in the calculation of FFO previously derived from financial statements under Canadian GAAP.

Overall, Boardwalk REIT earned FFO of \$131.8 million for fiscal 2011 compared \$129.7 million for the same period in 2010 (\$129.9 million for fiscal 2010 under Canadian GAAP). FFO on a per unit fully diluted basis for the current year ended December 31, 2011 increased approximately 2.0% compared to the prior year, from \$2.47 to \$2.52. The increase was primarily the result of higher rental revenue and lower financing costs.

### New Property Acquisitions

For the 2010 and 2011 years, there were no new property acquisitions.

### Dispositions

In the 2011 year, there were no new dispositions of the Trust's investment properties.



For the year ended December 31, 2010, the Trust sold the following investment properties:

Property Name	Location	Operating Segment	Number of Units
Habitat du Lac Leamy	Gatineau, Quebec	Quebec	321
Heritage Gardens	Calgary, Alberta	Alberta	91
Les Jardins Bourassa	Montreal, Quebec	Quebec	178
Cascade Lodge	Regina, Saskatchewan	Saskatchewan	12
Glen Garry	Regina, Saskatchewan	Saskatchewan	12
600 Cote Vertu	St. Laurent, Quebec	Quebec	88
Willow Glen Apartments	Edmonton, Alberta	Alberta	88
Braemar Court	Coquitlam, B.C.	British Columbia	105
California Gardens	Burnaby, B.C.	British Columbia	79
Ridgemont Apartments	Coquitlam, B.C.	British Columbia	41
Parkwest Apartments	Victoria, B.C.	British Columbia	96
Eagle Manor <sup>(1)</sup>	Grand Prairie, Alberta	Alberta	31
			1,142

(1) The building in Grande Prairie, Alberta, consisting of 31 units, was completely destroyed in a November 28, 2009 fire and was settled with the insurers for proceeds of \$3.4 million in July 2010, which equaled the net book value of the building prior to being destroyed.

In fiscal 2010, Boardwalk REIT reported total gains under Canadian GAAP of approximately \$34.2 million on the dispositions of the properties outlined above.

The gain on sale of these same properties under IFRS differs as a result of the Trust's election to use the fair value model to value investment properties. Under the fair value model, the Trust has elected to revalue its investment property to its revised fair value based on the signed sale agreement immediately prior to the sale of the property. This fair value adjustment is recorded in the Consolidated Statement of Comprehensive Income at each reporting date. As a result of this election, the Trust will record a loss on the sale of investment properties equal to the amount of the selling costs associated with the disposition.

The loss on sale reported on the Trust's Consolidated Statement of Comprehensive Income under IFRS for the year ended December 31, 2010 is as follows:

<i>Cdn\$ Thousands, except units sold</i>	Cdn GAAP Dec 31, 2010	IFRS Dec 31, 2010
Gross Sales Price	\$ 111,258	\$ 111,258
Cost of dispositions	(2,157)	(2,157)
Net cash proceeds	109,101	109,101
Net Book Value	(74,960)	
Carrying value of investment property sold	–	(111,258)
Other adjustments on disposition	85	(890)
Net Gain (Loss) on dispositions	\$ 34,226	\$ (3,047)

As previously discussed, prior to the derecognition of an investment property on disposal, the carrying value is adjusted to reflect the fair value as outlined in the purchase and sale agreement (assuming the purchase and sale agreement is the best evidence of fair value). This adjustment is recorded as a fair value gain (loss) on the Consolidated Statement of Comprehensive Income. Any remaining gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized, as a gain (loss) on the sale of assets.

It should be noted that the Trust does not include any gain or loss reported on the disposition of any of its assets in the computation of FFO.

### Sale of investment properties in 2011

Boardwalk REIT will continue with a cautious approach on the sale of Non-Core assets to qualify, and continue to qualify, for REIT exemption status under the existing rules surrounding the tax treatment of publicly traded trusts (the "SIFT Legislation").

See the section above entitled "Income Tax Expense" for further information regarding the SIFT legislation and the Trust's REIT exemption status.

### Financial Performance Summary

#### At a Glance

*In \$000's, except per unit amounts*

	2011	2010	% Change
Total Assets	\$ 5,089,023	\$ 4,585,925	11.0%
Total Rental Revenue	\$ 422,727	\$ 420,432	0.5%
Profit	\$ 1,225,086	\$ 276,792	342.6%
Total Funds From Operations	\$ 131,808	\$ 129,728	1.6%
Profit Per Unit	\$ 24.40	\$ 5.82	319.2%
Funds From Operations Per Unit	\$ 2.52	\$ 2.47	2.0%

Total Assets increased from the amounts reported in the prior year, mainly due to the continued compression of cap rates as investment properties are now carried at fair value. Total Rental Revenue increased marginally by 0.5%, the result of the improving occupancy and rental rates. Profit increased significantly, due to fair value adjustments and the recovery of previously recorded deferred income tax liabilities.

## CONSOLIDATED OPERATIONS AND EARNINGS REVIEW

### Overall Review

#### Consolidated Statements of Comprehensive Income

##### Rental Operations

Boardwalk REIT's rental revenue strategy focuses on maximizing overall rental revenues. In the determination of these overall revenues, we continuously look at the optimal balance between market rents, rental incentives and revenue vacancy losses. The application of this strategy is ongoing on a market-by-market analysis, again with the focus on obtaining the optimal balance of these variables given existing market conditions.

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 422,727	\$ 420,432	0.5%
Expenses			
Operating expenses	\$ 84,400	\$ 76,624	10.1%
Utilities	\$ 40,340	\$ 42,222	(4.5)%
Property taxes	\$ 35,328	\$ 36,529	(3.3)%
	\$ 160,068	\$ 155,375	3.0%
Net operating income	\$ 262,659	\$ 265,057	(0.9)%
Operating margins	62.1%	63.0%	
Number of suites at Dec. 31	35,277	35,277	

Overall, Boardwalk REIT's rental operations reported results were in-line with the same period in the prior year. The Trust reported a 0.5% increase in revenue for the year ended December 31, 2011. The slight increase in rental revenue was the result of an increase in revenue generated from our same-store properties, or properties referred to as stabilized, offset by a loss of rental revenue gener-

ated from properties that were strategically sold during 2010. Total rental expenses increased 3.0% for the year ended December 31, 2011 compared to 2010. The increase in rental expenses is mainly attributable to higher rental operating expenses. Reported operating expenses increased by approximately \$7.8 million or 10.1%, primarily due to higher onsite salaries and wages connected to our increased focus on customer service. As was noted in the Trust's disclosure in previous periods, over the past year, the Trust continued to hire additional staff to assist in various Customer Service, quality control and internal capital projects.

The Trust also continued to increase the amount of detail tracking of actual work performed by our onsite Associates to assist in the operating effectiveness of its overall operations. This additional detail increased the accuracy of the wage allocation estimate. Boardwalk continues to be committed to our internal capital improvement program. This program results in overall lower costs while allowing the Trust greater control over the timing of its capital improvement projects, compared to contracting these same projects out to third parties. As with other estimates used by the Trust, key assumptions used in estimating the amount of salaries and wages to be capitalized are reviewed on a regular basis and, based this review, Management will adjust the wage allocation estimate to more accurately reflect how much internal resources were directed towards specific capital improvements. The Trust continues to work on improving the gathering of data in this area to further improve its operating efficiency and make the reported estimate even more accurate.

Utility cost decreased by 4.5% for the year ended December 31, 2011 due primarily to lower pricing for natural gas, particularly in the provinces of Alberta, Ontario and Quebec. The reported decrease in property taxes is mainly attributed to successful property tax appeals received on our Alberta portfolio during 2010 that lowered property taxes for 2011 along with reduced rates for some of our properties in our Ontario portfolio. The Trust is constantly reviewing property tax assessments and related charges and, where it feels appropriate, will appeal all or a part of the related assessment. It is not uncommon for the Trust to receive property tax refunds; however, due to the uncertainty of the amount and timing of the refunds, these amounts are only included in income when they are received.

Overall, the operating margin for the year decreased slightly to 62.1%, when compared to 63.0% for the same period in 2010.

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

## Segmented Operational Review

### British Columbia Rental Operations

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 8,105	\$ 7,910	2.5%
Expenses			
Operating expenses	\$ 1,341	\$ 949	41.3%
Utilities	\$ 805	\$ 756	6.5%
Property taxes	\$ 423	\$ 424	(0.2)%
	\$ 2,569	\$ 2,129	20.7%
Net operating income	\$ 5,536	\$ 5,781	(4.2)%
Operating margins	68.3%	73.1%	
Number of suites at Dec. 31	633	633	

Boardwalk REIT's British Columbia portfolio continued to report good results. Rental revenues increased by 2.5% and expenses increased by 20.7% for the year ended December 31, 2011, compared to the same period in the prior year, largely due to higher onsite salaries and wages connected to our increased focus on customer service and high building and suite maintenance expense. Utility expense for the current year was higher compared to the previous year due to higher water and sewer expense. Operating margins for the year ended December 31, 2011 decreased to 68.3%, compared to the 73.1% for the same period in 2010.

### Alberta Rental Operations

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 249,534	\$ 244,459	2.1%
Expenses			
Operating expenses	\$ 47,683	\$ 41,376	15.2%
Utilities	\$ 21,541	\$ 22,368	(3.7)%
Property taxes	\$ 18,503	\$ 18,996	(2.6)%
	\$ 87,727	\$ 82,740	6.0%
Net operating income	\$ 161,807	\$ 161,719	0.1%
Operating margins	64.8%	66.2%	
Number of suites at Dec. 31	19,743	19,743	

Boardwalk REIT's Alberta operations for the year ended December 31, 2011 reported a 2.1% increase in rental revenues when compared to the same period reported in 2010. The reported rental revenue changes are the combined effect of changes to in-place occupied rents and an increase in overall occupancy levels compared to the prior year. Expenses have increased for the year ended December 31, 2011, mainly as a result of an increase in rental operating expenses. Operating expenses increased primarily as a result of higher onsite salaries and wages associated with the hiring of additional staff to assist in various Customer Service, quality control and internal capital projects. This increase was somewhat offset by a decrease in repairs and maintenance expense. The reported property tax decrease for the year ended December 31, 2011 is mainly the result of lower property valuations in 2011 compared to 2010 as a result of successful property tax assessment appeals in 2010.

Reported utilities for the year ended December 31, 2011 were down 3.7%. The reported decrease is mainly the result of lower reported natural gas expense, somewhat offset by increased electricity charges.

In 2010, the Trust entered into two contracts, one for 3 years and the other for 5 years, with two utility companies to supply the Trust with its electrical power needs for Alberta commencing October 1, 2010 and ending September 30, 2013 for one and September 30, 2015 for the other. The blended rate of these electricity contracts is \$0.06/kWh.

### Saskatchewan Rental Operations

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 56,652	\$ 55,505	2.1%
Expenses			
Operating expenses	\$ 9,418	\$ 7,395	27.4%
Utilities	\$ 4,725	\$ 4,674	1.1%
Property taxes	\$ 3,929	\$ 3,830	2.6%
	\$ 18,072	\$ 15,899	13.7%
Net operating income	\$ 38,580	\$ 39,606	(2.6)%
Operating margins	68.1%	71.4%	
Number of suites at Dec. 31	4,636	4,636	

For year ended December 31, 2011, Boardwalk's Saskatchewan operational rental revenue increased by 2.1%. The revenue increase is mainly the result of continuing strong rental market fundamentals in both Regina and Saskatoon. Rental expenses increased by 13.7% for the year ended December 31, 2011 compared to the prior year, mainly as a result of an increase in operating expenses. Operating expenses increased primarily as a result of an increased investment in on-site maintenance and personnel staff connected to our increased focus on customer service. Repairs and maintenance also increased in the current year compared to the prior year.



Utility costs for the current year were in line with the previous year. Lower natural gas expense was offset by higher water and sewer charges during the current year.

The Trust had a physical supply contract agreement for Saskatchewan, which covered the period from November 1, 2009 to October 31, 2010. The supply contract provided the commodity at a price of \$4.98/GJ. This physical supply contract was renewed for an additional one-year term commencing November 1, 2010. The renewed contract locked-in price of natural gas is \$4.81/GJ. More details of this commitment are reported in Note 27 of the Trust's consolidated financial statements for the year ended December 31, 2011.

### Ontario Rental Operations

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 39,153	\$ 38,525	1.6%
Expenses			
Operating expenses	\$ 7,241	\$ 6,681	8.4%
Utilities	\$ 6,696	\$ 6,838	(2.1)%
Property taxes	\$ 5,385	\$ 6,027	(10.7)%
	\$ 19,322	\$ 19,546	(1.1)%
Net operating income	\$ 19,831	\$ 18,979	4.5%
Operating margins	50.7%	49.3%	
Number of suites at Dec. 31	4,265	4,265	

Boardwalk REIT's Ontario operations reported an increase in rental revenue of 1.6% for the year ended December 31, 2011, compared to the prior year, due to an increase in occupied rents and increased occupancy levels. Operating expenses increased primarily as a result of an increased number of maintenance and on-site personnel staff. Repairs and maintenance also increased, primarily in the area of building maintenance, connected to our increased focus on customer service.

The reported decrease in utilities was the result of lower natural gas costs. The lower cost can be attributed, in part, to a fixed price natural gas contract in place for Ontario. The fixed price of this contract was \$7.65/GJ for 50% of Boardwalk's Ontario usage. This contract expired on October 31, 2010 and was renewed for an additional one-year term at a fixed price of \$4.07/GJ. On October 21, 2010, the Trust negotiated a two-year supply contract to ensure supply for the remaining 50% of the natural gas usage in Ontario at a price of \$4.11/GJ for the period from November 1, 2010 to October 31, 2012. The details of this are reported in Note 27 of the Trust's consolidated financial statements for the year ended December 31, 2011. The current average floating price for natural gas for the other 50% of Ontario's usage was also lower compared to the average floating price in 2010.

Property taxes decreased 10.7% for the year ended December 31, 2011, compared to the same period in the prior year, due to property tax refunds received from the City of Windsor and City of Kitchener in 2011 and lower property tax assessments associated with our Windsor property portfolio.

### Quebec Rental Operations

<i>In \$000's, except number of suites</i>	12 Months 2011	12 Months 2010	% Change
Total rental revenue	\$ 69,095	\$ 67,666	2.1%
Expenses			
Operating expenses	\$ 14,211	\$ 15,245	(6.8)%
Utilities	\$ 6,247	\$ 6,370	(1.9)%
Property taxes	\$ 6,999	\$ 6,719	4.2%
	\$ 27,457	\$ 28,334	(3.1)%
Net operating income	\$ 41,638	\$ 39,332	5.9%
Operating margins	60.3%	58.1%	
Number of suites at Dec. 31	6,000	6,000	

Boardwalk REIT's Quebec operations reported good results. Reported rental revenue showed an increase of 2.1% for the year ended December 31, 2011 compared to the previous year. Reported total rental expenses for the year decreased compared to the same period in the prior year, largely the result of lower onsite salaries and wages expensed for this region. Similar to Ontario, the Trust had a fixed price natural gas contract for 50% of our Quebec usage at a price of \$7.65/GJ. This contract expired on October 31, 2010 and was renewed for an additional one-year term at a fixed price of \$4.07/GJ. In addition, the Trust negotiated a two-year supply contract to ensure supply of the remaining 50% of the natural gas usage in Quebec at a price of \$4.11/GJ for the period from November 1, 2010 to October 31, 2012. The remaining 50% of our Quebec usage was subject to the floating prices for natural gas, which on average was lower compared to the previous year's average. More details of this commitment are reported in Note 27 of the Trust's consolidated financial statements for the year ended December 31, 2011.

## Operational Sensitivities

### Boardwalk's Revenue Strategy

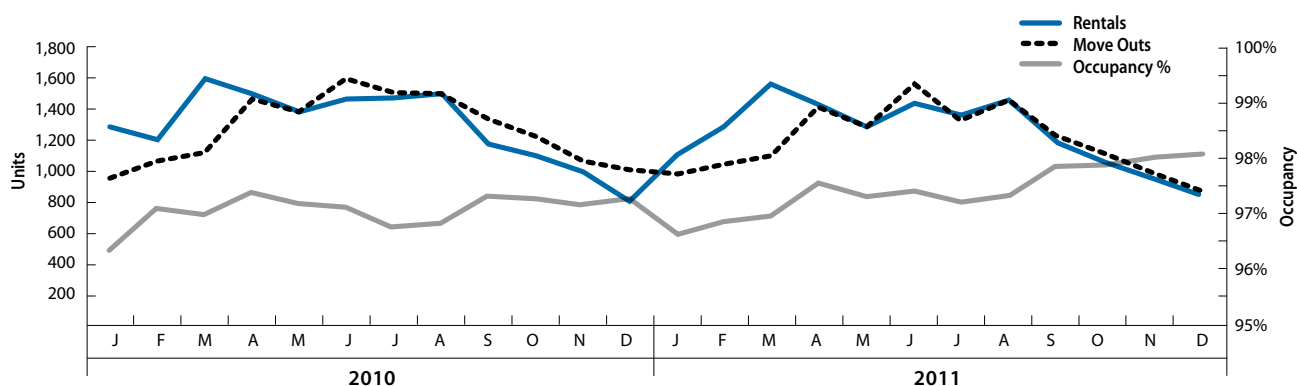
Boardwalk's rental revenue strategy focuses on maximizing rental revenues through actively managing three main variables: occupancy levels, market rents and suite-specific incentives. It is important to note that these variables are in constant flux and may be different between regions and between buildings within the same region. The main goal of our strategy is to maximize revenue throughout the year. In a more competitive market like the one we are currently facing, the Trust locks in rentals on selective suites for future months, but does not collect revenues for certain months in the immediate future. What this means is that the Trust may decide to rent a suite in December with the Customer not moving in until the following year. Although the suite is rented, it will not generate revenue until the Customer actually moves in, for example, in January, which corresponds to the next fiscal year. The percentages reported as occupancy levels below represent those occupied units that are generating revenue for the period noted. The Trust closely monitors 'apartment availability', which represents unoccupied units not generating revenue for the period, after taking into account forward committed leases. Although occupancy rates provide a good indication of current revenue, apartment availability provides the reader a more detailed indication of future potential revenue.

### Boardwalk REIT's Portfolio Occupancy

City	2011	2010
Calgary	98.08%	97.94%19%
Edmonton	96.69%	96.75%
Gatineau	–	98.91%
Kitchener	98.78%	97.69%
London	97.85%	97.40%
Montreal	96.25%	96.81%
Other Alberta	92.32%	93.24%
Quebec City	98.10%	97.94%
Regina	97.97%	97.44%
Saskatoon	97.14%	97.96%
Vancouver	98.09%	97.48%
Victoria	97.62%	97.97%
Windsor	97.61%	96.85%
Total	97.47%	97.11%

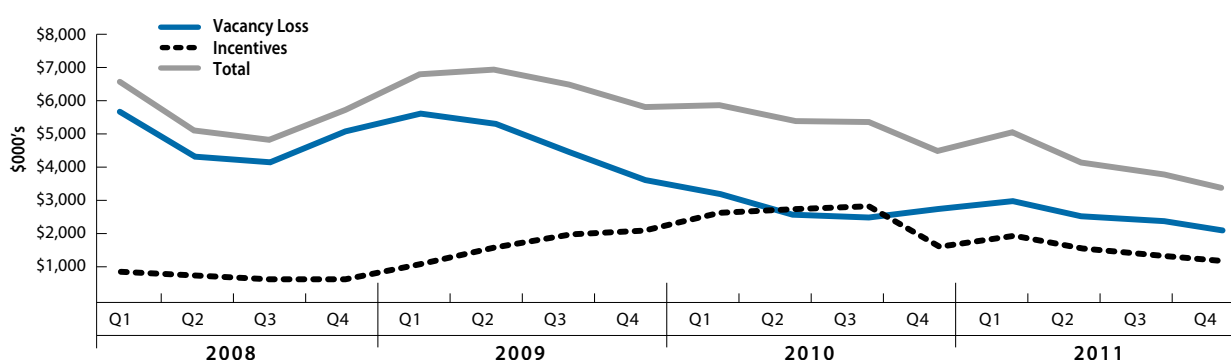
In fiscal 2011, the Trust reported an increase in overall occupancy rate to 97.47% from 97.11% for the prior year. Boardwalk's overall rental revenue strategy focuses on the Trust balancing the key inputs, including occupancy levels and existing rental market rates. At this time in the rental cycle, Boardwalk REIT is much more focused on maintaining, and sometimes increasing occupancy, as this will result in higher overall revenue being earned. As a strategy, the Trust is constantly adjusting market rents based on property-specific demand and supply.

### Supply versus Demand & Impact on Reported Occupancy



The issue of demand and supply, as with any industry, is an important performance indicator for multi-family real estate. The above chart attempts to show the total move-outs (supply) compared to total move-ins (demand) and the resulting impact on reported occupancy relating to our portfolio. The cumulative impact of demand being greater than supply, or vice versa, is the primary driver in the reported occupancy rate. Because of the lack of pricing power in the multi-family rental market in recent years, Boardwalk continued with its strategy of maintaining high occupancy levels by cautiously adjusting market rents upward only when warranted. This strategy continues to be viewed as a success; as a result, we have been able to increase the overall occupancy rate to 97.47% for the year ended 2011, compared to the year ended 2010 when the occupancy rate was 97.11%. Boardwalk REIT will continue with this strategy; however, the Trust is now in the position whereby we may see some further upward rental adjustments in certain selective markets. The reader is cautioned that adjusting market rental rates is an ongoing process for the Trust and consistent with its overall strategy of maximizing overall reported revenues; consequently, it will adjust rents upward or downward when it is deemed necessary.

### Vacancy Loss and Incentives



Vacancy loss and rental incentives are strong indicators of current and future revenue performance. Depending on specific market conditions, to best manage overall economic rental revenue, the correct balance between rental incentives and vacancy loss is important. The chart details, on a quarterly basis, rental incentives versus vacancy loss. The reported decrease in vacancy loss coupled with a decrease in incentives during 2011 was mainly the result of Boardwalk REIT's continued strategy of maximizing overall revenues through the optimization of the key revenue variables, these being market rents, vacancy levels and suite-selective incentives and are positive signs of strength returning to the market. We continue to focus on maximizing overall revenues through the optimization of these key revenue variables.

### Occupancy Sensitivity

As with all real estate rental operators, Boardwalk REIT's financial performance is sensitive to occupancy rates. Based on the current reported market rents, a 1% annualized change in reported occupancy is estimated to impact overall rental revenue by approximately \$2.5 million, or \$0.05 per Trust Unit on a diluted basis.

### Stabilized Property Results

Boardwalk defines stabilized property as one that has been owned by the Trust for a period of 24 months or more from the reporting date. Boardwalk REIT's overall percentage of stabilized properties was 100% of its total rental unit portfolio as at December 31, 2011, or a total of 35,277 units. The table below provides a regional breakdown on these properties for fiscal 2011 as compared to fiscal 2010.

Dec 31, 2011 - 12 M	# of Units	% Revenue Growth	% Operating Expense Growth	% Net Operating Income Growth	% of NOI
Calgary	5,234	4.0%	8.4%	2.1%	18.0%
Edmonton	12,337	0.8%	4.5%	(1.2)%	36.4%
Other Alberta	2,172	4.6%	11.3%	1.0%	6.2%
British Columbia	633	2.5%	20.6%	(4.2)%	2.1%
Ontario	4,265	1.6%	(1.1)%	4.5%	7.4%
Quebec	6,000	2.1%	(3.1)%	5.9%	15.6%
Saskatchewan	4,636	2.1%	13.7%	(2.6)%	14.4%
	35,277	2.1%	4.5%	0.7%	100.0%

Stabilized revenue (which excludes interest revenue earned) increased by 2.1% compared to the prior year. Operating expenses reported for the year increased by 4.5% from 2010, resulting in a NOI increase of 0.7% compared to the prior year. The increase in reported stabilized revenue was driven mainly by an increase in occupancy levels, particularly in Alberta, which account for approximately 61% of the Trust's reported stabilized Net Operating Income. Operating expenses increased primarily as a result of an increased number of onsite maintenance and personnel staff to assist in various Customer Service, quality control and internal capital projects.

Stabilized Revenue Growth	# of Units	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q2 2011	Q4 2011 vs. Q1 2011	Q4 2011 vs. Q4 2010
Calgary	5,234	1.3%	2.4%	5.0%	6.1%
Edmonton	12,337	1.1%	2.0%	2.9%	2.2%
Other Alberta	2,172	1.0%	1.2%	3.5%	3.7%
British Columbia	633	0.7%	1.8%	3.6%	4.0%
Ontario	4,265	1.3%	0.6%	1.4%	1.5%
Quebec	6,000	0.6%	1.1%	0.9%	1.1%
Saskatchewan	4,636	0.6%	1.2%	1.8%	1.4%
	35,277	1.0%	1.6%	2.7%	2.6%

The reader is cautioned that, due to seasonality and the timing of these related expenses, a better gauge of the performance of the stabilized properties is on a yearly basis. On a sequential basis, stabilized revenues reported in the fourth quarter of 2011 increased slightly by 1.0% over Q3 2011, increased by 1.6% compared to Q2 2011, increased 2.7% compared to Q1 2011 and increased by 2.6% compared to Q4 2010. The Trust strives toward balancing the optimum level of rental incentives and occupancy rates in order to achieve its revenue strategy. The Trust continues to control operating expenses, in addition to its revenue strategy.



### Estimated Loss-to-Lease Calculation

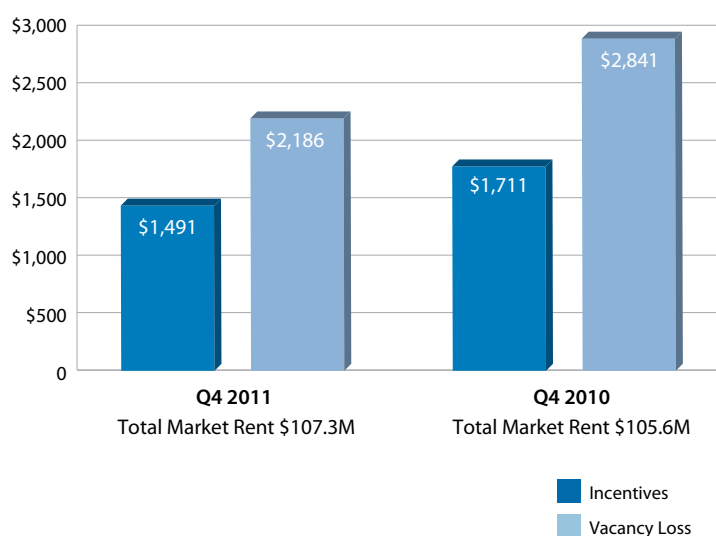
Boardwalk REIT's estimated loss-to-lease, representing the difference between estimated market rents and actual occupied rents in December 2011, adjusted for current occupancy levels, totaled \$8.4 million on an annualized basis, representing \$0.16 per outstanding Unit (Trust & LP B Units). For the most part, Boardwalk REIT's rental lease agreements last no longer than twelve months. On physical turnover, the rental units are then re-leased directly at current market rent. If a Customer of Boardwalk REIT decides to remain in his/her apartment unit at the end of the lease agreement and market rents are increasing, it is the Trust's self-imposed internal policy that the rent will not increase more than \$150 in any twelve-month period.

The reader should note that estimated loss-to-lease, measured at a point in time, is a non-GAAP measure and that reported market rents can be very seasonal and, as such, will vary from quarter to quarter. The significance of this change could materially affect Boardwalk REIT's "estimated loss-to-lease" amount. The importance of this estimate, however, is that it can be an indicator of future rental performance, assuming consistent economic conditions and trends. The reader should also note that it would take a significant amount of time for these market rents to be recognized by the Trust due to internal and external limitations on its ability to charge these new market-based rents in the short term.

	Dec 2011 Occupied Rent	Dec 2011 Market Rent	Mark to Market Per Month	Annualized Mark to Market Adjusted for Current Occupancy levels (\$000's)	Weighted Average Apartment Units	% of Portfolio
Calgary	\$ 1,153	\$ 1,211	\$ 58	\$ 3,606	5,310	15%
Edmonton	\$ 1,081	\$ 1,091	\$ 10	\$ 1,441	12,497	35%
Other Alberta	\$ 1,045	\$ 1,057	\$ 12	\$ 262	1,936	6%
Alberta Portfolio	\$ 1,097	\$ 1,120	\$ 23	\$ 5,309	19,743	56%
Saskatchewan	\$ 1,047	\$ 1,064	\$ 17	\$ 891	4,636	13%
Ontario	\$ 790	\$ 807	\$ 17	\$ 869	4,265	12%
Quebec	\$ 984	\$ 997	\$ 13	\$ 923	6,000	17%
British Columbia	\$ 1,031	\$ 1,088	\$ 57	\$ 419	633	2%
Total Portfolio	\$ 1,033	\$ 1,053	\$ 20	\$ 8,411	35,277	100%

The increase in the loss-to-lease for our portfolio, from \$2.4 million at December 2010 to \$8.4 million at December 2011 was due primarily to the increase in market rents throughout the portfolio, particularly in Alberta, thus increasing the spread between occupied and market rents.

The Trust's previous focused strategy of reducing market rent prices was an attempt to increase overall occupancy, with the main focus on increasing overall rental revenue. In recent months, the Trust was able to increase market rents in specific properties by reducing incentives while maintaining occupancy levels. As with prior quarters, Boardwalk REIT continues to focus on the maximization of all rental revenue, with attention to appropriate levels of market rents and certain occupancy level targets as well as suite-selective incentives, when warranted.



As was previously mentioned, in the short term, the opportunity still exists to focus on reducing vacancy loss while minimizing the amount of suite-specific incentives. However, in recent months, Boardwalk has also been able to increase market rents in certain selective markets and on certain specific properties while maintaining occupancy levels.

### Investing In Our Properties

Boardwalk is continually re-investing in its properties. A detailed analysis of this investment can be found later in the MD&A under the section titled, "Capital Improvements". The purpose of the "Capital Improvements" section is to provide the reader with a consolidated view of what the Trust spent on its real estate asset base.

### Financing Costs

Financing costs for fiscal 2011 of \$105.6 million have decreased from the \$112.6 million reported for the prior year, due primarily to lower interest rates, the sale of a number of the Trust's Non-Core properties in 2010 and higher distributions paid on the LP B Units in 2010. A special distribution was declared and paid in September 2010 to all Unitholders on record as at August 30, 2010. Under the terms of the existing Limited Partnership Agreement, any distribution paid to Unitholders must also be paid to holders of LP Class B Units. Under IFRS standards, the B units are classified as a liability and, as such, any payments made to them are classified as financing costs. As a result of this, in Q3 2010, the Trust paid a special distribution of \$2.24 million dollars to the LP Class B Unitholders and recorded as a financing charge. As was previously noted, this distribution is adjusted for in the determination of FFO and AFFO. At December 31, 2011, the reported weighted average interest rate of 4.14% was down from the weighted average interest rate of 4.27% at December 31, 2010. Boardwalk REIT has continued to take advantage of lower interest rates to refinance and renew certain mortgages, resulting in a lower overall weighted average mortgage and debt rate. The average term to maturity of the mortgage and debt portfolio is approximately three years. However, this average term is expected to increase over the upcoming years as the Trust continues to renew maturing mortgages for significantly longer terms ranging from three to 10 years with a heavier emphasis in the longer end of this range.

Boardwalk REIT concentrates on multi-family residential real estate. It is, therefore, eligible to obtain government-backed insurance through the NHA, which is administered by CMHC. The benefits of purchasing this insurance are two-fold.

The first benefit of using CMHC insurance is that Boardwalk REIT can normally obtain lower interest rate spreads on its property financing as compared to other financing alternatives in either the residential or any other real estate class, leading to lower overall cost of debt after including the cost of the NHA insurance.

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

Management cannot over-emphasize the importance of this Government-backed mortgage insurance program administered by Canada Mortgage and Housing Corporation. Despite the recent volatility in the overall credit markets, the Trust has been able to find a number of mortgage lenders willing to assume or underwrite additional mortgages under this program.

At December 31, 2011, approximately 99% of Boardwalk REIT's mortgages were backed by this NHA insurance, with a weighted average amortization period of approximately 32 years.

As was previously noted, the adoption of IFRS has also had an impact on the amount of financing costs reported on the Trust's Consolidated Statement of Comprehensive Income. As a result of the Trust's LP Class B Units being classified as financial liabilities in accordance with IAS 32, the corresponding distributions paid to the Unitholders are classified as financing costs under IFRS. The Trust believes these distribution payments do not truly represent "financing charges", as these amounts are only payable if the Trust declares distributions and only for the amount of any distributions declared, both of which are at the discretion of the Board of Trustees as outlined in the DOT. The total amount of distributions paid to the LP Class B Unitholders for the full year ended

December 31, 2011, which have been recorded as financing charges, was \$8.1 million (\$10.3 million - December 31, 2010). As discussed above, in addition to these regular distributions, a special distribution of \$2.2 million was paid out in September 2010 and included in financing charges in the financial statements. Based on this rationale, these amounts have been added back in the calculation of FFO.

The reader should also note that under IFRS, financing charges are recorded net of interest income the Trust has earned in the year. The total amount of interest income earned for the twelve months of 2011 was \$2.7 million, compared to \$1.8 million in the prior year.

### Interest Rate Sensitivity

Although Boardwalk REIT manages its financing risk in a variety of ways, as discussed later in the MD&A, it is important for the reader to understand the potential impact to the Trust as a whole with respect to significant interest rate changes. Due to the size of Boardwalk's overall mortgage portfolio, it has been prudent to spread out the maturity of these mortgages over a number of years. In fiscal 2012, the Trust anticipates having approximately \$465 million of secured mortgages maturing with a weighted average rate of 4.69%. If we were to renew these mortgages today with a new 5-year term, we estimate, based upon interactions with possible lenders, that the new rate would be approximately 2.20% (as of February 16, 2012), resulting in an estimated \$11.6 million potential annualized reduction in interest expense in our soon-to-mature mortgages.

### Administration

Included in administration expenses are costs associated with Boardwalk REIT's centralized administrative functions. The amounts reported for the year ended December 31, 2011, which relates to corporate administration, were \$26.3 million, compared to \$26.0 million for the same period in the prior year, an increase of approximately 1.2%.

For year ended December 31, 2011 and prior comparative periods, Boardwalk REIT allocated certain administration costs between corporate and rental operating expenses. The amounts allocated to rental operating expenses related to specific administrative costs associated with primarily operation-specific staff and related support initiatives. Total administration costs, combining rental operating and corporate, were \$49.1 million for the year ended December 31, 2011, compared to \$47.4 million for the same period in the prior year. The increase was primarily the result of a higher profit sharing and bonus accrual for the year compared to the previous year.

The allocation of administration expenses between corporate and operating general and administration costs noted above have not been materially impacted by the Trust's adoption of IFRS standards.

### Depreciation and Amortization

Under Canadian GAAP, the Trust reported the amortization of deferred financing costs, capital assets and intangibles separately on the Consolidated Statement of Earnings and Comprehensive Income.

Upon the adoption of IFRS standards, the Trust now records its investment properties using the fair value model and, as a result, no longer records depreciation on these properties.

Depreciation and amortization expense recorded on the Consolidated Statement of Comprehensive Income is made up of the depreciation of property, plant and equipment and the amortization of deferred financing costs.

#### Depreciation of property, plant and equipment

The Trust has elected to use the cost model under IAS 16 - Property, Plant and Equipment ("IAS 16") to value its property, plant and equipment and, as a result of this method, depreciation expense is a charge taken against earnings to reflect the estimated depreciation that has occurred to these assets as a result of their use during the reporting period in question.

### Amortization of Deferred Financing Costs

The amortization of deferred financing cost relate primarily to the amortization of CMHC premiums, which are paid as part of mortgage financing. If Boardwalk REIT replaces an existing mortgage with a new mortgage, all costs associated with the original mortgage, including the unamortized balance of the CMHC premium, are required to be charged to income in the period that this occurs. As a result, and due to the variable timing and strategy of each mortgage at maturity, the amounts reported will vary. Rather than refinance the entire mortgage on term maturity to a higher amount, Boardwalk REIT continues to take advantage of CMHC's newer insurance product to increase its leverage.

For the year ended December 31, 2011, no deferred financing costs were written off due to the maturity or payout of mortgages in Boardwalk's secured portfolio.

Boardwalk reviews its key depreciation and amortization estimates on an ongoing basis and, if warranted, will adjust these estimates on a prospective basis.

The amount reported as depreciation expense for the year ended December 31, 2011 was \$10.5 million, which was consistent with the \$10.3 million recorded for the prior year upon the application of IFRS standards.

## Other Income and Expenses

### Income Tax Expense

The Income Tax Act (Canada) (the "Tax Act") contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation"). Based on a detailed review of the SIFT Legislation, it could be interpreted that the Trust will not qualify as a Real Estate Investment Trust ("REIT") in accordance with the definition contained in the legislation, which would be exempt from the specified investment flow-through ("SIFT") rules nor remain within certain "normal growth" limits. As such, the Trust recorded an estimate of its the future income tax liability at June 30, 2007, which was adjusted quarterly, if necessary, recognizing the probability that it would be subject to the tax prescribed by the SIFT rules on January 1, 2011.

On March 4, 2009, Bill C-10 passed Third Reading in the House of Commons and on March 12, 2009 received Royal Assent, and therefore considered substantively enacted under Canadian GAAP. This Bill clarifies the definition of and criteria for being a REIT, including the definition of what is considered 'rent from real or immoveable properties'. However, despite clarifying the definition of and criteria for being a REIT, further clarification is required on the characteristics of gains on dispositions of real or immoveable properties as it flows through the Trust's organizational structure.

On December 16, 2010, the Department of Finance announced proposed amendments to the real estate investment trust rule and released for consultation draft legislation to implement such amendments. These proposals would, among other things:

- ▲ Allow REIT subsidiaries to hold certain non-capital property in respect of their real estate investment activities;
- ▲ Allow REITs to hold up to 10% of their non-portfolio property as non-qualifying REIT property without losing REIT status (with an associated clarification of the circumstances under which property can be considered to be ancillary REIT property);
- ▲ Allow REITs to derive up to 10% of their revenues from sources that are not qualifying sources (currently, a REIT must derive 95% of its revenues from qualifying sources);
- ▲ Clarify that a trust's revenue for purposes of the two revenue tests in the definition "real estate investment trust" is to be computed on a gross, rather than net, basis and that it will include capital gains but will not include recapture or other amounts that are on account of capital;
- ▲ Allow REITs to earn, as qualifying REIT revenue, gains realized by virtue of foreign currency fluctuations in respect of revenues derived from foreign real or immovable property including certain financing and hedging arrangements in respect of such property;



- ▲ Ensure that amounts distributed to a REIT, by an entity in which the REIT has a significant interest, will retain their character for purposes of the revenue tests; and
- ▲ Allow an entity to hold investments in a REIT without those investments being treated as Canadian real, immovable or resource property in determining whether the entity itself is a SIFT.

The proposed changes in its current form will allow the Trust to unambiguously qualify as a REIT for Canadian income tax purposes. However as at December 31, 2011, these changes were not considered substantively enacted in accordance with IFRS. Whether or not these proposed changes become substantively enacted, the Trust qualified as a REIT for Canadian income tax purposes commencing January 1, 2011, and has reversed its deferred tax liability related to the SIFT tax legislation as at that date. The deferred tax liability related to the SIFT tax legislation was approximately \$740.4 million under IFRS as at December 31, 2010. The Trust continued to qualify as a REIT throughout the 2011 year, and intends to continue qualifying as a REIT, under the current legislation, and has, therefore, not recorded a deferred tax liability as at December 31, 2011 related to the SIFT tax rules.

Until such time as these proposed amendments are enacted, Boardwalk REIT will continue with a cautious approach on the sale of Non-Core assets in order to continue qualifying for REIT exemption status under the existing rules. If the proposed amendments are substantively enacted in 2012, the Trust will be able to continue its strategy of selling Non-Core assets without the risk of losing its REIT exemption status.

On July 20, 2011, the Finance Department announced proposed changes to the SIFT regulations including the treatment of stapled securities (particularly the deductibility of interest expense related to these securities and the treatment of distributions relating to these units) and other minor technical updates. These changes are not expected to impact the Trust.

### Discontinued Operations

Previously under Canadian GAAP, the sale of a single investment property by the Trust met the definition of a "discontinued operation" and was disclosed as such on the Trust's financial statements.

However, in accordance with IFRS 5, the sale of a single investment property does not qualify as a component sale and, therefore, Boardwalk is not required to classify the sale of a single building as a discontinued operation on the financial statements. The Trust did not sell any properties, which would qualify as "discontinued operations" under IFRS in 2010 or 2011.

For a list of property dispositions in 2010 and 2011, please refer to the section titled, "Dispositions" above.

### LP Class B Units and the Deferred Unit Compensation Plan

The LP Class B Units and the deferred unit-based compensation plan are classified as financial liabilities in accordance with IFRS standards and as a result are recorded at their fair value at each reporting date. As at December 31, 2011, the Trust used a closing price of \$50.44 based on the closing price of the TSX-listed Boardwalk REIT Trust Units to determine the fair value of these financial liabilities at that date. The total fair value of these units recorded on the Consolidated Statement of Financial Position at December 31, 2011 was \$225.7 million and a corresponding fair value loss of \$41.1 million was recorded on the Consolidated Statement of Comprehensive Income for the year ended December 31, 2011.

The deferred unit-based compensation plan had a fair value of \$7.0 million and a corresponding fair value loss of \$0.9 million was recorded on the consolidated statement of comprehensive income for the year ended December 31, 2011.

## FINANCIAL CONDITION

### Review of Consolidated Statements of Cash Flows

#### Operating Activities

##### *Cash Flow from Operations*

Boardwalk REIT prepares its financial statements in accordance with the recommendations of the Real Property Association of Canada ("REALpac") and the Canadian Institute of Chartered Accountants ("CICA"). REALpac has adopted a measurement called Funds From Operations ("FFO") to supplement net income or earnings as a measure of operating performance. This is considered to be a meaningful and useful measure of real estate operating performance. Boardwalk REIT's presentation of FFO is consistent with the definition provided by REALpac. This measurement is not necessarily indicative of cash that is available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. FFO does not represent cash flow from operations as defined by Canadian generally accepted accounting principles ("Canadian GAAP") or by IFRS. Boardwalk REIT considers FFO to be an appropriate measure of the performance of a publicly listed multi-family residential entity. In order to facilitate a clear understanding of the combined historical operating results of Boardwalk REIT, management feels FFO should be considered in conjunction with net earnings as presented in the audited consolidated financial statements. Boardwalk REIT's computation of FFO is highlighted above in the section titled, "FFO Reconciliations".

The reader is cautioned that Boardwalk REIT's calculation of FFO may be different from other real estate corporations or REITs and, as such, a straight comparison may not be warranted. For the fiscal period ended December 31, 2011, Boardwalk REIT reported total FFO of \$131.8 million, or \$2.52 per fully diluted Trust Unit. This represented an increase of 1.6% and 2.0%, respectively, compared to the \$129.7 million, or \$2.47 per fully diluted Trust Unit, reported for fiscal 2010. The increase is primarily due to rental revenue growth and interest expense savings.

#### FINANCING ACTIVITIES

##### *Distributions*

Boardwalk distributes payments on a monthly basis to its Unitholders. These payments are referred to as distributions. The distinct nature and classification of these payments are unique to each trust and the components of these distributions may have differing tax treatments. For fiscal 2011, the Trust declared regular distributions of \$94.0 million to its Unitholders compared to \$94.7 million for fiscal 2010 (please note a special distribution of \$26.3 million (\$24.1 million to REIT Unitholders and \$2.2 million to the LP Class B Unitholders) was also made in the third quarter of 2010).

##### *Financing of Revenue Producing Properties*

During the year ended December 31, 2011, the refinancing of existing properties totaled approximately \$109.9 million versus \$107.1 million for the year ended December 31, 2010. During the financing and refinancing process, Boardwalk REIT was able to decrease the weighted average interest rate on its mortgage and debt portfolio from 4.27% at December 31, 2010 to 4.14% at December 31, 2011.

##### *Acquisitions*

Due to the nature of multi-family residential real estate, the amount paid for apartment units may vary dramatically based on a number of parameters, including location, type of ownership (that is, free hold versus land lease) and type of construction. As required under IFRS, on acquisition, an analysis is performed on the mortgage debt assumed. The analysis focuses on the interest rates of the debt assumed. If it is determined that the in-place rates are materially below or above market rates, an adjustment is made to the book cost of the recorded asset. No mortgages were assumed in 2011 and 2010. Therefore, the adjustment for fiscal 2011 and 2010 was nil.

There were no new property acquisitions in 2011 and 2010.

### Capital Improvements

Boardwalk has a continuous capital improvement program with respect to its investment properties. The program is designed to extend their useful lives and meet tenant expectations, as well as meet health and safety regulations.

In 2011, Boardwalk REIT invested approximately \$73.7 million (comprised of \$69.3 million on its investment properties and \$4.5 million on property, plant and equipment) back into its properties in the form of project enhancements to upgrade existing suites, common areas, building exteriors and systems, compared to the \$73.3 million (\$69.3 million on its investment properties and \$4.0 million property, plant and equipment) invested in 2010. The amount of this investment will vary from year-to-year.

A significant part of Boardwalk's capital Improvement program relates to projects that are carried out by Boardwalk's Associates. This Internal capital program was initiated in 1996 as a way to create more value for the Trust. The Trust recognizes that there are certain efficiencies and economies of scale available from having Boardwalk Associates performing certain capital projects ourselves or "in-house". This results in the faster execution and greater control of these projects while at the same time eliminating the profit charged by third-party contractors. The Trust focuses on specific projects where there is the largest opportunity for value creation, like flooring and painting. Over the last few years, the Trust has intensified this focus of performing capital projects "in-house" rather than contracting such services out. Included In capital amounts is approximately \$19.8 million of on-site wages and salaries that have been incurred towards these projects, compared to \$19.5 million for 2010.

### Maintenance of Productive Capacity

The Trust has two separate areas in which capital is invested back into its residential buildings. These are referred to as 'maintenance capital expenditures' and 'stabilizing and value enhancing capital expenditures'.

Maintenance capital expenditures are funded from operating cash flows. These expenditures are deducted from FFO in order to estimate a sustainable amount (AFFO) that can be distributed to Unitholders. Maintenance capital expenditures include those expenditures that are not considered betterments, and relate more to maintaining the existing earnings capacity of our property portfolio. In contrast, stabilizing and value enhancing capital expenditures are more discretionary in nature and focus on increasing the productivity of the property, with the goal of increasing the FFO generated at that location. In addition, the Trust invests funds in its portfolio in the form of ongoing repairs and maintenance as well as on-site maintenance Associates. Both of these expenditures are designed to maintain the operating capacity of our assets.

The following table provides management's estimate of these expenditure categories.

<i>in \$000's, except for per suite amounts</i>	<b>12 Months Dec 31, 2011</b>	<b>Per Suite</b>	<b>12 Months Dec 31, 2010</b>	<b>Per Suite</b>
Maintenance Capital Expenditures	\$ 15,875	\$ 450	\$ 16,119	\$ 450
Stabilizing & Value Enhancing Capital	\$ 53,390	\$ 1,513	\$ 53,170	\$ 1,484
	<b>\$ 69,265</b>	<b>\$ 1,963</b>	<b>\$ 69,289</b>	<b>\$ 1,934</b>

Items reported as capital are determined as investments in assets that have a useful life longer than the current reporting period. Management has estimated that for both fiscals 2011 and 2010, the amount allocated to maintenance capital was approximately \$16.0 million for each year, or \$450 per apartment unit, with investment in value-enhancing expenditures totaling \$53.4 million and \$53.2 million, respectively, or \$1,513 and \$1,484 per apartment unit.

If we compare the funds generated by the Trust after adjusting for the required maintenance capital expenditures, we note that the Trust is currently paying out an estimated 71.3% of reported FFO and 81.1% of AFFO for the year ended December 31, 2011, compared to 73.0% and 83.4% for the previous year.

(000's)	12 months Dec 31, 2011	12 months Dec 31, 2010
Funds From Operations (FFO)	\$ 131,808	\$ 129,728
Maintenance Capital Expenditures	\$ 15,875	\$ 16,119
Adjusted Funds From Operations (AFFO)	\$ 115,933	\$ 113,609
AFFO per unit (Trust and LP B Units)	\$ 2.22	\$ 2.16
Unitholder Distributions-Regular(Trust Units and LP B Units)	\$ 94,008	\$ 94,705
Distribution as a % of FFO	71.3%	73.0%
Distribution as a % of AFFO	81.1%	83.4%

Maintenance capital expenditures for our income-producing properties are dependent upon many factors, including but not limited to the number of suites, age and location of our properties and the Trust's policy of ongoing investment that results in safe and desirable apartments (for Customers and Associates).

## Review of Consolidated Statements of Financial Position

### Investment Properties

As a result of the Trust's transition to IFRS and its election to use the fair value model in accordance with IAS 40, Investment Properties are carried at their fair value at the reporting date.

External valuations were obtained from third-party appraisers (the "Appraisers") based on a cross section of properties from different geographical locations and markets across the Trust's rental portfolio as determined by management to corroborate the Trust's internal fair value calculation for its entire investment property portfolio. External appraisals were obtained as follows:

Date	Number of properties	Aggregate fair value	Percentage of portfolio as of that date
December 31, 2011	5	\$ 125,823	2.6%
September 30, 2011	5	238,580	5.1%
June 30, 2011	5	187,984	4.2%
March 31, 2011	11	776,987	18.0%

The fair value of the Trust's investment property portfolio was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. In addition to performing a valuation on a selection of Trust's properties (and not performing a valuation on all of the Trust properties) to compare to the Trust's internal valuation, the Appraisers provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations. Additional discussion related to the Valuation Process can be found in the section titled "Valuation Process" below.



The key valuation metrics for the Trust's investment properties are set out in the following tables:

As at	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
Capitalization rate by city:	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Calgary	5.25%	6.00%	5.75%	6.50%	6.00%	6.50%
Edmonton	5.50%	6.00%	6.00%	6.25%	6.25%	7.00%
Other Alberta	6.00%	7.75%	6.00%	8.25%	6.25%	8.50%
Vancouver	5.00%	6.50%	5.25%	6.75%	5.25%	7.25%
Kitchener	6.00%	6.00%	6.50%	6.50%	6.75%	6.75%
London	6.00%	6.25%	6.50%	6.75%	6.75%	7.00%
Windsor	6.75%	7.25%	7.25%	7.75%	7.25%	7.75%
Montreal	5.75%	6.75%	6.25%	7.25%	6.50%	7.50%
Quebec City	5.75%	6.25%	6.00%	6.50%	6.25%	7.50%
Regina	6.25%	6.50%	7.00%	7.25%	6.75%	7.00%
Saskatoon	6.25%	6.50%	7.00%	7.25%	6.75%	7.00%
	5.00%	7.75%	5.25%	8.25%	5.25%	8.50%
Land Lease	5.50%	11.50%	6.00%	11.75%	6.18%	11.66%

Overall portfolio weighted average capitalization rates were 5.91%, 6.41% and 6.64% as at December 31, 2011, December 31, 2010 and January 1, 2010, respectively.

The "Overall Capitalization Rate" method requires that a forecasted net operating income ("NOI") be divided by a Capitalization Rate ("cap rate") to determine a fair value. As such, fluctuations in both NOI and cap rates could significantly alter the fair value. Below summarizes the sensitivity impact of changes in both cap rates and NOI on the Trust's fair value of its investment properties as at December 31, 2011:

As at Dec 31, 2011 (in 000's)

Net Operating Income	-3%	-1%	As Forecasted	+1%	+3%
	\$ 274,820	\$ 280,486	\$ 283,319	\$ 286,152	\$ 291,819
Capitalization Rate					
-0.25%	5.66%	\$ 61,575	\$ 161,688	\$ 211,744	\$ 261,801
Cap Rate As Reported	5.91%	(143,817)	(47,939)	4,793,895	47,939
+0.25%	6.16%	(332,538)	(240,551)	(194,557)	(148,564)
					(56,577)

Investment property with a fair value of \$452.6 million as at December 31, 2011 (\$391.9 million – December 31, 2010, \$380.6 million – January 1, 2010) is situated on land held under a ground lease. Investment properties do not include any buildings held under operating leases.

Investment properties with a fair value of \$587.3 million as at December 31, 2011 (December 31, 2010 – \$528.0 million, January 1, 2010 – \$489.0 million) are pledged as security against the Trust's committed revolving credit facility. In addition, investment properties with a fair value of \$4.5 billion as at December 31, 2011 (December 31, 2010 – \$4.1 billion, January 1, 2010 – \$3.8 billion) are pledged as security against the Trust's mortgages payable.

For the year ended December 31, 2011, the Trust capitalized \$69.3 million in building improvements and recorded a fair value gain of \$406.4 million on its financial statements as a result of changes in the fair value of investment properties. Capitalized building improvements represent expenditures that provide future benefits to the Trust for a period greater than twelve months, some of which may not be immediately reflected in the fair value of the investment properties, under IFRS, for the current reporting period.

## Capital Structure and Liquidity

Liquidity refers to the Trust's ability to generate and have available sufficient cash to fund our ongoing operations and capital commitments as well as its distributions to Unitholders. Generally, distributions are funded from FFO. However, in common with the majority of real estate entities, we rely on lending institutions for a significant portion of capital required to fund mortgage principal payments, capital expenditures, acquisitions, unit buybacks and repayment of maturing debt. Over the past number of years, Boardwalk has observed a significant increase in borrowing standards of many of our key lending partners as a result of heightened sensitivity to possible weaknesses in the economy. Although, it appears we are beginning to see an improvement in the overall economy, Boardwalk has yet to witness a significant change in these more stringent standards.

To mitigate the risk of renewal, the Trust utilizes NHA mortgage insurance, the benefits of which we discussed in detail above. In volatile times, the ability to access this product was very beneficial to the Trust as a whole.

The Trust's current liquidity position remains stable as the following table highlights:

Cash position December 31, 2011	\$ 255,900,000
Subsequent Committed Additional Financing	\$ 20,100,000
Repayment of Unsecured Debenture, January 23, 2012	\$ (112,405,000)
	\$ 163,595,000
Committed Revolving Credit Facility Available	\$ 196,077,000
Total Available Liquidity	\$ 359,672,000

In addition to this, the Trust currently has 2,707 rental apartment units of unencumbered assets, of which 855 units are pledged against the Trust's committed revolving credit facility. It is estimated that the Trust could obtain an additional \$191.0 million of new proceeds from the financing of its current unencumbered assets.

Approximately 99% of Boardwalk REIT's secured mortgages carry NHA insurance. Maturing mortgages that already have commitments are at interest rates that are lower than their existing (maturing) interest rates.

The reader should also be aware that of the \$465.1 million of secured mortgages (excluding the unsecured debentures) coming due in 2012 (as shown in the table below), all has NHA insurance and represent in aggregate approximately 49% of current estimated "underwriting" values on those individual secured assets. Currently, interest rates on NHA insured mortgages are well below the reported 4.69%. The reader, however, is cautioned that these rates do fluctuate and by the time these maturing mortgages are set for renewal, with or without additional financing, interest rates may have changed materially.

Even with the NHA insurance program attached its secured mortgages, the Trust is still susceptible to changes in market interest rates. To address this issue, and to take advantage of the current low-interest rate environment, the Trust has undertaken to forward fix the interest rates on approximately \$238.6 million of the \$465.1 million of 2012 maturing mortgages. The new interest rates, including the forward fix premium, average 3.15% as compared to the 4.62% rate on the maturing mortgages.

## Mortgages and Debt Schedule

Boardwalk REIT's long-term debt consists mainly of low-rate, fixed-term secured mortgage financing and unsecured debentures. The maturity dates on the secured mortgages have been staggered to lower the overall interest rate risk on renewal.

Total mortgages payable (net of unamortized transaction costs) on December 31, 2011 were \$2.33 billion, compared to \$2.27 billion reported on December 31, 2010.

Boardwalk REIT's overall weighted average interest rate on its long-term debt has decreased from the prior year. The weighted average interest rate on December 31, 2011 was 4.14% compared to 4.27% on December 31, 2010. To better maintain cost effectiveness and flexibility of capital, Boardwalk REIT continuously monitors short and long-term interest rates. If the environment warms, the Trust will convert short-term, floating rate debt, if any, to longer term, fixed rate mortgages.

Year of Maturity	Principal Outstanding as Dec 31, 2011	Weighted Average Interest Rate By Maturity	% of Total
2012*	\$ 577,534	4.87%	23.87%
2013	286,152	4.51%	11.82%
2014	425,734	3.51%	17.59%
2015	453,473	3.71%	18.74%
2016	270,545	3.94%	11.18%
2017	139,705	3.63%	5.77%
2018	94,307	3.89%	3.90%
2019	76,085	5.09%	3.14%
2020	55,479	4.48%	2.29%
2021	33,545	4.26%	1.39%
2022	7,515	3.47%	0.31%
<b>Total Principal Outstanding</b>	<b>\$ 2,420,074</b>	<b>4.14%</b>	<b>100.00%</b>
Unamortized Deferred Financing Costs	\$ (88,953)		
<b>Per Financial Statements</b>	<b>\$ 2,331,121</b>		

\* Includes Unsecured Debenture of \$112.4 million

As of February 3, 2012, the Trust retired the \$112.4 million of Unsecured debentures and renewed \$239 million of the \$465.1 million of secured mortgages maturing in 2012. This represents approximately 61% of the total debt maturing in fiscal 2012. On the renewed portion of the secured debt, the new weighted average interest rate was 3.15% as compared to the maturing rate of 4.62%. The weighted average term on these renewals was eight (8) years.

### Unsecured 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 were rated "BBB" with a stable trend by Dominion Bond Rating Services, carried a coupon rate of 5.61% (5.31% prior to July 30, 2008) and matured on January 23, 2012. 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 is being accounted for over the seven-year term of the unsecured debentures.

During the first quarter of 2009, the Trust acquired a total face value of \$7.6 million of its unsecured debentures for cancellation at a discount in the open market. There have been no debenture buybacks since the first quarter of 2009.

Boardwalk had a principal repayment of \$112.4 million of unsecured debentures that matured on January 23, 2012 and was settled with the Trust's cash on hand. With the principal repayment of the unsecured debenture less than 1 month away from the December 31, 2011 year-end date, the Trust has classified the unsecured debenture as a current liability on the Trust's classified Consolidated Statement of Financial Position. The presentation of a classified Consolidated Statement of Financial Position was adopted by the Trust upon its conversion to IFRS. Previously under Canadian GAAP, Boardwalk's consolidated statement of financial position was presented using a reverse liquidity presentation approach.

### Credit Rating

Dominion Bond Rating Services ("DBRS") provides credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to very highly speculative (generally C). DBRS has provided Boardwalk with a credit rating of BBB with a stable trend relating to the unsecured debentures. A credit rating in the BBB category is generally an indication of adequate credit and investment quality as defined by DBRS. A rating outlook, expressed as a positive, stable or negative trend, provides an opinion regarding the likely direction of any medium term

rating actions. The credit rating accorded to the debentures is not a recommendation to purchase, hold or sell the debentures. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating, as well as the stability rating described below, was reviewed periodically with DBRS. More information regarding the credit ratings of DBRS can be found on their website at: <http://www.dbrs.com>. As was previously noted, as of January 23, 2012, the Trust retired the unsecured debentures in full.

### Stability Rating

DBRS provides stability ratings for real estate investment trusts. DBRS assigned a stability rating of STA-3 (high) to the Trust. This stability rating is based on a rating scale developed by DBRS that provides an indication of both the stability and sustainability of a real estate investment trust's distributions per unit. Rating categories range from STA-1 to STA-7, with STA-1 being the highest. DBRS further separates the ratings into high, middle and low to indicate where within the ratings category they fall. Ratings take into consideration seven main factors of (i) operating and industry characteristics, (ii) asset quality, (iii) financial flexibility, (iv) diversification, (v) size and market position, (vi) sponsorship/governance, and (vii) growth. In addition, consideration is given to specific structural or contractual elements that may eliminate or mitigate risks or other potential negative factors. Income funds rated STA-3 (high) are considered by DBRS to be investment quality and have good stability and sustainability of distributions per unit. A stability rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal by DBRS at any time. More information regarding the stability ratings of DBRS can be found on their website at: <http://www.dbrs.com>.

### Adjusted Debt to Gross Book Value

Notwithstanding the Trust's current liquidity situation, Boardwalk's liquidity and access to capital resources is constrained by certain tests that have been adopted in both its Declaration of Trust, as well as in its Unsecured Debentures Trust Indenture. The most constraining to date is what is referred to as its Debt-to-Gross Book Value.

As previously noted, Boardwalk's adoption of IFRS standards have affected the calculation of the test. The adoption of the fair value model to value its investment properties allows the Trust to record and adjust these properties to their current fair value at each reporting date. Given that investment properties are reflected at their most recent fair value, this eliminates the need to include the conversion adjustment "bump" of \$641 million as part of the Debt to GBV calculation. The basis for the inclusion of this "bump" under Canadian GAAP was that the amount represented approximately one-half of the Trust's true enterprise value of its investment properties. Under Canadian GAAP, these investment properties were recorded at their net book value, which was not, generally, reflective of the true value of these assets. The implementation the fair value model approach for investment properties now reflects a truer value of these asset, eliminating the need for an adjustment "bump" as part of this calculation.

In addition, with the adoption of a fair value model for investment properties, the DOT stipulates that the Debt-to-GBV percentage threshold shall not exceed 70%.

The DOT excludes the LP Class B Units and the deferred unit compensation plan, both of which are considered financial liabilities under IFRS, in the definition of Debt for the purpose of the Debt-to-GBV calculation.

The following table sets out the Trust's Debt-to-Gross Book Value calculation as at December 31, 2011 with a comparison to the calculation as at December 31, 2010. The reader should note that the calculation below is based on the application of IFRS standards as at January 1, 2010:

(\$000's)	Dec 31, 2011	Dec 31, 2010
Total reported assets	\$ 5,089,023	\$ 4,585,925
Reported amortization	34,190	30,739
	\$ 5,123,213	\$ 4,616,664
Mortgages payable	\$ 2,218,731	\$ 2,153,206
Debentures	112,390	112,211
	\$ 2,331,121	\$ 2,265,417
Debt to GBV	45.5%	49.1%
DOT Limit	70%	70%

The Unsecured Debenture Trust Indenture considers in the calculation of Debt-to-GBV those items classified as debt in accordance with Canadian GAAP as at January 21, 2005. Consequently, although the LP B Units and deferred unit compensation plan are now classified as debt under IFRS standards, they were previously classified as equity in accordance with Canadian GAAP standards as at January 21, 2005. As a result, these items have been excluded in the calculation of Debt to GBV for determining compliance with this agreement. However, the debt covenant threshold for the Debt-to-GBV as it applies to the Unsecured Debentures Trust Indenture was reduced from 70% under Canadian GAAP to 60% under IFRS.

For the year ended December 31, 2011, Boardwalk REIT's overall interest coverage ratio of adjusted EBITDA (i.e. Earnings Before Interest, Taxes, Depreciation and Amortization) to interest expense, excluding fair value gains and losses, was 2.42 as compared to 2.34 for the previous year. The reader should note that upon the adoption of IFRS standards, the distributions made to the LP Class B Unitholders are now considered financing charges, as a result of the reclassification of these units as financial liabilities. The calculation of the interest coverage ratio above does not include these distribution payments in the calculation of interest expense.

### Unitholders' Equity

The following table discloses the changes in REIT Trust Units issued and outstanding:

Summary of Unitholders' Capital Contributions	Units
January 1, 2010	48,269,467
Units issued for vested deferred units	45,066
Units purchased and cancelled	(423,400)
December 31, 2010	47,891,133
Units issued for vested deferred units	59,259
Units purchased and cancelled	(160,900)
<b>December 31, 2011</b>	<b>47,789,492</b>

Boardwalk REIT has one class of publicly traded voting securities known as "REIT Units". As at December 31, 2011, there were 47,789,492 REIT Units issued and outstanding. In addition, there were 4,475,000 special voting units Issued to holders of "Class B Units" of Boardwalk REIT Limited Partnership ("LP B Units"), each of which also has a special voting unit in the REIT. Each LP B Unit is exchangeable for a REIT Unit on a one-for-one basis at the option of the holder. Each LP B Unit through the special voting unit entitles the holder to one vote at any meeting of Unitholders. Accordingly, if all of the LP B Units were exchanged for REIT Units, the total issued and outstanding REIT Units would be 52,264,492. These LP Class B Units are classified as "FVTPL" financial liabilities under IFRS and are recorded at their fair value as liabilities on the Consolidated Statement of Financial Position.

### Equity

Boardwalk has an equity market capitalization of approximately \$2.6 billion based on a unit closing price of \$50.44 on the Toronto Stock Exchange on December 31, 2011.



## ENTERPRISE VALUE

With a total enterprise value of approximately \$5.0 billion (consisting of total debt of \$2.4 billion and market capitalization of \$2.6 billion) as at December 31, 2011, Boardwalk's total debt is approximately 48% of total enterprise value at the end of the year.

## RISKS AND RISK MANAGEMENT

Boardwalk REIT, like most real estate rental entities, is exposed to a variety of risk areas. These areas are categorized between general and specific risks. General risks are the risks associated with general conditions in the real estate sector, and consist mainly of commonly exposed risks that affect the real estate industry. Specific risks focus more on risks uniquely identified with the Trust, such as credit, market, liquidity and operational risks. The following will address each of these risks. In addition, this section should be read in conjunction with the Trust's AIF dated February 16, 2012, with reference to page 34 where additional risks and their related management are also noted.

### General Risks

**Real Estate Industry Risk:** Real estate investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations (such as new or revised residential tenant legislation), the attractiveness of the properties to tenants, competition from others with available space and the ability of the owner to provide adequate maintenance at an economic cost. Currently, we operate in Canada, in the provinces of Alberta, British Columbia, Saskatchewan, Ontario and Quebec. Neither of Alberta and Saskatchewan is subject to rent control legislation; however, under Alberta legislation a landlord is only entitled to increase rents once every twelve months. A more detailed discussion on rent controls will follow in a later section.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. Boardwalk REIT's properties are subject to mortgages, which require significant debt service payments. If the Trust were unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. Real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners resulting in distress sales may depress real estate values in the markets in which the Trust operates.

**Multi-Family Residential Sector Risk:** Income producing properties generate income through rent payments made by tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to us than the existing lease. To mitigate this risk, the Trust does not have any one or small group of significant tenants. Each operating lease signed is for a period of twelve months or less. The Trust is dependent on leasing markets to ensure vacant residential space is leased, expiring leases are renewed and new tenants are found to fill vacancies. While it is not expected that markets will significantly change in the near future, a disruption in the economy could have a significant impact on how much space tenants will lease and the rental rates paid by tenants. This would affect the income produced by our properties as a result of downward pressure on rents.

**Environmental Risks:** As an owner and manager of real property, Boardwalk REIT is subject to various Canadian federal, provincial, and municipal laws relating to environmental matters. These laws could encumber us with liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect Boardwalk's ability to sell its real estate, or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against Boardwalk REIT. Boardwalk REIT is not aware of any material non-compliance with environmental laws at any of its properties. The Trust is also not

aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. Boardwalk REIT has formal policies and procedures to review and monitor environmental exposure. The Trust has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on our business, financial condition or results of operation.

**Ground Lease Risk:** Five of our properties, located in Banff, Calgary, Edmonton, and two in Montreal, are subject to long-term ground leases and similar arrangements in which the underlying land is owned by a third party and leased to the Trust. Under the terms of a typical ground lease, the lessee must pay rent for the use of the land and is generally responsible for all costs and expenses associated with the building and improvements. Unless the lease term is extended, the land together with all improvements made will revert to the owner of the land upon the expiration of the lease term. These leases are set to expire between 2028 and 2096. The ground lease for the largest Montreal property, known as the Nuns' Island portfolio is also subjected to a rent revision clause, which commenced on December 1, 2008 (based on a valuation date of March 16, 2008). It is phased in on a property-by-property basis through to 2015, and is based on 75% of the land value in its current use. After that revision, the land rent will remain constant thereafter through to 2064. An event of default by us under the terms of a ground lease could also result in a loss of the property subject to such ground lease should the default not be rectified in a reasonable period of time. The Trust is not aware of any default under the terms of the ground leases.

**Competition Risk:** Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners, compete in seeking tenants. Although it is our strategy to own multi-family properties in premier locations in each market in which it operates, some of the apartments of our competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on our ability to lease space in its properties and on the rents charged or concessions granted, and could adversely affect Boardwalk REIT's revenues and its ability to meet its obligations.

**General Uninsured Losses:** Boardwalk REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as war or environmental contamination), which are either uninsurable or not economically insurable. Boardwalk REIT currently has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, Boardwalk REIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, and would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

**Fluctuations of Cash Distributions:** Although Boardwalk REIT intends to continue to make distributions, the actual amount of distributions in respect of the REIT Units will depend upon numerous factors, including, but not limited to, the amount of principal repayments, tenant allowances, leasing commissions, capital expenditures and REIT Unit redemptions and other factors that may be beyond the control of Boardwalk REIT. The distribution policy of Boardwalk REIT is established by the Trustees and is subject to change at the discretion of the Trustees. The recourse of Unitholders who disagree with any change in policy is limited and could require such Unitholders to seek to replace the Trustees. Distributions may exceed actual cash available to Boardwalk REIT from time to time because of items such as principal repayments, tenant allowances, leasing commissions, capital expenditures, and redemption of REIT Units, if any. Boardwalk REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. Boardwalk REIT may temporarily fund such items, if necessary, through an operating line of credit in expectation of refinancing long-term debt on its maturity.

### Workforce Availability

Boardwalk's ability to provide services to its existing Customers is somewhat dependent on the availability of well-trained Associates and contractors to service our Customers as well as complete required maintenance and capital upgrades on our buildings. The Trust must also balance requirements to maintaining adequate staffing levels while balancing the overall cost to the Trust.

Within Boardwalk, our most experienced Associates are employed full-time while supplementing these with additional part-time Associates and as well as contracting out specific service needs of the Trust. We are constantly reviewing existing overall market factors to ensure that our existing compensation program is in-line with existing levels of responsibility and if warranted adjusting the program accordingly. We also encourage Associate feedback in these areas to ensure the existing programs are meeting their personal needs.

### Specific Risks

***Credit Risk** is the risk of loss due to failure of a contracted Customer to fulfill the obligation of required payments.*

For us, one of the key credit risks involves the possibility that our Customers will be unable or unwilling to fulfill their lease term commitments. Due to the very nature of the multi-family business, credit risk is not deemed to be very high. The Trust currently has 35,277 rental apartment units. The result of this is that we are not unduly reliant on any one Customer or lease. To further mitigate this risk, Boardwalk REIT continues to diversify its portfolio to various major centers across Canada. Further, each of our rental units has its own individual lease agreement, thus Boardwalk REIT has no material financial exposure to any particular Customer or group of Customers. The Trust continues to utilize extensive screening processes for all potential Customers including, but not limited to, detailed credit checks.

***Market Risk** is the risk that the Trust could be adversely affected due to market changes in product supply, interest rates and regional rent controls.*

Our principal exposures to market risk are in the areas of new multi-family housing supply, changes to rent controls, utility price increases, property tax increases, higher interest rates and mortgage renewal risk.

***Supply Risk** is the risk that the Trust would be negatively affected by the new supply of, and demand for, multi-family residential units in its major market areas.*

Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents. No signs of significant new rental construction are currently evident in any of our existing markets. Studies have shown that in order to economically justify new rental construction in Boardwalk REIT's major markets, an increase in existing rental rates of hundreds of dollars will be necessary. However, in certain market areas such as Calgary, Alberta there has been a significant increase in the number of new condominiums constructed over the past few years. Although these normally are earmarked as owner-occupied properties, a significant number of these condominium units have been, or may be, converted to rental stock.

### Risk Management for Supply

Our performance will always be affected by the supply and demand for multi-family rental real estate in Canada. The potential for reduced rental revenue exists in the event that Boardwalk REIT is not able to maintain its properties at a high level of occupancy, or in the event of a downturn in the economy, which could result in lower rents or higher vacancy rates. Boardwalk REIT has minimized these risks by:

- ▲ Increasing Customer satisfaction;
- ▲ Diversifying its portfolio across Canada, particularly with the recent expansion into the eastern market, thus lowering its exposure to regional economic swings;

- ▲ Acquiring properties only in desirable locations, where vacancy rates for properties are higher than city-wide averages but can be reduced by repositioning the properties through better management and selective upgrades;
- ▲ Holding a balanced portfolio which includes a variety of multi-family building types including high-rise, townhouse, garden and walkups, each with its own market niche;
- ▲ Maintaining a wide variety of suite mix, including bachelor suites, one, two, three and four-bedroom units;
- ▲ Building a broad and varied Customer base, thereby avoiding economic dependence on larger-scale tenants;
- ▲ Focusing on affordable multi-family housing, which is considered a stable commodity;
- ▲ Developing a specific rental program characterized by rental adjustments that are the result of enhanced service and superior product; and
- ▲ Developing regional management teams with significant experience in the local marketplace, and combining this experience with our existing operations and management expertise.

***Interest Risk** is the combined risk that the Trust would experience a loss as a result of its exposure to a higher interest rate environment (Interest Rate Risk) and the possibility that at the term end of a mortgage the Trust would be unable to renew the maturing debt with either the existing or an additional lender (Renewal Risk).*

With the current world economic and financial crisis, there is a heightened risk that not only will existing maturing mortgages be subject to increased interest rate changes but also the distinct possibility that maturing mortgages will themselves not be able to be renewed, or if they are at significantly lower loan to value ratios. The Trust continues to manage this risk by maintaining a balanced maturing portfolio with no significant amount coming due in any one particular period. In addition, the majority of Boardwalk REIT's debt is insured with NHA insurance. This insurance allows us to increase the overall credit quality of the mortgage and, as such, enable the Trust to obtain preferential interest rates.

The use of NHA insurance also assists Boardwalk REIT in managing its renewal risk. Given the increased credit quality of such debt, the probability of the Trust being unable to renew the maturing debt or transfer this debt to another accredited lending institution is significantly reduced.

To date, the Trust has had no problem obtaining mortgage renewals on term maturing loans and additional funds, if needed, continue to be available on its investment properties. Although we have seen a significant increase in the quoted interest spread over the corresponding benchmark bonds, the all-in quoted rates, due to the significant decrease in the benchmark bonds, continues to be at levels well below the term maturing interest rate and as such are accretive to the Trust as a whole.

We continue to monitor this situation on a daily basis and may adjust our strategy given market conditions.

### Credit Ratings

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. The credit ratings accorded to the Trust's unsecured debentures are not a recommendation to purchase, hold or sell the debentures inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that these ratings will remain in effect for any given period of time or that these ratings will not be revised or withdrawn entirely by DBRS in the future if in its judgment circumstances are so warranted. Real or anticipated changes in credit ratings on the debentures may affect the market value of the debentures. In addition, real or anticipated changes in credit ratings can affect the cost at which Boardwalk can access the debenture market.

### Structural Subordination

Liabilities of a parent entity with assets held by various subsidiaries may result in the structural subordination of the lenders of the parent entity. The parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries

are discharged. In the event of a bankruptcy, liquidation or reorganization of the Trust, holders of indebtedness of the Trust may become subordinate to lenders to the subsidiaries of the Trust.

Certain of the subsidiaries of the Trust will provide a form of guarantee pursuant to which the Indenture Trustee will, subject to the Trust Indenture, be entitled to seek redress from such subsidiaries for the guaranteed indebtedness. These guarantees are intended to eliminate structural subordination, which arises as a consequence of the Trust's assets being held in various subsidiaries. Although all subsidiaries, which own material assets, will provide a guarantee, not all subsidiaries of the Trust will provide such a guarantee. In addition, there can be no assurance that the Indenture Trustee will, or will be able to, effectively enforce the guarantee.

**Rent Control Risk** is the risk of the implementation or amendment of new or existing legislative rent controls in the markets Boardwalk REIT operates, which may have an adverse impact on the Trust's operations.

Under Ontario's rent control legislation, commonly known as "rent de-control", a landlord is entitled to increase the rent for existing tenants once every twelve months by no more than the "guideline amount" established by regulation. For the calendar years 2010 and 2011, the guideline amounts have been established at 2.1% and 0.7%, respectively, and for 2012 the guideline amount has been set at 3.1%. Further details on Ontario's Annual Rental Increase Guidelines can be found at <http://www.ontariotenants.ca/research/rent-increase.html>. This adjustment is meant to take into account the income of the building and the municipal and school taxes, the insurance bills, the energy costs, maintenance and service costs. Landlords may apply to the Ontario Rental Housing Tribunal for an increase above the guideline amounts if annual costs for heat, hydro, water or municipal taxes have increased significantly or if building security costs have increased. When a unit is vacated, however, the landlord is entitled to lease the unit to a new tenant at any rental amount, after which annual increases are limited to the applicable guideline amount. The landlord may also be entitled to a greater increase in rent for a unit under certain circumstances, including, for example, where extra expenses have been incurred as a result of a renovation of that unit.

British Columbia has a similar rent control regime to Ontario's, with the guideline amounts there being two percent (2%) over annual inflation. For 2010 and 2011, this guideline amount has been set at 3.2% and 2.3%, respectively, and for 2012 the guideline amount is 4.3%. Further details on British Columbia's Annual Rental Increase Guidelines can be found at <http://www.rto.gov.bc.ca/content/news/default.aspx>.

Under Quebec's rent control legislation, a landlord is entitled to increase the rent for existing tenants once a year for the rent period starting after April 1st of the current year but before April 1st of the following year. There is no fixed rate increase specified by the regulation. Rent increases also take into account a return on capital expenditures (for 2012 this return is 2.9% compared to 3.0% for 2011, 2.9% for 2010 and 4.0% for 2009), if such expenditures were incurred, and an indexing of the net income of the building. Average rent increase estimates for the period starting after April 1st, 2012 and before April 2nd, 2013, before any consideration for increases to municipal and school taxes and capital expenditures, are: 0.7% for electricity heated dwellings, 0.0% for gas heated dwellings, 3.6% for oil heated dwellings and 0.6% for non-heated dwellings.

Presently, rent control legislation does not exist in, and is not planned for, Alberta or Saskatchewan although in April of 2007 the province of Alberta amended its existing rental legislation the details of which will be discussed in more detail later in this document.

To manage this risk prior to entering a market where rent controls are in place, an extensive amount of time is spent researching the existing rules and, where possible, the Trust will ensure it employs Associates who are experienced in working in these controlled environments. In addition, the Trust adjusts forecast assumptions on new acquisitions to ensure they are reasonable given the rent control environment.

**Utility and Property Tax Risk** relates to the potential loss the Trust may experience as a result of higher resource prices and well as its exposure to significant increases in property taxes.



Over the past few years, property taxes have increased as a result of re-valuations of municipal properties and their adherent tax rates. For us, these re-valuations have resulted in significant increases in some property assessments due to enhancements, which are not represented on our balance sheet (as such representations are contrary to existing GAAP reporting standards). To address this risk, Boardwalk REIT has compiled a specialized team of property reviewers who, with the assistance of outside authorities, constantly review property tax assessments and, where warranted, appeal them.

Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that Boardwalk REIT cannot pass on to the Customer may have a negative material impact on the Trust. To mitigate this risk, the Trust (and its predecessor) has begun to play a more active role in controlling the fluctuation and predictability of this risk. Through the combined use of financial instruments and resource contracts with varying maturity dates, exposure to these fluctuations has been reduced. In addition to this, the following steps have been implemented:

- ▲ Where possible, economical electrical sub-metering devices are being installed, passing on the responsibility for electricity charges to the end Customer.
- ▲ In other cases, rents have been, or will be, adjusted upward to cover these increased costs.

Operational Risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings.

The Trust endeavors to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and improvements are implemented, if deemed necessary.

## Additional Risks and Uncertainties

### Alberta Rental Legislation

On April 24, 2007, the Alberta Provincial Government announced its intention to alter the existing legislation with respect to rental accommodation in Alberta. Bill 34 was tabled to the Alberta Legislature on May 2, 2007. The most significant changes to the legislation focused on two key areas, the first being the number of rental increases that an owner could issue to a renter on an annual basis and the second being the notice period required if an owner is contemplating a significant renovation or condominium conversion.

***Rental increases limited to once per year:*** the legislation stipulates that an owner may increase existing renters' rents no more than one time per year; previously, owners were able to increase rents once every six months, or twice per year. It should be noted that in this legislation, there is no limitation placed on how much rents can increase to these renters.

***Notice for extensive renovations or condominium conversion:*** the legislation introduced limitations on an owner that wishes to convert an existing rental property to a condominium. Under the legislation, an owner is required to give the existing tenants a notice of one year and, during the one year period, the owner will not be able to increase the said rents at any time during the notice period. Previous legislation required only a notice period of six months and there was no limitation as to rental increases other than existing rental increase laws.

It should be emphasized that there have been no changes or limitations as to the market rents charged in Alberta. Thus, this implies that there are no new limitations placed on the amounts charged to new renters renting from Boardwalk REIT.

These legislative changes came into effect on April 24, 2007.

### Impact on Boardwalk REIT

Boardwalk REIT currently has over 50% of its rental portfolio in Alberta and, as such, any change to existing legislation needs to be reviewed and any impact considered. It is currently Boardwalk REIT's internal policy to increase the rents of existing Customers by

no more than \$150 over a one-year period; again, the same limitation does not apply to new Customers. The Trust's previous policy was to implement the \$150 maximum over two equal installments of \$75 every six months. The legislation now limits Boardwalk REIT to one increase per year and, as such, the Trust would therefore increase the in-place rents a maximum of \$150 once per year. The Trust also now offers the renter a fixed twelve-month lease with this rent in-place.

### **New Alberta Royalty Framework**

On March 11, 2010, the Alberta Government released a new policy with respect to the Royalty Policy relating to the oil and gas production in the Province of Alberta. The new policy proposes to decrease the royalties charged on oil and gas on a sliding scale basis based on the price of the related commodity. The new scale will now decrease the maximum royalty on natural gas from approximately 50% to 36%, and from 50% to 40% on conventional oil. For more details on this policy, we refer you to the following link: [http://www.energy.gov.ab.ca/About\\_Us/Royalty.asp](http://www.energy.gov.ab.ca/About_Us/Royalty.asp).

### *Impact on Boardwalk REIT*

Although Boardwalk is not a direct investor in the Oil and Gas market, it has been a delayed and indirect beneficiary of the continued investment in the Oil and Gas Industry in Alberta. Investment in this area has spearheaded continued economic growth for the province and is a major contributor to the increased net migration the province has experienced over the past few years. The increased migration has helped Boardwalk, as it has resulted in increased demand for rental apartments. Although it is still too early to predict the longer term impact of this new policy and potential decrease in the amount of direct investment in the province, the Trust will be monitoring the situation on an ongoing basis and alter existing policies to minimize the financial impact.

## **Certain Tax Risks**

### **Mutual Fund Trust Status**

Boardwalk currently qualifies as a mutual fund trust for Canadian income tax purposes. It is the current policy of Boardwalk to annually distribute all of its taxable income to Unitholders and, thus, is generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, Boardwalk is required to comply with specific restrictions regarding its activities and the investments held by it. If Boardwalk was to cease to qualify as a mutual fund trust, the consequences could be adverse.

In accordance with the Income Tax Act (Canada) (the "Tax Act") and based on a detailed review of the legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation"), at December 31, 2010 it may be interpreted that the Trust does not qualify as a 'real estate investment trust', which would be exempt from the specified investment flow-through ("SIFT") rules and would become subject to tax on its income pursuant to the new legislation, which becomes effective January 1, 2011.

The Trust recorded a future tax liability on June 30, 2007 based on it being subject to the tax prescribed by the SIFT rules on the effective date of June 22, 2007. This future tax liability has been adjusted each quarter up to and including December 31, 2010.

The definition of a "SIFT trust" specifically excludes a trust that is a "real estate investment trust" for the taxation year, which is defined under the SIFT rules as a trust that is resident in Canada and that satisfies all of the following criteria:

- (a) the trust at no time in the taxation year holds any non-portfolio property other than real or immovable properties situated in Canada;
- (b) the total of the trust's revenue for the taxation year from rent, interest, dividends and its taxable capital gains from dispositions of real or immovable properties in the taxation year is not less than 95% of its income for the taxation year;
- (c) the total of the trust's revenues for the taxation year that are directly or indirectly attributable to real or immovable properties situated in Canada or to mortgages, or hypothecs, on real or immovable properties situated in Canada, and its taxable capital gains from dispositions of real or immovable properties situated in Canada, is not less than 75% of its income for the taxation year; and

- (d) at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property situated in Canada, cash, or a property described in clause 212(1)(b)(ii)(C) of the Tax Act, less than 75% of the equity value of the trust at that time.

For this purpose, "real or immovable property" includes a security of any trust, corporation or partnership that itself satisfies the above criteria, but does not include any depreciable property of a prescribed class for which the rate of capital cost allowance exceeds 5%.

If Boardwalk REIT, or any other trust, does not qualify under these new rules as a real estate investment trust, commencing January 1, 2011, it will no longer be able to deduct for tax purposes its taxable distributions and, as such, will be required to pay tax on this amount prior to distribution. Any amount distributed that is determined to be a return of capital would not be subject to this tax.

On December 20, 2007, the Government of Canada announced its intention to make technical amendments to the Tax Act, in particular, amendments clarifying the definition of a 'real estate investment trust', which is exempt from the specified investment flow-through ("SIFT") rules. In particular, it is proposed that revenue of a subsidiary trust will be treated as revenue from real property. On March 12, 2009, these technical amendments received Royal Assent, and therefore considered substantively enacted under IFRS. This Bill clarifies the definition of and criteria for being a 'real estate investment trust' within the meaning of the Tax Act, including the definition of what is considered 'rent from real or immovable properties'. However, the Trust has still did not obtain clear interpretation from the Government of Canada of the treatment of gains generated from the sale of real or immovable properties once it flows through from one trust entity to another trust. In other words, do such gains lose their characteristics as they flow from trust to trust and, no longer qualify as part of the allowable 95% income as noted in point (b) above? If such gains do lose its characteristics and are significant enough, the Trust would not qualify as a 'real estate investment trust' for Canadian Income tax purposes.

On December 16, 2010, the Department of Finance released draft legislation providing further guidance on the characteristics of gains on disposition of real or immovable property as well as the characteristic and treatment of recapture as it flows through the Trust's organizational structure. In addition, the draft legislation outlined that the SIFT rules would allow a REIT to derive up to 10% of its revenues from sources that are not qualifying sources. The December 16, 2010 draft legislation cleared up many of the questions the Trust had in the implementation of its existing strategy including the treatment of income generated on the sale of investment property. However, until such time as this draft legislation is substantially enacted by the Canadian Parliament, it does not become law.

On July 20, 2011, the Finance Department announced proposed changes to the SIFT regulations including the treatment of stapled securities (particularly the deductibility of interest expense related to these securities and the treatment of distributions relating to these units) and other minor technical updates. These changes are not expected to impact the Trust's consolidated financial statements.

The proposed changes (specifically those from December 2010) in its current form will allow the Trust to unambiguously qualify as a REIT for Canadian income tax purposes. However as at December 31, 2011, these changes were not considered substantively enacted in accordance with IFRS. Whether or not these proposed changes become substantively enacted, the Trust does qualified, and will continue to qualify, as a REIT for Canadian income tax purposes on January 1, 2011 by taking a more conservative strategy related to the sale of investment assets. This strategy will be in effect until the December 16, 2010 technical amendments are substantively enacted. Consequently, the Trust reversed its deferred income tax liability related to the SIFT rules on January 1, 2011.

### Existing Tax Filing Positions

Although Boardwalk REIT is of the view that all expenses to be claimed by Boardwalk REIT, the Operating Trust and the Partnership will be reasonable and deductible, that the cost amount and capital cost allowance claims of entities indirectly owned by Boardwalk REIT will have been correctly determined and that the allocation of the Partnership's income for purposes of the Tax Act among its partners is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the

Canada Revenue Agency ("CRA") will agree. If the CRA successfully challenges the deductibility of such expenses or the allocation of such income, the Partnership's allocation of income to the Operating Trust, and indirectly the taxable income of Boardwalk REIT and the Unitholders, may be adversely affected. The extent to which distributions will be tax-deferred in the future will depend in part on the extent to which entities indirectly owned by Boardwalk REIT are able to deduct capital cost allowance relating to the Contributed Assets held by them.

Since the Partnership acquired the relevant properties on a tax-deferred basis, its tax cost in certain properties may be less than their fair market value. Accordingly, if one or more properties are disposed of, the gain recognized by the Partnership may be in excess of that which it would have realized if it had acquired the properties at their fair market values. Immediately prior to the Plan of Arrangement becoming effective, the Corporation transferred the Contributed Assets to the Partnership and received, as consideration therefore, (i) an assumption of all of the indebtedness of the Corporation associated with the Contributed Assets (other than the Retained Debt), (ii) the LP Note, and (iii) a credit to the capital accounts in respect of each of the LP Class B Units and the LP Class C Units, all of which were owned at that time by the Corporation. See "Overview of the Acquisition and the Arrangement Replacing the Corporation as a Public Entity with Boardwalk REIT – Pre-Arrangement Reorganization" in the AIF dated February 16, 2012. The transfer and contribution were effected as a "rollover" under subsection 97(2) of the Tax Act, and the Corporation, based on the advice of legal counsel, is of the view that there is no income tax payable in connection therewith. There can be no assurance that the CRA will not take a contrary view; however, the Corporation has been advised by counsel that, in such event the CRA would not be successful. If, contrary to this, the CRA successfully challenges the rollover, income tax may be payable by the Corporation in connection with the transfer and contribution of the Contributed Assets at the applicable tax rate on the value of the capital contribution in respect of the LP Class C Units. The Partnership has agreed to indemnify the Corporation for all liabilities incurred by it in connection with the Acquisition and the Arrangement, including the transfer and contribution of the Contributed Assets to the Partnership and any associated tax that might be payable by the Corporation in respect thereof. See "Overview of the Acquisition and the Arrangement replacing the Corporation as a Public Entity with Boardwalk REIT – Ancillary Agreements in Connection with the Arrangement" in the AIF dated February 16, 2012. The amount of such indemnification would be significant and have a material adverse effect on the amount of distributable cash of the Partnership and, consequently, on the distributions of Boardwalk REIT.

## **Risks Associated with Disclosure Controls and Procedures & Internal Control over Financial Reporting**

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continues to review the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting, we cannot assure you that our disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our trust unit price, or otherwise materially adversely affect our business, reputation, results of operation, financial condition or liquidity.

## **ACCOUNTING AND CONTROL MATTERS**

### **Changes in Accounting Policies**

We have adopted IFRS as our basis of financial reporting, effective January 1, 2011, with restatement of comparative periods, using a transition date of January 1, 2010. The impact of the adoption of IFRS on our financial position and results of operations, including a reconciliation of our equity, net income and comprehensive income as reported under Canadian GAAP and IFRS, is summarized

below. The significant accounting policies followed on the adoption of IFRS are included in Note 2 and the reconciliations can be found in Note 3 of the audited notes to the Consolidated Financial Statements for the period ended December 31, 2011.

## Critical Accounting Policies

These statements were prepared in accordance with the recommendations of the International Financial Reporting Standards ("IFRS") and the International Accounting Standards Board ("IASB") and with the recommendations of the Real Property Association of Canada ("REALpac"). In applying these policies, in certain cases, it is necessary to use estimates and judgments. In determining estimates, management uses the information available to the Trust at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness. Any change to these estimates is applied prospectively in compliance with IFRS. We believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented. Boardwalk REIT considers the following policies to be critical in determining the judgments that are involved in the preparation of the consolidated financial statements and the uncertainties that could affect the reported results.

### (a) Investment properties

Investment properties include multi-family residential properties held to earn rental income. Investment properties are measured initially at cost. Cost includes all amounts relating to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to investment property. Included in these costs are amounts that are directly attributable internal resources and costs, which are capitalized to the extent that they upgrade or extend the economic life of the asset.

Subsequent to initial recognition, investment properties are recorded at fair value in accordance with International Accounting Standard ("IAS") 40 - Investment Property ("IAS 40"). Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains or losses arising from differences between current period fair value and the sum of previously measured fair value and capitalized costs as described above are recorded in profit or loss in the period in which they arise.

Any directly attributable costs incurred on investment properties under development are capitalized. Such costs include direct development costs, property taxes and other costs directly attributable to the development.

Properties owned by the Trust where a significant portion of the property is used for administrative purposes by the entity are considered "Property, Plant and Equipment" and, therefore, fall within the scope of IAS 16 - Property, Plant and Equipment ("IAS 16") and are recorded in accordance with that standard. Where part of a building is used for administrative purposes by the Trust, but this portion is considered insignificant, this space is included as part of the Investment Property under IAS 40.

Investment properties are reclassified to 'Assets held for sale' when the criteria set out in IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value of the investment property is adjusted to reflect its fair value as outlined in the purchase and sale agreement (as the purchase and sale agreement is the best evidence of fair value). This adjustment shall be recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

### *Excess land*

Excess land represents land owned by the Trust located contiguous to land included as Investment Property. The Trust has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, therefore, treated as Investment Property and recorded in accordance with



IAS 40 as outlined above. When determining the fair value of a project with excess land, the capitalization rate used in determining the value is adjusted accordingly.

#### (b) Property, plant and equipment

Tangible assets that are held for use in the production or supply of goods and services, or for administrative purposes, and are expected to be used during more than one period, except when another accounting standard requires or permits a different accounting treatment, are recorded in accordance with IAS 16 using the cost model. IAS 16, therefore, excludes tangible assets that are accounted for in accordance with IAS 40.

In accordance with IAS 16, the cost model, after initial recognition of the property, plant and equipment, requires the tangible asset to be carried at its costs less accumulated depreciation and any accumulated impairment losses (see NOTE 2(h)). Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the tangible asset are expected to be consumed and realized by the Trust. The amount of depreciation will be charged systematically to the consolidated statement of comprehensive income and is the cost less residual value of the tangible asset over its useful economic life. IAS 16 also requires that the cost and useful economic life of each significant component of a depreciable tangible asset be determined based on the circumstances of each tangible asset. The method of depreciation, residual values and estimates of the useful economic life of a depreciable tangible asset, or other property, plant and equipment, are reviewed at each financial year-end and any changes are accounted for as a change in accounting estimate in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”).

Property, Plant and Equipment (“PP&E”) is valued using the cost model under IAS 16. PP&E is categorized into the following classes and their respective useful economic life is used to calculate the amount of depreciation or amortization for each period. Categories of PP&E with the same or similar useful lives are included in the same class.

PP&E Class	Useful Life	Depreciation method used
Administrative building	40 years	Straight-line
Site equipment	15%	Declining balance
Automobile	20%	Declining balance
Warehouse assets	10% to 20%	Declining balance
Corporate assets	10% to 20%	Declining balance
Computer hardware	35%	Declining balance
Computer software*	35%	Declining balance

#### (c) Business combinations

In accordance with IFRS 3 – Business Combinations (“IFRS 3”), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and the liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefit. Building and other asset acquisitions, which meet the above definition of a business, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions, which do not meet the above definition, are recorded as an asset addition based on the purchase price.

The acquisition method requires that an acquirer be identified, a specific acquisition date be determined (which is typically the date in which control changes), all identifiable assets and liabilities assumed, as well as any non-controlling interest in the acquiree, be recognized and measured, and any goodwill or gains from a bargain purchase price are recognized and measured at fair value, including contingent liabilities when these contingent considerations are part of the consideration being transferred. All acquisition costs associated with a transaction, if identified as a business combination, are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-

date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Trust in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date and is shorter than one year if all information is received) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, or IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss in the consolidated statement of comprehensive income.

When a business combination is achieved in stages, the Trust's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Trust obtains control) and the resulting gain or loss, if any, is recognized in profit or loss in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Trust reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### **(d) Assets held for sale and discontinued operations**

##### *(i) Assets (or disposal groups) held for sale*

Non-current assets and groups of assets and liabilities, which comprise disposal groups, are categorized as assets (or disposal groups) held for sale where the asset (or disposal group) is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale, there is an active program to find a buyer, the non-current asset (or disposal group) is being actively marketed at a reasonable price, the sale is anticipated to be completed within one year from the date of classification and it is unlikely there will be changes to the plan. Where an asset (or disposal group) is acquired with a view to resale, it is classified as a non-current asset (or disposal group) held for sale if the disposal is expected to take place within one year of the acquisition and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition. Retrospective application

is not required; therefore, comparative figures will not be adjusted to reflect non-current assets held for sale. The gains or losses arising on a sale of assets (or disposal groups) that does not meet the definition of discontinued operations will be recognized as part of continuing operations while the gains or losses arising on a sale of assets (or disposal groups) that meet the definition of discontinued operations will be reported as part of discontinued operations in the consolidated statement of comprehensive income.

*(ii) Discontinued operations*

An asset or group of assets will be classified as a discontinued operation when it is a component of an entity that has either been disposed of or is classified as held for sale and represents a separate major line of business, it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or it is a subsidiary acquired exclusively with a view to resell. Profits and gains or losses related to the disposal of discontinued operations are measured based on fair value less cost to sell or on the disposal of the assets (or disposal groups) and are presented in the financial statements on an after tax basis in accordance with IFRS 5. In addition, retrospective application is required; therefore, comparative figures will be changed to reflect discontinued operations. As an individual building does not constitute a major line of business, individual building sales are not treated as discontinued operations.

**(e) Impairment of assets**

At the end of each reporting period, assets, other than those identified in the standard as not being applicable to IAS 36 – Impairment of Assets (“IAS 36”), such as investment properties recorded at fair value, are assessed for any indication of impairment. Should the indication of impairment exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Trust estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined in as the higher of an asset’s “fair value less cost to sell” and its “value-in-use”. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statement of comprehensive income. After the recognition of an impairment loss, the depreciation charge related to that asset is also revised for the adjusted carrying amount on a systematic basis over the remaining useful life of the asset. Should this impairment loss be determined to have reversed in a future period (with the exception of goodwill), a reversal of the impairment loss is recorded in profit or loss. However, in accordance with IAS 36, the reversal of an impairment loss will not increase the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

**(g) Taxation**

Boardwalk REIT is a “mutual fund trust” as defined under the Income Tax Act (Canada) (the “Tax Act”), and accordingly is not taxable on its income to the extent that its taxable income is distributed to its Unitholders. The Tax Act of Canada contains legislation affecting the tax treatment of publicly traded trusts (the “SIFT Legislation”). Based on a detailed review of the SIFT Legislation, it could be interpreted that for fiscal 2010 the Trust did not qualify as a Real Estate Investment Trust (“REIT”) in accordance with the definition contained in the legislation, which would be exempt from the specified investment flow-through (“SIFT”) rules. As such, the Trust has considered the tax consequence of not qualifying as a REIT. However, for fiscal 2011, the Trust has qualified as a REIT

and is eligible for the 'REIT Exemption' under the SIFT rules. In addition, this exemption does not extend to the corporate subsidiaries of Boardwalk REIT that are subject to income tax. As such, income tax expense represents the sum of the tax currently payable and deferred taxes.

#### *Current tax*

The tax currently payable is based on taxable profit for the year for certain corporate subsidiaries of the Trust. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Trust's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. In addition deferred income tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery (i.e. using the asset versus selling the asset). Where applicable, current and deferred income taxes relating to items recognized directly in equity or comprehensive income are also recognized directly in equity or comprehensive income, respectively.

### **(h) Provisions**

In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), a provision is a liability of uncertain timing or amount. Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using the current discount rate. The increase in the provision due to the passage of time is recognized as a financing cost.

### **(i) Unit-based payments**

Equity-settled unit-based payments to employees and Trustees are measured at the fair value of the deferred unit at the grant date and expensed over the vesting period based on the Trust's estimate of the deferred units that will actually vest. At the end of each reporting period, the Trust revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss prospectively such that the cumulative expense reflects the revised estimate. In accordance with IAS 32 - Financial Instruments: Presentation ("IAS 32"), the deferred units are presented as a liability on the statement of financial position as the Trust is obliged to provide the holder with REIT Units once the deferred units vest. Under IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"), the deferred units are classified as 'fair value through profit or loss' and are measured at each reporting period at fair value with changes in fair value recognized in the consolidated statement of comprehensive income. Fair value of the deferred units is calculated based on the observable market price of the Trust's Units.

### **(j) Government assistance and grants**

The Trust receives government assistance in order to complement and partially assist the Trust's initiatives in providing affordable housing to low income earning individuals. Government grants are not recognized until there is reasonable assurance that the Trust will comply with the conditions attached to them and that the grants will be received. Government grants that are receivable

as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Trust with no related future costs are recognized in profit or loss in the period in which they become receivable.

**(k) Revenue recognition**

*(i) Rental revenue*

The Trust has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on lease inception date when the tenant occupies their leased space. Rental revenue is recognized systematically over the term of the lease, which is generally not more than twelve months. Any suite specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are also amortized over the term of the operating lease. Rental revenue is recorded based on the amount received or to be received in accordance with the operating lease.

*(ii) Building sales*

The gain or loss from the sale of an investment property is recognized when title passes to the purchaser (control is transferred) upon closing at which time all or substantially all of the funds are receivable, or have been received, and the conditions of the sale have been completed.

*(iii) Interest income*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Trust and the amount of income can be measured reliably. Interest income is accrued on a time basis when earned, by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in financing costs in the consolidated statement of comprehensive income.

*(iv) Ancillary rental income*

Ancillary rental income comprises revenue from coin laundry machines and income received from telephone and cable providers and is recorded as earned.

**(l) Financial instruments and derivatives**

Financial instruments and derivatives are accounted, presented and disclosed in accordance with IFRS 7 – Financial Instruments: Disclosures (“IFRS 7”), IAS 32 and IAS 39. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.



### Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. Financial assets are classified as at FVTPL when the financial asset either is held for trading or is designated as at FVTPL. Financial assets categories are defined and measured as follows:

Classification	Definition	Measurement
FVTPL	Classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL as discussed below:	
	Classified as held for trading if: it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
	Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Trust has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest method less any impairment. <sup>(1) (2)</sup>
Available-for-sale	Non-derivative financial assets that either are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.	Measured at fair value through other comprehensive income.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest method less any impairment. <sup>(1) (2)</sup>

(1) The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

(2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

Boardwalk REIT's financial assets are as follows:

Financial asset	Classification	Measurement
Trade and other receivables	Loans and receivables	Amortized cost
Segregated tenants' security deposits	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The Trust derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

### Financial liabilities and equity

Debt and equity instruments issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract

that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Trust are recognized at the proceeds received, net of direct issue costs. Repurchase of Boardwalk REIT's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Trust's own equity instruments. Distributions paid on the Trust's equity instruments subsequent to, declared prior to, and with a record date at or prior to, the reporting date, are recorded as a liability.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Financial liabilities categories are defined and measured as follows:

Classification	Definition	Measurement
FVTPL	Classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL as discussed below:	
	Classified as held for trading if: it has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
	Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Other financial liabilities	All other liabilities.	Measured at amortized cost using the effective interest method. <sup>(1)</sup>

(1) The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Boardwalk REIT's financial liabilities are as follows:

Financial liability	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
LP Class B Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Refundable tenants' security deposits	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

The Trust derecognizes a financial liability when, and only when, the Trust's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### Derivatives

The Trust may enter into a variety of derivative financial instruments to manage its exposure to interest rate risks, including interest rate swaps and bond forward contracts. Further details of derivative financial instruments are disclosed in NOTE 14 and NOTE 29. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the

derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to the host contracts and the host contracts are not measured at FVTPL. For the years ended December 31, 2011 and December 31, 2010, the Trust had no embedded derivatives requiring separate recognition.

#### **(m) Hedge accounting**

The Trust applies hedge accounting to derivative financial instruments in cash flow hedging relationships. At the inception of the hedging relationship, the Trust documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at inception of the hedge and on an ongoing basis, the Trust documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

In cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in the consolidated statement of comprehensive income as other comprehensive income ("OCI") while the ineffective portion is recognized immediately in profit or loss. Hedging gains and losses previously recognized in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Trust revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

#### **(n) Cash**

Cash is comprised of bank balances and interest-earning bank accounts.

#### **(o) Critical judgment in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below) that have been made in applying the Trust's accounting policies and that have the most significant effect on the reported amounts in the consolidated financial statements:

##### *(i) Income taxes*

The Trust applies judgment in determining the tax rate applicable to its corporate, trust and partnership subsidiaries and identifying the temporary differences in each of such legal subsidiaries in respect of which deferred income taxes are recognized. Deferred taxes related to temporary differences arising from the SIFT Legislation (see above) and from its corporate subsidiaries are measured based on the tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences that are expected to reverse in the future and arise from differences between accounting and tax asset values. Effective January 1, 2011, the Trust qualified for the "REIT Exemption" and will not be subject to Canadian income taxes under the SIFT Legislation. Consequently, the deferred taxes related to temporary differences arising from the SIFT Legislation reported in 2010 were reversed on January 1, 2011.

##### *(ii) Leases*

The Trust's revenue recognition policy related to leases is described in NOTE 2(n)(i). The Trust makes judgments in determining whether certain leases, in particular, tenant leases, as well as, leased warehouse space and long-term ground leases, which are considered leases under IFRS, where the Trust is the lessor, are operating, or finance leases. The Trust has determined that all of its leases are operating leases.

*(iii) Investment property and internal capital program*

The Trust's accounting policy relating to investment property is described in NOTE (a) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the Trust's investment property. The Trust also undertakes capital improvements and upgrades. Such work is specifically identified, and the Trust applies judgment in the estimated amount of directly attributable to on-site wages relating to capital improvements and upgrades of its real estate assets to be capitalized.

*(iv) Financial instruments*

The Trust's accounting policies relating to financial instruments are described in NOTE 2(o). Critical judgments inherent in these policies related to applying the criteria set out in IAS 39 to designate financial instruments into categories (i.e. FVTPL, etc.), assess the effectiveness of hedging relationships (for the Trust's cash flow hedges) and determine the identification of embedded derivatives, if any, in certain hybrid instruments that are subject to fair value measurement.

*(v) Basis of consolidation*

The consolidated financial statements of the Trust include the accounts of Boardwalk REIT and its wholly owned subsidiaries, as well as entities over which the Trust exercises control on a basis other than ownership of voting interest within the scope of Interpretation SIC 12 - Consolidation-Special Purpose Entities ("SIC 12"). Judgment is applied in determining what is considered in substance "control" within the scope of SIC 12 and, thus, entities considered special purpose entities are to be included in the consolidated financial statements of the Trust.

**(p) Key accounting estimates and assumptions**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results could differ from estimates.

*(i) Investment property*

The choice of valuation method for fair valuing and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in NOTE 5 of the financial statements. Significant estimates used in determining the fair value of the Trust's investment properties includes capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and standard costs). A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to NOTE 5 for sensitivity analysis.

*(ii) Property, plant and equipment*

Useful economic life of property, plant and equipment for the purposes of calculating depreciation and amortization, as disclosed in NOTE 6 and forecast of economic factors to determine recoverable amounts for the purpose of determining any impairment of assets.

*(iii) Internal Capital Expenditure Program*

The Trust's internal capital expenditure program is based on internal allocations including parts, supplies and on-site wages identified as part of the specific upgrade.

*(iv) Utility accrual*

Amount of utility accrual for charges related to the current or prior year is based on estimates of usage and price for the time period in which invoices have not been received from the utility providers.

*(v) Deferred unit-based compensation plan*

The compensation costs relating to the deferred unit plan are based on estimates on how many deferred units will actually vest and be exercised.

*(vi) Deferred taxes*

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities versus the tax basis of those assets and liabilities and the tax rates at which the differences will be realized are outlined in NOTE 17.

## Future Changes in Critical Accounting Policies

Boardwalk REIT monitors new IFRS accounting pronouncements to assess the applicability and impact, if any, these new pronouncements may have on the consolidated financial statements and note disclosures.

The following accounting standards under IFRS have been issued or revised, however are not yet effective and as such have not been applied to these consolidated financial statements:

### Financial Instruments

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is applicable for annual periods beginning on or after January 1, 2015, with earlier application permitted.

The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

### Income Taxes

In December 2010, the IASB made amendments to IAS 12 – Income Taxes ("IAS 12"), that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods on or after January 1, 2012. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

### Consolidated Financial Statements

In June 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10") to replace Standing Interpretations Committee 12 – Consolidation – Special Purpose Entities and the new consolidation requirements of IAS 27 – Consolidated and Separate Financial Statements ("IAS 27") (discussed below). IFRS 10 eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The standard provides guidance on how to apply the control principles in a number of situations, including agency relationships and holding or potential voting rights. This standard is required



to be applied for accounting periods beginning on or after January 1, 2013. The Trust is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IAS 27 was revised in May 2011 and was revised to eliminate the principles of consolidation from IAS 27 (as they are now included in IFRS 10) and focus on requirements related to disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

#### **Joint Arrangements**

IFRS 11 – Joint Arrangements (“IFRS 11”) was issued in June 2011 and is the result of the IASB’s project to replace IAS 31 – Interests in Joint Ventures (“IAS 31”). The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect this standard to have a significant impact on its consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) was revised in May 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

#### **Disclosure of Interests in Other Entities**

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued in June 2011 and outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

#### **Fair Value Measurements**

IFRS 13 – Fair Value Measurements (“IFRS 13”) was issued in June 2011 and provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

#### **Employee Benefits**

IAS 19 – Employee Benefits (“IAS 19”) amendments were issued in June 2011 that will change the accounting for defined benefit plans and termination benefits. This standard requires that the changes in defined benefit obligations are recognized as they occur, eliminating the corridor approach and accelerating the recognition of past service costs. The changes in defined benefit obligation and plan assets are to be disaggregated into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect the amendments to IAS 19 to have a significant impact on its consolidated financial statements.

#### **Presentation of Financial Statements**

IAS 1 was amended in 2011 to expand on the disclosures required of items within Other Comprehensive Income. The revised standard requires that an entity distinguishes between those items that are recycled to profit and loss versus those items that are not

recycled. Retrospective application is required and the standard is effective for annual periods beginning on or after July 1, 2012. The Trust does not expect the amendments to IAS 1 to have a significant impact on its consolidated financial statements.

## International Financial Reporting Standards

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Trust's first IFRS consolidated financial statements for the year ended December 31, 2011. Previously, the Trust prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

### Impact of Adoption of IFRS

IFRS is premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not have an impact on our reported net cash flows, it does have a material impact on our consolidated statement of financial position and consolidated statement of comprehensive income. In preparing the opening IFRS statement of financial position, comparative information for January 1, 2010 and the year ended December 31, 2010 have been adjusted from amounts previously reported in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Trust's financial position, financial performance and cash flow, is set out in the following section and in the tables below:

### First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1-"First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions.

### Elected exemptions from full retrospective application

The following are the optional exemptions available under IFRS 1, which the Trust applied in preparation of its first financial statements under IFRS:

#### *Business combinations*

The Trust has applied the business combinations exemption in IFRS 1 which allows the Trust not to apply IFRS 3 retrospectively to past business combinations. Accordingly, the Trust has not restated business combinations that took place prior to the Transition Date.

IFRS 1 allows for certain other optional exemptions; however, such exemptions were deemed either to be not applicable or not significant upon the adoption of IFRS.

A detailed review of all asset acquisitions when they occur will be performed and any asset acquisitions, which meet this definition of a business combination, will be recorded using the acquisition method outlined in this standard and all costs directly related to the acquisition will be expensed in the consolidated statement of comprehensive income.

### Mandatory exemptions from full retrospective application

The following are the mandatory exemptions available under IFRS, which the Trust applied in preparation of its first financial statements under IFRS:

#### *Hedge accounting*

Only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date are reflected as hedges in the Trust's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were recorded as non-hedging derivative financial instruments.

#### *Estimates*

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Trust under Canadian GAAP are consistent with the application under IFRS.

All other mandatory exemptions from full retrospective application were deemed, either, not applicable or not significant to the Trust's adoption of IFRS.

### Impact of IFRS on the Balance Sheet (Consolidated Statement of Financial Position)

The following tables outline and quantify the impact of significant differences between Canadian GAAP and IFRS on our Consolidated Statement of Financial Position. All other financial assets and liabilities not specifically addressed in the table below maintained their designations consistent with designations made under Canadian GAAP and were not significantly impacted by the Trust's adoption of IFRS:

Financial Statement Item	Applicable IFRS Standard	Summary of IFRS Policy adopted by Boardwalk REIT	Impact of significant differences between IFRS and Canadian GAAP as at the date specified below:	
			As at Jan 1, 2010	As at Dec 31, 2010
Presentation of Financial Statements	IAS 1	Present Statement of Financial Position as a classified statement of financial position with separate classifications for current and non-current assets and liabilities.  Previously presented using reverse liquidity (Canadian GAAP)	Assets and liabilities are presented distinguishing between their current and non-current portion.	Assets and liabilities are presented distinguishing between their current and non-current portion.
Investment Properties (IP)	IAS 40	Measured initially at cost and then subsequently measured using the "fair value" model under IFRS.  Fair values are determined based on valuations performed by third party appraisers or available market evidence. See section below entitled "Valuation Process of Investment Properties" for information on how the fair value of investment properties is determined.  Gains or losses resulting from changes in fair value are recorded in profit or loss.	Increase in fair value of investment properties of \$2.0 billion on the opening IFRS Consolidated Statement of Financial Position. In addition, \$8.7 million of assets previously recorded as Revenue Producing Property under Canadian GAAP have been reclassified to PP&E, which is disclosed separately on the Statement of Financial Position.	Increase in fair value of investment properties of \$2.3 billion on the December 31, 2010 Consolidated Statement of Financial Position for the 12 months ended December 31, 2010. In addition, \$9.5 million of assets previously recorded as Revenue Producing Property under Canadian GAAP have been reclassified to PP&E, which is disclosed separately on the Statement of Financial Position.

Financial Statement Item	Applicable IFRS Standard	Summary of IFRS Policy adopted by Boardwalk REIT	Impact of significant differences between IFRS and Canadian GAAP as at the date specified below:	
Property, Plant and Equipment (PP&E)	IAS 16	<p>Recorded using the "cost model" to measure all classes of property, plant and equipment.</p> <p>Depreciation and amortization related to these assets are recognized.</p> <p>Properties considered used predominately for "administrative purposes" by the Trust are included as part of PP&amp;E, carried at cost less accumulated amortization.</p> <p>Recoverable amount is used to determine impairment of assets.</p>	Reclassification of assets of \$8.7 million from revenue producing property and a reclass of \$6.1 from assets which were classified as other assets under Canadian GAAP to assets which are classified as inventories and prepaid assets and presented separately under IFRS.	Reclassification of assets of \$9.5 million from revenue producing property and a reclass of \$6.6 from assets which were classified as other assets under Canadian GAAP to assets which are classified as inventories and prepaid assets and presented separately under (under IFRS).
Inventories	IAS 2	<p>Inventories are presented separately on the IFRS Consolidated Statement of Financial Position.</p> <p>Inventories are carried at the lower of cost or net realizable value.</p> <p>Uses of inventory items are either expensed or capitalized depending on the nature of the inventory used and if the useful life of the related asset is being extended.</p>	<p>Reclassification of assets from other assets (CDN GAAP) to inventories under IFRS.</p> <p>Inventories balance was \$2.9 million on the IFRS opening Consolidated Statement of Financial Position as a result of reclassification.</p>	<p>Reclassification of assets from other assets (CDN GAAP) to inventories under IFRS.</p> <p>Inventories balance was \$3.0 million on the IFRS Consolidated Statement of Financial Position as a result of reclassification.</p>
Mortgages Payable	IFRS 7, IAS 32 and 39	<p>Classified as a financial liability and carried at amortized cost on the Statement of Financial Position.</p> <p>Split between current and long term portion</p>	<p>No impact on total carrying amount of mortgages payable.</p> <p>Current portion of \$0.5 billion presented as part of current liabilities.</p> <p>\$1.7 billion presented as part of long-term liabilities on the IFRS classified statement of financial position.</p>	<p>No impact on total carrying amount of mortgages payable.</p> <p>Current portion of \$0.3 billion presented as part of current liabilities.</p> <p>\$1.8 billion presented as part of long-term liabilities on the IFRS statement of financial position.</p>
Debentures	IFRS 7, IAS 32 and 39	Classified as a financial liability and carried at amortized cost on the Statement of Financial Position	No impact on the carrying amount of the debenture on the IFRS statement of financial position. The treatment of debenture under IFRS is similar to the treatment under CDN GAAP.	No impact on the carrying amount of the debenture on the IFRS statement of financial position. The treatment of debenture under IFRS is similar to the treatment under CDN GAAP.

Financial Statement Item	Applicable IFRS Standard	Summary of IFRS Policy adopted by Boardwalk REIT	Impact of significant differences between IFRS and Canadian GAAP as at the date specified below:	
LP Class B Units	IFRS 7, IAS 32 and 39	<p>Designated as "fair value through profit or loss" (FVTPL) financial liability under IFRS.</p> <p>Recorded at fair value at each reporting date with changes in fair value flowing through the statement of comprehensive income.</p>	<p>The LP Class B Units are recorded as a liability under IFRS and carried at their fair value.</p> <p>Previously recorded as equity under Canadian GAAP.</p> <p>Impact of transition to IFRS is an increase of the Trust's liabilities by \$165.8 million, the fair value of the LP Class B Units at January 1, 2010, and a decrease of Unitholders' equity by \$24.8 million, which was the cost of the B Units recorded in Unitholders' equity under Canadian GAAP</p>	<p>The LP Class B Units are recorded as a liability under IFRS and carried at their fair value.</p> <p>Previously recorded as equity under Canadian GAAP.</p> <p>Impact of transition to IFRS is an increase of the Trust's liabilities by \$184.6 million, the fair value of the LP Class B Units at December 31, 2010, and a decrease of Unitholders' equity by \$24.8 million, which was the cost of the B units recorded in Unitholders' equity under Canadian GAAP.</p>
Other non-current liabilities	IAS 39	Apply hedge accounting to interest rate swaps and bond forward as done under Canadian GAAP.	Liability presented on the balance sheet to reflect the fair value of the interest rate swap	Liability presented on the balance sheet to reflect the fair value of the interest rate swap
Deferred unit-based compensation	IFRS 2, IFRS 7, IAS 32 and 39	<p>In accordance with IFRS 2, the deferred units issued under the deferred unit compensation plan are recorded at their fair value of the deferred units at the grant date and expensed on a straight line bases over their associated vesting period based on the Trust's estimate of the deferred units that will actually vest at each reporting date.</p> <p>The estimated number of units which will vest is reviewed at each reporting date with any adjustments made, flowing through the statement of comprehensive income.</p> <p>This plan is designated as a "fair value through profit or loss" (FVTPL) financial liability.</p> <p>Outstanding units are recorded at their fair value at each reporting date with changes to this fair value recorded as a "fair value adjustment" in the statement of comprehensive income</p>	<p>The impact of the deferred unit compensation plan calculation under IFRS 2, is an increase in financial statement liabilities of \$4.2 million (this includes both the current and non-current portion of the liability) and a decrease to Unitholders equity as recorded under Canadian GAAP of \$4.1 million.</p> <p>The total of this liability is broken up into a current portion of \$1.1 million and a non-current portion of \$3.0 million as a result of the use of a classified Statement of Financial Position under IFRS.</p> <p>The transition from Canadian GAAP to IFRS resulted in a change in the methodology to calculate the amortization of deferred unit compensation, as well as, required a fair value adjustment of \$104 thousand recorded to Unitholders' equity at January 1, 2010.</p>	<p>The impact of the deferred unit compensation plan calculation under IFRS 2, is an increase in financial statement liabilities of \$5.4 (this includes both the current and noncurrent portion of the liability) and a decrease to Unitholders equity as recorded under Canadian GAAP of \$4.5 million.</p> <p>The total of this liability is broken up into a current of \$2.0 million and a non-current portion of \$3.4 million as a result of the use of a classified Statement of Financial Position under IFRS.</p> <p>The transition from Canadian GAAP to IFRS resulted in a change in the methodology to calculate the amortization of deferred unit compensation as well as required a fair value adjustment of \$623 thousand recorded to Unitholders' equity at December 31, 2010.</p>



Financial Statement Item	Applicable IFRS Standard	Summary of IFRS Policy adopted by Boardwalk REIT	Impact of significant differences between IFRS and Canadian GAAP as at the date specified below:	
Deferred tax liabilities	IAS 12	<p>Deferred tax assets and liabilities have been separated for presentation on the Trust's Statement of Financial Position.</p> <p>Deferred taxes are recorded on temporary differences between carrying amounts of assets and liabilities on the financial statements and corresponding tax bases used in the computation of taxable profit.</p> <p>As a result of the use of the "fair value model" to value investment properties, under IAS 40, there has been a significant increase in the amount of deferred taxes the Trust has recorded.</p> <p>Changes to applicable tax rates have also been applied as a result of the adoption of IAS 12.</p>	<p>A deferred tax asset has been recorded as an asset on the Statement of Financial Position.</p> <p>This reclassification totals an increase to deferred tax assets and a decrease to deferred tax liabilities of \$0.7 million on the Consolidated Statement of Financial Position.</p> <p>Impact of change of the adoption of the "fair value model" of Investment property and the change in the applicable tax rates used resulted in an increase of \$598.6 million to the deferred tax liability recorded.</p>	<p>A deferred tax asset has been recorded as an asset on the Statement of Financial Position.</p> <p>This reclassification totals an increase to deferred tax assets and a decrease to deferred tax liabilities of \$0.7 million on the Consolidated Statement of Financial Position.</p> <p>Impact of change of the adoption of the "fair value model" of Investment property and the change in the applicable tax rates used resulted in an increase of \$641.8 million to the deferred tax liability recorded.</p>
Unitholders' equity (deficit)	Framework of IFRS and IFRS 1	<p>Equity is the result of residual interest in the assets of the Trust after deducting all of its liabilities.</p> <p>In accordance with IFRS 1 all opening statement of financial position adjustments upon initial transition to IFRS standards are recorded in retained earnings which is a component of equity.</p>	<p>The impact of the adjusting entries recorded in Unitholders' equity as a result of the transition to IFRS resulted in an increase of Unitholders equity by \$1.2 billion or approximately \$23.00 per Trust Unit based on 52,744,467 Trust Units outstanding, including the LP Class B Units at January 1, 2010.</p> <p>A reconciliation of Unitholders' equity from Canadian GAAP to IFRS has been included below as at January 1, 2010.</p>	<p>The impact of the transition from Canadian GAAP to IFRS resulted in an increase of \$1.4 million in Unitholders' equity or \$27.14 per Trust Unit based on 52,366,133 Trust Units outstanding, including the LP Class B Units, at December 31, 2010.</p> <p>A reconciliation of Unitholders' equity from Canadian GAAP to IFRS has been included below as at December 31, 2010.</p>

Financial Statement Item	Applicable IFRS Standard	Summary of IFRS Policy adopted by Boardwalk REIT	Impact of significant differences between IFRS and Canadian GAAP as at the date specified below:	
Earnings per unit		<p>LP Class B Units are considered a financial liability and not included as part of the basic earnings per unit calculation.</p> <p>These Units are included as part of the diluted earnings per unit calculation under IFRS. This differs from Canadian GAAP where the LP Class B Units were considered equity and, therefore, included as part of the basic per unit calculation.</p> <p>While the adoption of IFRS has not resulted in significant changes to cash flows reported by the Trust, these new standards have resulted in significant changes to the net earnings calculated under IFRS when compared to earnings previously reported under Canadian GAAP. The changes to both net earnings and the number of basic and fully diluted Trust Units calculated under IFRS have resulted in significant changes to the calculation of basic and fully diluted earnings per unit from those reported under Canadian GAAP. The impact of IFRS on the Trust's earnings can be found later in this report.</p>	<p>There is no comparative basic or fully diluted earnings per share calculation at January 1, 2010 under IFRS as no earnings under IFRS have been recorded at that date.</p>	<p>Impact of changes from the application of IFRS standard have resulted in significant difference between basic and fully diluted Trust Units calculated under Canadian GAAP compared to those calculated under IFRS.</p> <p>At December 31, 2010 the Trust reported basic and fully diluted earnings per unit of \$1.36 under Canadian GAAP. However, under IFRS basic earnings per share is calculated at \$5.75 and fully diluted earnings per unit is calculated at \$5.82 per Trust Unit.</p>

### Valuation Process of Investment Properties

Boardwalk REIT utilized an external valuation company ("the Appraisers"), to conduct an external evaluation of all of its Investment Properties to determine the fair value of the portfolio for its January 1, 2010 opening statement of financial position. The individual properties were valued using Capitalization Rates ranging from 5.25% to 11.66% based on property type, market characteristics and building specific circumstances, such as properties, which have excess density or are subject to ground lease agreements. This resulted in an overall weighted average Capitalization Rate for the portfolio of approximately 6.64%. Boardwalk REIT's properties were grouped by geographic location.

As at December 31, 2010, no properties were valued by external appraisals. Fair value was determined internally based on assumptions and market data provided by the Appraisers and by applying the same valuation techniques as the Appraisers.

The third-party valuation of the Trust's investment property portfolio utilizes the "Overall Capitalization Rate" method. This method requires that rental income from current leases and assumptions about rental income, vacancies and inflation rates among other factors are used to determine a one-year income forecast for each individual property within the Trust's portfolio and also considers any capital expenditures anticipated within the year. Given the short term nature of residential leases (typically one year), revenue and costs are not discounted. A Capitalization Rate was also determined for each property based on market information related to the external sale of similar buildings within a similar geographic location. These factors were used to determine the fair value of investment properties at each reporting date.

The key valuation metrics for residential rental properties are set out in the following tables:

As at	Dec 31, 2010		Jan 1, 2010	
Capitalization rate by city:	Minimum	Maximum	Minimum	Maximum
Calgary	5.75%	6.50%	6.00%	6.50%
Edmonton	6.00%	6.25%	6.25%	7.00%
Other Alberta	6.00%	8.25%	6.25%	8.50%
Vancouver	5.25%	6.75%	5.25%	7.25%
Kitchener	6.50%	6.50%	6.75%	6.75%
London	6.50%	6.75%	6.75%	7.00%
Windsor	7.25%	7.75%	7.25%	7.75%
Montreal	6.25%	7.25%	6.50%	7.50%
Quebec City	6.00%	6.50%	6.25%	7.50%
Regina	7.00%	7.25%	6.75%	7.00%
Saskatoon	7.00%	7.25%	6.75%	7.00%
	5.25%	8.25%	5.25%	8.50%
Land Lease	6.00%	11.75%	6.18%	11.66%

The weighted average of the "Overall Capitalization Rate" was 6.64% and 6.41% for January 1 and December 31, 2010, respectively.

The "Overall Capitalization Rate" method requires that a forecasted net operating income ("NOI") be divided by a cap rate to determine a fair value. As such, fluctuations in both NOI and cap rates could significantly alter the fair value. Below are tables, which summarize the sensitivity to the reported fair value estimate based on adjustments to both cap rates and NOI:

As at December 31, 2010 (in 000's)

Net Operating Income		-3%	-1%	As Forecasted	+1%	+3%
		\$ 268,495	\$ 274,031	\$ 276,799	\$ 279,567	\$ 285,103
Capitalization Rate						
-0.25%	6.16%	\$ 40,448	\$ 130,318	\$ 175,253	\$ 220,188	\$ 310,058
Cap Rate As Reported	6.41%	(129,547)	(43,182)	4,318,242	43,182	129,547
+0.25%	6.66%	(286,781)	(203,658)	(162,096)	(120,535)	(37,412)

As at January 1, 2010 (in 000's)

Net Operating Income		-3%	-1%	As Forecasted	+1%	+3%
		\$ 265,982	\$ 271,466	\$ 274,208	\$ 276,950	\$ 282,434
Capitalization Rate						
-0.25%	6.39%	\$ 32,830	\$ 118,654	\$ 161,566	\$ 204,478	\$ 290,302
Cap Rate As Reported	6.64%	(123,889)	(41,296)	4,129,636	41,296	123,889
+0.25%	6.89%	(269,235)	(189,640)	(149,842)	(110,044)	(30,448)

Investment property with a fair value of \$380.6 million at January 1, 2010 and \$391.9 million at December 31, 2010 is situated on land held under land leases.

Investment properties with a fair value at January 1, 2010 of \$489.0 million and \$528.0 million at December 31, 2010 are pledged as security against the Trust's committed revolving credit facility. In addition, investment properties with a fair value of \$3.8 billion at January 1, 2010 and \$4.1 billion at December 31, 2010 are pledged as security against the Trust's mortgages payable.

### Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Trust's equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS on the Transition Date - January 1, 2010:

Note	Trust Units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings (deficit)	Cash flow hedge	Total Unitholders' equity (deficiency)
As reported under Canadian GAAP, January 1, 2010	\$ 236,385	\$ 203,343	\$ (484,544)	\$ (281,201)	\$ (224)	\$ (45,040)
Reclassification of LP B Units as a financial liability (i)	(24,840)	–	–	–	–	(24,840)
Reclassification of LP B Units distributions to cumulative profit (i)	–	(38,383)	38,383	–	–	–
Reclassification of deferred unit-based compensation as a financial liability (i)	(4,122)	–	–	–	–	(4,122)
Differences increasing (decreasing) reported amounts						
Investment property (ii)	–	1,980,262	–	1,980,262	–	1,980,262
Financial instruments (iii)						
LP B Units	–	(140,959)	–	(140,959)	–	(140,959)
Deferred unit-based compensation	–	(74)	–	(74)	–	(74)
Effective portion of interest rate swaps	–	–	–	–	(5,668)	(5,668)
Deferred taxes (iv)	–	(597,274)	–	(597,274)	–	(597,274)
As reported under IFRS, January 1, 2010	\$ 207,423	\$ 1,406,915	\$ (446,161)	\$ 960,754	\$ (5,892)	\$ 1,162,285

The following is a reconciliation of the Trust's equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010:

Note	Trust Units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings (deficit)	Cash flow hedge	Total Unitholders' equity (deficiency)
As reported under Canadian GAAP, December 31, 2010	\$ 221,645	\$ 275,072	\$ (605,532)	\$ (330,460)	\$ (201)	\$ (109,016)
Reclassification of LP B Units as a financial liability (i)	(24,840)	–	–	–	–	(24,840)
Reclassification of LP B Units distributions to cumulative profit (i)	–	(48,676)	48,676	–	–	–
Reclassification of deferred unit-based compensation as a financial liability (i)	(4,533)	–	–	–	–	(4,533)
Differences increasing (decreasing) reported amounts						
Investment property (ii)	–	2,258,442	–	2,258,442	–	2,258,442
Financial instruments (iii)						
LP B Units	–	(159,754)	–	(159,754)	–	(159,754)
Deferred unit-based compensation	–	(896)	–	(896)	–	(896)
Effective portion of interest rate swaps	–	–	–	–	(6,386)	(6,386)
Deferred taxes (iv)	–	(640,481)	–	(640,481)	–	(640,481)
As reported under IFRS, December 31, 2010	\$ 192,272	\$ 1,683,707	\$ (556,856)	\$ 1,126,851	\$ (6,587)	\$ 1,312,536

**(i) Reclassification of LP B Units and deferred unit-based compensation plan**

Under IAS 32, the LP B Units issued by a wholly owned subsidiary of the Trust, as well as the deferred units issued as part of the deferred unit-based compensation plan are considered financial liabilities under IFRS and are reclassified from equity to liabilities on the financial statements. Under Canadian GAAP, the LP Class B Units were carried at cost (\$24.8 million as at January 1, 2010 and December 31, 2010). Additionally, as the LP Class B Units are liabilities, all distributions previously paid were reclassified to cumulative profit as they would have been recorded as a financing charge under IFRS.

**(ii) Investment property**

The Trust considers its revenue-producing properties to be investment properties under IAS 40. Investment property includes land (including excess land) and buildings held primarily to earn rental income and capital appreciation, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for investment property. The Trust has elected to use the fair value method upon initial transition to IFRS and in subsequent reporting periods. This adjustment to retained earnings represents the cumulative unrealized gain in respect of the fair value of the Trust's investment property under IFRS on January 1, 2010 and December 31, 2010.

**(iii) Financial instruments**

As a result of IAS 32 and reclassifying the LP B Units and deferred units as liabilities as outlined in note (i), IAS 39, which outlines the recognition and measurement principles in respect of financial assets and liabilities, has been applied to the following instruments:

**LP Class B Units**

Under IFRS, the LP B Units are classified as a financial liability and the Trust has designated the Units as fair value through profit or loss on the basis that this financial liability is classified as 'fair value through profit or loss' ("FVTPL") in accordance with IAS 39. This financial liability is carried at fair value on the statement of financial position as determined by the observable market price of the Trust's Units. Under Canadian GAAP, the LP B Units were carried at cost. The market value for the LP Class B Units was \$165.8 million as at January 1, 2010 and \$184.6 million as at December 31, 2010.

**Deferred unit-based compensation plan**

Under IFRS, the deferred unit-based compensation plan is classified as a financial liability and the Trust has designated the deferred units issued as part of the deferred unit-based compensation plan as FVTPL in accordance with IAS 39. This financial liability is carried at fair value on the statement of financial position as determined by the observable market price of the Boardwalk REIT's Trust Units. The market value for the deferred unit-based compensation plan was \$4.2 million as at January 1, 2010 and \$5.4 million as at December 31, 2010. In addition, compensation expensed is based on a graded amortization rather than straight-line amortization under Canadian GAAP.

**Hedge accounting**

As outlined in IAS 39, hedge accounting has been applied to the Trust's interest rate swaps and this adjustment represents changes in the fair value of the effective portion of the Trust's interest rate swaps.

**(iv) Deferred Taxes**

The increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increase in the carrying values of the Trust's investment properties as a result of adopting the fair value method under IAS 40. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Trust's expectation that the method of realization will be through the sale of its properties rather than through owning and operating the properties.



### Reconciliation of Consolidated Statement of Financial Position from Canadian GAAP to IFRS

The following information reflects a reconciliation of the Trust's Consolidated Statements of Financial Position from Canadian GAAP to the application of IFRS standards as reported for comparative purposes (that is, January 1, 2010 and December 31, 2010) in the interim consolidated financial statements for the current period.

As at	Note	Canadian GAAP, Jan 1, 2010	IFRS Adjustments	IFRS Jan 1, 2010
<b>Assets</b>				
<b>Non-current assets</b>				
Investment properties	(i)	\$ 2,158,079	\$ 1,971,557	\$ 4,129,636
Property, plant and equipment	(ii)	13,908	2,609	16,517
Deferred tax assets	(vi)	–	686	686
		2,171,987	1,974,852	4,146,839
<b>Current assets</b>				
Inventories		–	2,899	2,899
Prepaid assets		–	3,197	3,197
Trade and other receivables		3,049	–	3,049
Segregated tenants' security deposits		12,917	–	12,917
Cash		190,325	–	190,325
		206,291	6,096	212,387
<b>Total assets</b>		<b>\$ 2,378,278</b>	<b>\$ 1,980,948</b>	<b>\$ 4,359,226</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Mortgages payable	(iii)	\$ 2,145,638	\$ (474,449)	\$ 1,671,189
Debentures		111,834	–	111,834
LP Class B Units	(iv)	–	165,799	165,799
Other non-current liabilities	(v)	–	5,668	5,668
Deferred unit-based compensation	(vi)	–	3,049	3,049
Deferred tax liabilities	(vii)	94,956	597,960	692,916
		2,352,428	298,027	2,650,455
<b>Current liabilities</b>				
Mortgages payable		–	474,449	474,449
Debentures		–	–	–
Deferred unit-based compensation		–	1,147	1,147
Refundable tenants' security deposits		16,263	–	16,263
Trade and other payables		54,627	–	54,627
		70,890	475,596	546,486
<b>Total Liabilities</b>		<b>2,423,318</b>	<b>773,623</b>	<b>3,196,941</b>
<b>Equity</b>				
Unitholders' equity		\$ (45,040)	\$ 1,207,325	\$ 1,162,285
<b>Total Equity</b>		<b>(45,040)</b>	<b>1,207,325</b>	<b>1,162,285</b>
<b>Total Liabilities and Equity</b>		<b>\$ 2,378,278</b>	<b>\$ 1,980,948</b>	<b>\$ 4,359,226</b>

#### (i) Investment properties

In accordance with IFRS and the Trust's accounting policy choice, the Trust measured its investment properties at fair value. In addition, items that were previously considered Revenue producing property under Canadian GAAP were reclassified to Property, plant and equipment under IFRS. In addition, the Canadian GAAP balance is comprised of the revenue producing properties balance of \$2,084,382 and discontinued operations of \$73,697. Below is a reconciliation of the investment properties adjustment:

Fair value adjustment	1,980,262
Reclass to PP&E	(8,705)
	1,971,557

**(ii) Property, plant and equipment ("PP&E")**

The balance under Canadian GAAP is comprised of Other Assets (which represented corporate technology, head office building and prepaid expenses). Under IFRS, corporate technology and head office building remain under PP&E however some elements previously classified under revenue producing properties for Canadian GAAP (such as site equipment and automobiles) have been reclassified to PP&E. In addition, under IFRS, inventories must be presented in the statement of financial position. For presentation purposes, prepaid assets have also been disclosed separately. The reconciliation of the PP&E adjustment is below:

Reclass from investment properties	8,705
Reclass to inventories	(2,899)
Reclass to prepaid assets	(3,197)
	2,609

**(iii) Mortgages payable**

The balance under Canadian GAAP is comprised of mortgages payable of \$2,106,852 and discontinued operations of \$38,786. In addition, under IFRS a classified statement of financial position is presented, therefore mortgages payable and allocated between the current and non-current portions.

**(iv) LP Class B Units**

Under IFRS, the LP Class B Units are considered a financial liability and are carried at Fair Value Through Profit or Loss. As a result, upon adoption an entry was required to reclass the Units from Unitholders' equity (deficit) to liabilities. Once reclassified, the Units are adjusted on a quarterly basis to reflect market value based on the Trust Unit price on the date of transition. The adjustment is as follows:

Reclass from Unitholders' equity (deficit)	24,840
Fair value adjustment	140,959
	165,799

**(v) Other non-current liabilities**

This represents the fair value of the interest rate swaps as at January 1, 2010 under IFRS.

**(vi) Deferred unit-based compensation**

Similar to the LP Class B Units, under IFRS, the deferred unit-based compensation is considered a financial liability and is carried at Fair Value Through Profit or Loss. As a result, upon adoption, deferred unit-based compensation was reclassified from Unitholders' equity (deficit) to liabilities. Once reclassified, the deferred unit-based compensation was adjusted to reflect market value based on the Trust Unit price on the date of transition. In addition, the compensation expense differed slightly from Canadian GAAP as a graded amortization is used under IFRS as opposed to a straight-line amortization. The adjustment is as follows:

Reclass from Unitholders' equity (deficit)	4,122
Adjustment to compensation expense	(30)
Fair value adjustment	104
Reclass to current liabilities	(1,147)
	3,049

**(vii) Deferred income taxes**

The increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increase in the carrying values of the Trust's investment properties as a result of adopting the fair value method. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Trust's expectation that the method of realization will be through their sale rather than through owning and operating its properties. In addition, deferred tax assets are not to be netted against deferred tax liabilities and as such are disclosed separately. The deferred income tax liability adjustment is as follows:

Increase in liability due to increase in carrying value	598,646
Reclass to deferred income tax asset	(686)
	597,960

As at	Note	Canadian GAAP, Dec 31, 2010	IFRS Adjustments	IFRS Dec 31, 2010
<b>Assets</b>				
<b>Non-current assets</b>				
Investment properties	(i)	\$ 2,069,292	\$ 2,248,950	\$ 4,318,242
Property, plant and equipment	(ii)	14,393	2,855	17,248
Deferred tax assets	(vi)	–	681	681
		2,083,685	2,252,486	4,336,171
<b>Current assets</b>				
Inventories		–	3,017	3,017
Prepaid assets		–	3,620	3,620
Trade and other receivables		3,044	–	3,044
Segregated tenants' security deposits		11,987	–	11,987
Cash		228,086	–	228,086
		243,117	6,637	249,754
<b>Total assets</b>		<b>\$ 2,326,802</b>	<b>\$ 2,259,123</b>	<b>\$ 4,585,925</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Mortgages payable	(iii)	\$ 2,153,206	\$ (290,122)	\$ 1,863,084
Debentures		112,211	–	112,211
LP Class B Units	(iv)	–	184,594	184,594
Other non-current liabilities	(v)	–	6,386	6,386
Deferred unit-based compensation	(vi)	–	3,401	3,401
Deferred tax liabilities	(vii)	99,197	641,162	740,359
		2,364,614	545,421	2,910,035
<b>Current liabilities</b>				
Mortgages payable		–	290,122	290,122
Debentures		–	–	–
Deferred unit-based compensation		–	2,028	2,028
Refundable tenants' security deposits		15,556	–	15,556
Trade and other payables		55,648	–	55,648
		71,204	292,150	363,354
<b>Total Liabilities</b>		<b>2,435,818</b>	<b>837,571</b>	<b>3,273,389</b>
<b>Equity</b>				
Unitholders' equity		\$ (109,016)	\$ 1,421,552	\$ 1,312,536
<b>Total Equity</b>		<b>(109,016)</b>	<b>1,421,552</b>	<b>1,312,536</b>
<b>Total Liabilities and Equity</b>		<b>\$ 2,326,802</b>	<b>\$ 2,259,123</b>	<b>\$ 4,585,925</b>

**(i) Investment properties**

In accordance with IFRS and the Trust's accounting policy choice, the Trust measured its investment property at fair value. In addition, items that were previously considered Revenue producing property under Canadian GAAP were reclassified to Property, plant and equipment under IFRS. Below is a reconciliation of the investment properties adjustment:

Fair value adjustment	2,258,442
Reclass to PP&E	(9,492)
	2,248,950

**(ii) Property, plant and equipment ("PP&E")**

The balance under Canadian GAAP is comprised of Other Assets (which represented corporate technology, head office building and prepaid expenses). Under IFRS, corporate technology and head office building remain under PP&E however some elements previously classified under revenue producing properties for Canadian GAAP (such as site equipment and automobiles) have been reclassified to PP&E. In addition, under IFRS, inventories must be presented in the statement of financial position. For presentation purposes, prepaid assets have also been disclosed separately. The reconciliation of the PP&E adjustment is below:

Reclass from investment properties	9,492
Reclass to inventories	(3,017)
Reclass to prepaid assets	(3,620)
	2,855

**(iii) Mortgages payable**

Under IFRS a classified statement of financial position is presented, therefore mortgages payable and allocated between the current and non-current portions.

**(iv) LP Class B Units**

Under IFRS, the LP Class B Units are considered a financial liability and are carried at Fair Value Through Profit or Loss. As a result, upon adoption an entry was required to reclass the Units from Unitholders' equity (deficit) to liabilities. Once reclassified, the Units were adjusted to reflect market value based on the Trust Unit price on the date of transition. The adjustment is as follows:

Reclass from Unitholders' equity (deficit)	24,840
Fair value adjustment	159,754
	184,594

**(v) Other non-current liabilities**

This represents the fair value of the interest rate swaps as at December 31, 2010 under IFRS.

**(vi) Deferred unit-based compensation**

Similar to the LP Class B Units, under IFRS, the deferred unit-based compensation is considered a financial liability and is carried at Fair Value Through Profit or Loss. As a result, upon adoption, deferred unit-based compensation was reclassified from Unitholders' equity (deficit) to liabilities. Once reclassified, the deferred unit-based compensation was adjusted to reflect market value based on the Trust Unit price on the reporting date. In addition, the compensation expense differed slightly from Canadian GAAP as a graded amortization is used under IFRS as opposed to a straight-line amortization. The adjustment is as follows:

Reclass from Unitholders' equity (deficit)	4,533
Adjustment from January 1, 2010	74
Adjustment to compensation expense	199
Fair value adjustment	623
Reclass to current liabilities	(2,028)
	3,401

**(vii) Deferred income taxes**

The increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increase in the carrying values of the Trust's investment properties as a result of adopting the fair value method. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Trust's expectation that the method of realization will be through the sale of its properties rather than through owning and operating them. In addition, deferred tax assets are not to be netted against deferred tax liabilities and as such are disclosed separately. The deferred income tax liability adjustment is as follows:

Increase in liability due to increase in carrying value	641,843
Reclass to deferred income tax asset	(681)
	641,162

**Impact of IFRS on Statement of Comprehensive Income**

The following paragraphs and reconciliations highlight the significant differences between Canadian GAAP and IFRS that affect the Trust's Statement of Comprehensive Income.

**Rental Revenue**

The adoption of IFRS standards has not required significant changes to the way the Trust recognized and recorded rental revenues previously under Canadian GAAP. Tenant leases continue to be considered operating leases under IFRS, consistent with their treat-

ment under Canadian GAAP. The Trust continues to recognize its rental revenue systematically over the term of the lease, which is generally not more than twelve months. Suite specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are also amortized over the term of the operating lease.

### Depreciation expense

Under the fair value model, depreciation of investment properties is not recorded. However, depreciation associated with assets now classified as 'Property, Plant and Equipment', which includes properties the Trust uses substantially for administrative purposes, such as the corporate head office known as First West Place, continue to be depreciated on a straight-line basis of the estimated useful life of the asset. In addition, under IFRS the amortization of intangible assets, previously disclosed separately on the Trust's Canadian GAAP income statement, have now been included as part of depreciation expense on the Consolidated Statement of Comprehensive Income under IFRS. The presentation change had no impact on the amount of depreciation recorded on the Trust's financial statements.

The impact of no longer recording depreciation on investment properties results in a decrease in the depreciation expense recorded under IFRS, in comparison to the depreciation expense previously recorded for the same periods under Canadian GAAP. However, rather than recording depreciation expense related to investment properties, fluctuations in the fair value of these properties are now recorded in the statement of comprehensive income as "fair value adjustments".

The transition from Canadian GAAP to IFRS resulted in a decrease in depreciation expense of \$84.9 million for the year ended December 31, 2010. This was offset by the fair value adjustment related to investment property, which was recorded for these corresponding financial statement periods. These fair value adjustments will be discussed later in this section.

Additionally historic intangible balances established under Canadian GAAP in connection with past business combinations are no longer separately recognized and accordingly not amortized under IFRS. No longer amortizing these historic intangible assets had no impact on the Trust's consolidated statement of comprehensive income under IFRS for the year ended December 31, 2010 as the Trust has no balances related to these intangible assets being amortized at those dates.

### Financing Costs

As a result of the LP Class B Unit's classification as a financial liability in accordance with IAS 32, distribution payments associated with these Units, which were previously recorded as a reduction in equity under Canadian GAAP, must now be recorded as financing costs under IFRS. The amount reported includes the fair value changes related to the LP Class B Units are included in the fair value gains and losses amount reported on the Consolidated Statement of Comprehensive Income.

The impact of this change resulted in an increase in financing charges and a corresponding decrease in profit of approximately \$10.3 million for the year ended December 31, 2010 under IFRS in comparison to the same periods previously reported under Canadian GAAP. It should be noted that the December 31, 2010 LP B Unit distribution amount includes a special distribution of \$2.2 million declared and paid in 2010.

### Gain (loss) on sale of investment properties

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value shall be adjusted to reflect the fair value as outlined in the purchase and sale agreement (assuming the purchase and sale agreement is the best evidence of fair value). This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized as a gain (loss) on the sale of assets.

This differs from its treatment under Canadian GAAP where the gain (loss) on the sale of an asset was calculated by taking the proceeds from the sale (less any costs associated with the sale) and subtracting the net book value of the asset.

This change results in a loss on the sale of assets being recorded on the Statement of Comprehensive Income, under IFRS, of (\$3.0 million) for the year ended December 31, 2010 compared to a gain on sale of \$34.2 million, recorded under Canadian GAAP.

The impact of this change results in a decrease to profit of \$37.3 million for the year ended December 31, 2010, under IFRS when compared to profit for the same periods previously reported on the Trust's Canadian GAAP financial statements.

### **Fair value gains (losses)**

#### *Investment property*

As a result of electing to use the fair value model to account for our investment properties, profit during a given period may be higher or lower than that determined under Canadian GAAP depending on whether there is an increase or a decrease in the fair value of investment properties during the period. Fluctuations to the fair value of our investment properties are recorded on the statement of comprehensive income under IFRS as fair value gains or losses.

This differs from Canadian GAAP where investment properties were carried at their net book value and fluctuations in their related fair values were not recorded on the financial statements.

The Trust recorded an increase to the carrying value of its investment properties on its statement of financial position of \$2.0 billion at January 1, 2010 as a result of the Trust's election to use the fair value model upon adoption of IFRS standards. Many factors will impact the valuation of investment properties including, but not limited to, market rents, Capitalization Rate and capital expenditures on investment properties.

A fair value gain of \$230.6 million was recorded for the year ended December 31, 2010. The increase in the fair value of investment properties at this date is largely the result of decreasing Capitalization Rates used in the fair value determination. Fair value gains on investment properties recorded on the Consolidated Statement of Comprehensive Income will result in a corresponding increase to profit.

#### *Financial Instruments*

As outlined above, certain financial instruments recognized in accordance with IFRS standards were not previously recognized as such under Canadian GAAP and were, therefore, measured on a different basis. As a result of the classification of the LP Class B Units and the deferred unit compensation plan as "FVTPL" financial liabilities under IFRS, these items are recorded at their fair value at each reporting date. The corresponding fair value changes are accounted for as fair value gains or losses on the statement of comprehensive income.

#### *LP Class B Units*

The impact of the fair value changes of the LP Class B Units for the year ended December 31, 2010 resulted in the recognition of a fair value loss of \$18.8 million, respectively on the consolidated statement of comprehensive income. A closing market price of the REIT Units on the principal market on which the REIT Units are quoted for trading was used to determine the fair value gain (loss) recorded on the Trust's financial statements. These closing market price was \$41.25 on December 31, 2010.

#### *Deferred unit based compensation plan*

In accordance with IFRS 2, the deferred units issued under the deferred unit compensation plan are recorded at their fair value of the deferred units at the grant date and expensed on a graded straight-line bases over their associated vesting period based on the Trust's estimate of the deferred units that will actually vest at each reporting date.

This methodology differs slightly from that applied under Canadian GAAP, which amortized the deferred compensation based on a straight-line basis over the vesting term of the deferred units. This change in methodology has resulted in an increase of \$0.2 million for the year ended December 31, 2010 to the compensation expense recognized when compared to the corresponding amounts recorded previously under Canadian GAAP.



In addition to this, the deferred unit compensation plan is considered a financial liability under IFRS and recorded at its fair value at each reporting date. Fluctuations in the fair values are recorded as fair value gains or losses on the statement of comprehensive income. For the year ended December 31, 2010, the Trust recorded a fair value loss of \$0.6 million related to the deferred unit compensation plan. The same closing market prices were applied as those related to the LP Class B Units discussed above.

### Discontinued operations

Previously under Canadian GAAP, the sale of an investment property by the Trust met the definition of a "discontinued operation" and was disclosed as such on the Trust's financial statements. However, a discontinued operation, under IFRS 5, is a component of an entity that either has been disposed of or is classified as held for sale and:

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) is a subsidiary acquired exclusively with a view of resale.

Based on the above definition, the sale of a single investment property does not qualify as a component sale under IFRS 5 and therefore, Boardwalk is not required to classify the sale of a single building as a discontinued operation on its financial statements.

### Income tax expense (recovery)

We have recorded the corresponding tax effect of the above noted differences, which resulted in the recognition of an increase in the deferred income tax expense (recovery) of \$43.2 million for the year ended December 31, 2010 in comparison to those recorded previously under Canadian GAAP. These deferred tax expense increases are largely related to the adoption of the fair value method used to record investment properties and corresponding fluctuations in the investment property fair value between reporting periods. The increase in income tax expense (recovery) has resulted in a corresponding decrease in profit recorded under IFRS.

### Reconciliation of profit as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Trust's net earnings reported in accordance with Canadian GAAP to its profit in accordance with IFRS for the year ended December 31, 2010.

	Note	Year ended Dec 31, 2010
Net earnings as reported under Canadian GAAP		\$ 71,729
Differences increasing (decreasing) reported amounts		
Investment properties	(viii)	
Fair value gain		230,575
Reverse Canadian GAAP depreciation expense		84,880
Adjustment to gain (loss) on sale		(37,273)
Financial instruments	(ix)	
LP B Units		
Fair value loss		(18,795)
Distributions recorded as financing charge		(10,293)
Deferred unit-based compensation		
Fair value loss		(623)
Compensation expense		(199)
Deferred taxes	(x)	(43,209)
Total IFRS adjustments		\$ 205,063
Profit as reported under IFRS		\$ 276,792

#### (viii) Investment properties

In accordance with IFRS and the Trust's accounting policy choice, the Trust measures investment properties at fair value and records changes in fair value in the statement of comprehensive income during the period of change. Under Canadian GAAP, all revenue-producing properties were recorded at cost and

depreciated over their estimated useful economic lives. In addition, intangible assets and liabilities recognized on the acquisition of investment property were also amortized to profit or loss under Canadian GAAP, which is no longer the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property at each reporting date. As a result of applying the fair value model, depreciation expense taken under Canadian GAAP for the Trust's investment property was reversed prior to determining the fair value adjustment. In addition, the gain or loss on disposition varies from Canadian GAAP as the asset sold is now carried at fair value, which approximates the purchase and sale agreement resulting in a loss on sale due to disposition costs.

**(ix) Financial instruments**

This adjustment relates to the classification of both LP Class B Units and the Trust's deferred unit-based compensation plan as financial instruments designated as FVTPL. Under Canadian GAAP, these Units were previously classified as equity and the related distributions recorded as a reduction to Unitholders' equity. As a result of the reclassification of these Units as financial liabilities under IFRS, the distributions related to the LP Class B Units will now be treated as financing costs and recorded on the consolidated statement of comprehensive income, while changes to the deferred unit-based compensation plan will continue to be expensed as part of compensation expense on the consolidated statement of comprehensive income. In addition, since these financial liabilities are classified as FVTPL, they are recorded at fair value at each reporting date. Gains and losses resulting from the FVTPL approach are recorded in the consolidated statement of comprehensive income.

**(x) Deferred taxes**

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP for the Trust's investment properties

### Other comprehensive Income

Except for the fair value change of the effective portion of the Trust's interest rate swap and the changes in profit outlined above, no reconciling items occurred between the Trust's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010.

	Year ended Dec 31, 2010
Total comprehensive income as reported under Canadian GAAP	\$ 71,752
Changes to profit outlined above	205,063
Fair value change of the effective portion of interest rate swaps	(718)
Total comprehensive income as reported under IFRS	\$ 276,097

### Impact of IFRS on the statement of cash flows

As a result of the LP Class B Units being classified as a financial liability, the distributions related to these Units are treated as a financing cost and are recorded on the Consolidated Statement of Comprehensive Income. These distributions now appear within operating activities on the statement of cash flows while they were previously recorded as a financing activity on the statement of cash flows under Canadian GAAP. This resulted in a \$10.3 million cash inflow to financing activities for the year ended December 31, 2010 from Canadian GAAP to IFRS and a corresponding cash outflow to operating working capital for the same amount.

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

### Information technology ("IT") and data systems

With the conversion to IFRS, a significant focus has been placed on information technology and data systems. All changes resulting from the transition to IFRS have occurred on a transactional level, meaning systems have been redesigned to ensure transactions are accounted for correctly under IFRS. In addition, IFRS has resulted in significant changes to accounting policies and disclosure requirements and requiring that new data be captured which was not previously required under Canadian GAAP.

The majority of Boardwalk REIT's software applications are designed and developed in-house, with required system changes and alterations to be completed by Boardwalk REIT's IT department.

Two significant IT initiatives were undertaken as a result of the Trust's transition to and adoption of IFRS standards on January 1, 2011. The first initiative was the development of a fixed asset module to track all capital assets of the Trust. This system allows the Trust to track all assets as was required under Canadian GAAP as well their corresponding fair values in accordance with IFRS. In addition to tracking the cost basis of all of Boardwalk REIT's assets, this system tracks the fair value of each Boardwalk REIT Investment Property as required under IAS 40. This system, along with the external valuation information provided by an independent third party, has been used to provide the fair value of investment properties recorded on the Trust's financial statements. Additional information

on the valuation process and the third party independent information used in this valuation can be found in the section titled "Valuation Process" in this report.

The second initiative involved the development of a new general ledger accounting system. The significance of this development is that, beginning January 1, 2010, Boardwalk REIT was required to maintain two sets of financial records. The first set related to financial accounting/reporting under Canadian GAAP. As a public entity, the Trust was required to report its public financial information under Canadian GAAP until December 31, 2010. The second set relates to financial accounting/reporting information under IFRS. While the requirement to adopt IFRS was not required until January 1, 2011, a year of comparative information must also be disclosed upon conversion to IFRS. As a result, Boardwalk REIT was required to maintain and provide financial information under IFRS beginning January 1, 2010. This new general ledger system was utilized to report the current and comparative financial information disclosed in this reporting period.

Other minor modifications to the Trust's accounting systems were required; however, the above two systems were the most significant IT requirements identified for the Trust's transition to IFRS. As with any other system development or conversion, all systems developed or modified have been tested extensively prior to implementation.

#### Internal controls over financial reporting and disclosure

In accordance with Boardwalk REIT's approach to the certification of internal controls required under National Instrument 52-109, all entity level, information technology, disclosure and business process controls have been updated to reflect the changes which have arisen as a result of Boardwalk's convergence to IFRS. All material changes and key controls related to these material changes have been identified, mapped and testing is completed on a quarterly basis on these items to ensure that no material deficiencies exist as a result of the Trust's transition to these new accounting standards. Key controls for all other processes are tested annually to ensure the controls remain effective. For the year ended December 31, 2011, testing has been completed on all key controls and no material deficiencies have been identified.

#### Financial Reporting Expertise

In order to complete the conversion to IFRS, Boardwalk REIT assembled an IFRS project team, which was involved in the conversion from inception to transition and continues to be involved in the Trust's financial reporting requirements under IFRS. This team is comprised largely of senior accounting staff, all of whom have experience in public reporting. Representatives from Boardwalk REIT's IT department have also been involved in this where system changes have been required. It is important to note that IFRS continues to evolve and change and as such, the IFRS team must continuously adapt to ensure that the most current standards are being reviewed and considered as part of our IFRS financial statement disclosure. Throughout the conversion process and on an on-going basis, the project team relies upon publications and updates from the AcSB, the CICA, the IASB, public accounting firms and any other resources deemed necessary, in order to ensure that sufficient knowledge is obtained to make informed decisions.

Prior to the implementation of IFRS, accounting staff was trained to ensure they are aware of the changes implemented and understand how these standards impact their work areas. In addition, as IFRS was implemented at the transactional level, operational departments have also been trained based on those standards, which impact their day-to-day operations.

#### Business Activities

The adoption of IFRS has resulted in changes to Boardwalk's financial results, and impacted many business activities including, but not limited to, hedging, performance measures, debt covenants, distribution policies and compensation arrangements.

#### Hedging Activities

Under IFRS, it is more difficult to obtain hedge accounting as the "matching of critical terms" is not an acceptable criterion to apply hedging accounting. Under Canadian GAAP, hedge accounting was applied to Boardwalk's interest rate swaps based on the matching of critical terms. Under IFRS, all required documentation (including effectiveness testing to ensure the interest rate swaps

were effective under IFRS) was completed with no issues noted. As such, hedge accounting continues to be applied to the interest rate swaps under IFRS.

### Performance Measures

Currently, Boardwalk REIT assesses and measures operating results based on FFO and AFFO. DI has been discontinued as a performance measurement after the 2010 fiscal year. AFFO is simply FFO adjusted for maintenance capital expenditures. Additional information on AFFO can be found in the "Maintenance of Productive Capacity" section of this report.

### FFO

The Trust has defined the calculation of FFO under the application of IFRS standards as profit before fair value gains (losses), distributions on the LP B Units, gains (losses) on the sale of investment properties, depreciation and amortization, income taxes and certain other non-cash items. This performance measure requires some adjustments in order to provide meaningful information on performance for investors and stakeholders. The Trust has concluded that the treatment of fair value fluctuations in investment properties, the LP Class B Units and deferred unit compensation plan, as well as, the corresponding distributions paid to the LP Class B Unit Holders, being recorded as financing charges all of which flow through the Consolidated Statement of Comprehensive Income, are not relevant in determining the Trust's normal recurring funds from operations (similar to the Trust's rationale for not including gains (losses) on dispositions in FFO). As a result of this rationale, these items have not been included in calculating FFO to maintain comparability and relevancy of the measurements from period to period. See the section titled "Performance Measures" for the calculation of FFO.

Net Operating Income is a key performance measure of Boardwalk REIT's operational results and has not been significantly impacted as a result of the adoption of IFRS.

### Debt Covenants

The following table shows a summary of the Trust's debt covenants and the impact of the adoption of IFRS on these covenants:

Name of Debt Covenant	Covenant Test	Impact on debt covenant upon the adoption of IFRS
Declaration of Trust ("DOT")	Debt to Gross Book Value should not exceed 70% ("Debt to GBV")	<p>The \$641 million "bump" included as part of the debt to gross book value calculation was removed as a result of the use of the fair value model to value investment properties under IFRS.</p> <p>Upon the adoption of IFRS, the LP Class B Units, previously recorded as equity under Canadian GAAP, were reclassified as debt on the Consolidated Statement of Financial Position. The calculation of Debt to Gross Book value excludes the LP Class B Units in this calculation on the basis that the DOT specifies that the calculation of the components of Debt in this calculation specifically excludes trade accounts payable, distribution payable, securities issued by the Trust or its Subsidiaries, including, but not limited to, the LP Class B Units, and accrued liabilities arising in the ordinary course of business.</p> <p>The Trust continues to be onside with this debt covenant.</p>
Unsecured Debenture	Consolidated EBITDA to Consolidated interest expense ratio will not fall below 1.75 to 1	<p>Upon reclassification of LP Class B Units as debt on the Consolidated Statement of Financial Position under IFRS, the distribution payments associated with these Units are considered "financing charges" in accordance with IAS 32.</p> <p>The Trust has determined that the fair value adjustments of its Investment Properties and financial liabilities and the distributions on its LP Class B Units will not affect the calculation of EBITDA, but the distributions on its LP Class B Units will affect the calculation of Interest Expense. The Trust has determined that the distributions on the LP B Units will not be considered financing costs as such distributions were not considered financing charges in accordance with Canadian GAAP as at January 21, 2005. The Trust has reviewed the EBITDA to Consolidated Interest Expense ratio upon the adoption of IFRS and continues to be on side with this debt covenant.</p>

Name of Debt Covenant	Covenant Test	Impact on debt covenant upon the adoption of IFRS
	Debt to GBV should not exceed 60%	The Debenture Trust Indenture specifies that the debt component of this calculation are determined based on amounts calculated in accordance with Canadian GAAP as at January 21, 2005. See above for discussion on the impact of IFRS on this covenant Boardwalk continues to be onside with this debt covenant.
	Adjusted Unitholders' Equity should not fall below \$300 million	The threshold for this covenant and calculation for this covenant have not been materially affected by the adoption of IFRS standards. Boardwalk continues to be onside with this debt covenant.
Committed Revolving Credit Facility	Debt Service coverage ratio should not fall below 1.2 to 1	The calculation of this covenant has been impacted by the adoption of IFRS since the distribution on the LP B Units will now be considered financing charges. Although the DSC ratio will be lower under IFRS, the Trust is still in compliance with the minimum threshold.
	Debt Service coverage ratio, specific to the Security Portfolio should not fall below 1.15 to 1	The threshold and calculation of this covenant has not been impacted by the adoption of IFRS. This covenant is only calculated semi-annually. At June 30, 2010 and December 31, 2010, the Trust was in compliance with this covenant.
	Debt to GBV should not exceed 70% (75% after July 27, 2011 with GBV calculated using most recent two quarters)	This covenant has the same threshold and is calculated in a similar manner as the Debt GBV covenant related to the DOT above. See above for discussion on the impact of IFRS on this covenant. Boardwalk continues to be onside with this debt covenant.
Mortgage Payable Agreements	CMHC Debt Covenants and various restrictive covenants	The thresholds and calculations of the CMHC debt covenants have not been impacted by the adoption of IFRS. Boardwalk continues to be onside with the CMHC debt and restrictive covenants.

As outlined in NOTE 30(d) of the consolidated financial statements, Boardwalk REIT is required to meet its financial covenants stipulated in the Declaration of Trust, the Debenture Trust Indenture and the credit facility agreement.

### Distributions Policies

The Trust has amended its Declaration of Trust to allow distribution by the Trust to be at the sole discretion of the Board of Trustees; therefore, the payment of Unitholder distributions is not considered a constructive obligation to deliver cash under IAS 37.

### Compensation Arrangements

Currently, Boardwalk REIT's incentive compensation is largely based on obtaining (and exceeding) targeted FFO, which has not been materially affected by the adoption of IFRS.

### External Communications

Boardwalk REIT updated its Management's Discussion and Analysis document in accordance with CSA Notice 52-320 throughout the IFRS transition project and continues to update its MD&A in accordance with Form 51-102F1 (the MD&A form). All public disclosure documentation has been updated to ensure disclosure is accurate and complete for the effects of the implementation of IFRS standards on the Trust.

## Disclosure Controls and Procedures & Internal Control Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO, President and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

The preparation of this information is supported by a set of disclosure controls and procedures implemented by management. In fiscal 2011, these controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2011. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Trust and the requirements of National Instrument 52-109 of the Canadian Securities Administrators titled, 'Certification of Disclosure in Issuers' Annual and Interim Filings'.

Boardwalk REIT continues to review the design of disclosure controls and procedures to provide reasonable assurance that material information relating to Boardwalk REIT is made known to the CEO, President and CFO.

As at December 31, 2011, Boardwalk REIT also confirmed the effectiveness of the design of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information. Boardwalk REIT may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business. There were no changes made in our internal controls over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of internal controls over financial reporting has been reviewed and updated, if necessary, to ensure they remain effective to provide reasonable assurance regarding the reliability of financial statements and information as Boardwalk transitioned to and adopted IFRS. Based on management's current assessment, these updates enhance its existing ICFR and do not materially affect or are reasonably likely to affect its ICFR in fiscal 2011 due to Boardwalk REIT's adoption of IFRS. For fiscal year 2011, the Trust is required to maintain financial information in accordance with IFRS with comparative figures for 2010. Accordingly, both the general ledger accounting system and asset tracking system module have been updated to accommodate this. Internal controls exist to ensure the updates to the general ledger accounting system and the asset tracking system module were operating as intended prior to the new changes 'going live' and, as with all new IT initiatives, all changes were tested thoroughly prior to implementation. These controls are similar to controls previously designed and in effect when Boardwalk REIT upgrades any of its software applications.

New processes and procedures, which have arisen as a result of the transition to IFRS, have been determined, documented and their key controls identified. The key controls related to the initial adoption of IFRS standards have been tested to ensure that no material deficiencies exist as a result of the Trust's transition to these new accounting policies. Procedures related to IFRS on a going-forward basis have been identified and documented within the Trust's current processes. Key controls related to these processes have been identified and have been tested in 2011. The Trust has not identified any material deficiencies related to its internal controls for the transition to IFRS standards.

## 2012 Financial Outlook and Market Guidance

At the end of the third quarter of 2011, the Trust announced its financial outlook for the upcoming 2012 year. The following table highlights the key financial objectives for the 2012 fiscal year as well as our performance for the 2011 year.

Description	2012 Objectives	2011 Actual
Acquisitions	No new apartment acquisitions	No new apartment acquisitions
Stabilized Building NOI growth	1% to 4%	0.7%
FFO Per Unit	\$ 2.65 to \$ 2.85	\$ 2.52
AFFO Per Unit	\$ 2.35 to \$ 2.55	\$ 2.22



In deriving these forecasts, we have adjusted for the treatment of the LP B Units to be treated as equity (versus debt under IFRS) and their related treatment of the distributions paid (which are classified as financing charges under IFRS). In addition, we are assuming no additional acquisition or disposition of properties.

The reader is cautioned that this information is forward-looking information and actual results may vary materially from those reported. One of the key estimates is the performance of the Trust's stabilized properties. Any significant change in assumptions deriving 'Stabilized Building NOI performance' would have a material effect on the final reported amount. The trust reviews these key assumptions quarterly and based on this review may change its outlook.

In addition to the above financial guidance for 2012, the Trust has assumed the following capital will be invested back into its existing portfolio for the 2012 fiscal year.

Capital Budget	2012 Budget	Per Suite	2011 Actual	Per Suite
Total Approved	\$ 85,000	\$ 2,410	\$ 69,265	\$ 1,963
Maintenance Capital	\$ 15,900	\$ 450	\$ 15,875	\$ 450
Stabilizing & Value Added Capital	\$ 69,100	\$ 1,960	\$ 53,390	\$ 1,513
	\$ 85,000	\$ 2,410	\$ 69,265	\$ 1,963

In total, we believe we will invest \$85.0 million (or \$2,410 per apartment unit) in 2012 as compared to \$69.3 million (or \$1,963 per apartment unit) actually spent in 2011. The budgeted amount for 2012 is consistent with the amount budgeted for in 2011.

## Selected Consolidated Financial Information

The following selected financial information should be read in conjunction with "Management's Discussion and Analysis", the audited consolidated financial statements and accompanying notes for the years ended December 31, 2011 and 2010, and the unaudited interim consolidated financial statements of Boardwalk REIT and accompanying notes both incorporated herein by reference.

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

Annual Comparative <i>Cdn\$ Thousands, except per unit amount</i>	Twelve Months Ended				
	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009 <sup>(1)</sup>	Dec 31, 2008 <sup>(1)</sup>	Dec 31, 2007 <sup>(1)</sup>
Total rental revenue	422,727	420,432	416,815	419,799	375,012
Profit (loss)	1,225,086	276,792	62,067	45,685	(59,326)
Funds from operations	131,808	129,728	133,094	129,918	116,461
Profit (loss) per unit					
- Basic	25.64	5.75	1.17	0.84	(1.05)
- Diluted	24.40	5.82	1.17	0.84	(1.05)
Funds from operations per unit					
- Basic	2.76	2.69	2.51	2.39	2.07
- Diluted	2.52	2.47	2.51	2.39	2.07
Mortgages and debentures	2,331,121	2,265,417	2,287,967	2,165,066	1,888,783
Total assets	5,089,023	4,585,925	2,378,278	2,358,924	2,195,888
Number of apartment units	35,277	35,277	36,419	36,785	36,487
Rentable square feet (000's)	29,936	29,936	30,757	31,094	30,852

(1) Fiscal years ended December 31, 2009, 2008 and 2007 have not been restated to conform with IFRS.

Quarterly Comparative <i>Cdn\$ Thousands, except per unit amounts</i>	Three Months Ended							
	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010
Total rental revenue	107,073	105,994	105,364	104,296	105,131	104,292	105,194	105,815
Profit (loss)	136,924	169,087	196,561	722,514	45,254	164,066	23,597	43,875
Funds from operations	34,170	34,806	34,700	28,132	32,397	33,928	34,247	29,156
Profit (loss) per unit								
- Basic	2.88	3.54	4.12	15.10	0.94	3.41	0.49	0.91
- Diluted	2.96	3.27	3.82	14.35	0.39	3.80	0.48	1.15
Funds from operations per unit								
- Basic	0.71	0.73	0.73	0.59	0.67	0.71	0.71	0.60
- Diluted	0.65	0.67	0.66	0.54	0.62	0.65	0.65	0.55

### Additional Information

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

Respectfully,

(signed)

Roberto A. Geremia  
President

February 16, 2012

(signed)

William Wong  
Chief Financial Officer

## MANAGEMENT'S REPORT

To the Unitholders of Boardwalk Real Estate Investment Trust

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality, and are in accordance with International Financial Reporting Standards appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

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

The consolidated financial statements have been further examined by the Board of Trustees and by its Audit and Risk Management Committee which meets regularly with the auditors and management to review the activities of each. The Audit and Risk Management Committee, which comprises of three independent trustees, reports to the Board of Trustees.

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

*(signed)*

Sam Kolias  
Chief Executive Officer

February 16, 2012

*(signed)*

Roberto A. Geremia  
President

*(signed)*

William Wong  
Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Boardwalk Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Boardwalk Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

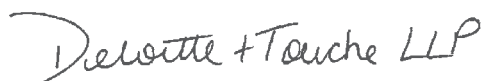
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boardwalk Real Estate Investment Trust as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Deloitte & Touche LLP  
Chartered Accountants

Calgary, Alberta  
February 16, 2012

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CDN \$ THOUSANDS)

As at	Note	Dec 31, 2011	Dec 31, 2010 <sup>(1)</sup>	Jan 1, 2010 <sup>(1)</sup>
<b>Assets</b>				
<b>Non-current assets</b>				
Investment properties	5	\$ 4,793,895	\$ 4,318,242	\$ 4,129,636
Property, plant and equipment	6	18,260	17,248	16,517
Deferred tax assets	17	725	681	686
		4,812,880	4,336,171	4,146,839
<b>Current assets</b>				
Inventories	7	2,640	3,017	2,899
Prepaid assets	8	3,838	3,620	3,197
Trade and other receivables	9	2,210	3,044	3,049
Segregated tenants' security deposits	10	11,561	11,987	12,917
Cash		255,894	228,086	190,325
		276,143	249,754	212,387
<b>Total Assets</b>		<b>\$ 5,089,023</b>	<b>\$ 4,585,925</b>	<b>\$ 4,359,226</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Mortgages payable	11	\$ 1,720,951	\$ 1,863,084	\$ 1,671,189
Debentures	12	–	112,211	111,834
LP Class B Units	13	225,719	184,594	165,799
Other non-current liabilities	14	8,282	6,386	5,668
Deferred unit-based compensation	15	4,396	3,401	3,049
Deferred tax liabilities	17	10	740,359	692,916
		1,959,358	2,910,035	2,650,455
<b>Current liabilities</b>				
Mortgages payable	11	497,780	290,122	474,449
Debentures	12	112,390	–	–
Deferred unit-based compensation	15	2,636	2,028	1,147
Refundable tenants' security deposits		15,126	15,556	16,263
Trade and other payables	16	56,943	55,648	54,627
		684,875	363,354	546,486
<b>Total Liabilities</b>		<b>\$ 2,644,233</b>	<b>\$ 3,273,389</b>	<b>\$ 3,196,941</b>
<b>Equity</b>				
Unitholders' equity	18	\$ 2,444,790	\$ 1,312,536	\$ 1,162,285
<b>Total Equity</b>		<b>\$ 2,444,790</b>	<b>\$ 1,312,536</b>	<b>\$ 1,162,285</b>
<b>Total Liabilities and Equity</b>		<b>\$ 5,089,023</b>	<b>\$ 4,585,925</b>	<b>\$ 4,359,226</b>

(1) Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to these consolidated financial statements

On behalf of the Trust:

(signed)

Sam Kolas

Trustee

(signed)

Gary Goodman

Trustee

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(CDN \$ THOUSANDS)

	Note	Year ended Dec 31, 2011	Year ended Dec 31, 2010 <sup>(1)</sup>
<b>Rental revenue</b>	19	\$ 416,152	\$ 414,033
Ancillary rental income	20	6,575	6,399
<b>Total rental revenue</b>		<b>422,727</b>	<b>420,432</b>
<b>Rental expenses</b>			
Operating expenses		84,400	76,624
Utilities		40,340	42,222
Property taxes		35,328	36,529
<b>Net operating income</b>		<b>262,659</b>	<b>265,057</b>
Financing costs	21	105,569	112,638
Administration		26,264	25,995
Depreciation and amortization	22	10,520	10,294
<b>Profit from continuing operations before loss on sale of assets, fair value gains and income tax expense (recovery)</b>		<b>120,306</b>	<b>116,130</b>
Loss on sale of assets	23	–	(3,047)
Fair value gains	24	364,389	211,157
<b>Profit before income tax expense (recovery)</b>		<b>484,695</b>	<b>324,240</b>
Income tax expense (recovery)	17	(740,391)	47,448
<b>Profit for the year</b>		<b>1,225,086</b>	<b>276,792</b>
Other comprehensive (loss)		(1,871)	(695)
<b>Total comprehensive income</b>		<b>\$ 1,223,215</b>	<b>\$ 276,097</b>

(1) Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to these consolidated financial statements



## CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(CDN \$ THOUSANDS)

	Note	Trust Units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Other comprehensive Income	Total Unitholders' equity
Balance, January 1, 2010	3	\$ 207,423	\$ 1,406,915	\$ (446,161)	\$ 960,754	\$ (5,892)	\$ 1,162,285
Units issued		1,873	–	–	–	–	1,873
Units purchased and cancelled		(17,024)	–	–	–	–	(17,024)
Profit for the year		–	276,792	–	276,792	–	276,792
Other comprehensive (loss)		–	–	–	–	(695)	(695)
Total comprehensive income for the year		–	276,792	–	276,792	(695)	276,097
Distributions declared to Unitholders		–	–	(110,695)	(110,695)	–	(110,695)
Balance, December 31, 2010	3	\$ 192,272	\$ 1,683,707	\$ (556,856)	\$ 1,126,851	\$ (6,587)	\$ 1,312,536
Balance, January 1, 2011		\$ 192,272	\$ 1,683,707	\$ (556,856)	\$ 1,126,851	\$ (6,587)	\$ 1,312,536
Units issued		1,732	–	–	–	–	1,732
Units purchased and cancelled		(6,740)	–	–	–	–	(6,740)
Profit for the year		–	1,225,086	–	1,225,086	–	1,225,086
Other comprehensive (loss)		–	–	–	–	(1,871)	(1,871)
Total comprehensive income for the year		–	1,225,086	–	1,225,086	(1,871)	1,223,215
Distributions declared to Unitholders		–	–	(85,953)	(85,953)	–	(85,953)
Balance, December 31, 2011		\$ 187,264	\$ 2,908,793	\$ (642,809)	\$ 2,265,984	\$ (8,458)	\$ 2,444,790

See accompanying notes to these consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(CDN \$ THOUSANDS)

	Note	Year ended Dec 31, 2011	Year ended Dec 31, 2010 <sup>(1)</sup>
<b>Operating activities</b>			
Profit for the year		\$ 1,225,086	\$ 276,792
Loss on sale of assets		–	3,047
Fair value gains		(364,389)	(211,157)
Income tax expense (recovery)		(740,391)	47,448
Depreciation and amortization	22	10,520	10,294
		<b>130,826</b>	<b>126,424</b>
Net change in operating working capital	33	<b>4,085</b>	<b>3,104</b>
		<b>134,911</b>	<b>129,528</b>
<b>Investing activities</b>			
Improvements to investment properties	5	(69,265)	(69,289)
Net cash proceeds from sale of properties	23	–	109,101
Net cash proceeds from sale of equipment	25	618	–
Additions to property, plant and equipment	6	(4,461)	(4,036)
		<b>(73,108)</b>	<b>35,776</b>
<b>Financing activities</b>			
Distributions paid		(85,969)	(110,751)
Unit repurchase program		(6,740)	(17,024)
Financing, repayment and maturity of debt on investment properties		62,910	10,546
Deferred financing costs incurred		(4,221)	(10,337)
Bond forward settlement, net of amortization		25	23
		<b>(33,995)</b>	<b>(127,543)</b>
Net increase in cash		<b>27,808</b>	<b>37,761</b>
Cash, beginning of year		<b>228,086</b>	<b>190,325</b>
<b>Cash, end of year</b>		<b>\$ 255,894</b>	<b>\$ 228,086</b>

(1) Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

(Tabular amounts in Cdn \$ thousands, except number of units and per unit amounts UNLESS OTHERWISE STATED)

## NOTE 1: Organization of the Trust

Boardwalk Real Estate Investment Trust ("Boardwalk REIT" or the "Trust" or the "entity") is an unincorporated, open-ended real estate investment trust created pursuant to the Declaration of Trust ("DOT"), dated January 9, 2004 and as amended and restated on May 3, 2004, May 10, 2006, May 10, 2007, May 13, 2008, May 13, 2009, May 18, 2010 and May 12, 2011, under the laws of the Province of Alberta. Boardwalk REIT was created to invest in multi-family residential investment properties or similar interests, initially through the acquisition of the assets and operations of Boardwalk Equities Inc. (the "Corporation"), which was acquired on May 3, 2004. Boardwalk REIT Trust Units are listed on the Toronto Stock Exchange under the symbol 'BEI.UN'. The registered office of the Trust and its head office operations are located at First West Place, Suite 200, 1501 1st Street SW, Calgary, Alberta, T2R 0W1.

## NOTE 2: Significant Accounting Policies

### (a) Statement of compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Trust adopted IFRS in compliance with IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1") as discussed in NOTE 3.

### (b) Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in NOTE 4.

### (c) Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its consolidated subsidiaries (including special purpose entities) (see NOTE 31), which are the entities over which Boardwalk REIT has control. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In accordance with Interpretation SIC 12 – Consolidation Special Purpose Entities ("SIC 12"), an entity can exercise control on a basis other than ownership of voting interests. Currently, the Trust has 100% control over all of the subsidiaries reported in the consolidated financial statements (either directly or indirectly); therefore, non-controlling interests do not exist for the Trust at this time. All intra-group transactions, balances, revenues and expenses eliminate on consolidation.

### (d) Investment properties

Investment properties include multi-family residential properties held to earn rental income. Investment properties are measured initially at cost. Cost includes all amounts relating to the acquisition (excluding transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to investment property. Included in these costs are amounts that are directly attributable internal resources and costs, which are capitalized to the extent that they upgrade or extend the economic life of the asset.

Subsequent to initial recognition, investment properties are recorded at fair value, in accordance with International Accounting Standard ("IAS") 40 - Investment Property ("IAS 40"). Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains or losses arising from differences between current period fair value

and the sum of previously measured fair value and capitalized costs as described above are recorded in profit or loss in the period in which they arise.

Any directly attributable costs incurred on investment properties under development are capitalized. Such costs include direct development costs, property taxes and other costs directly attributable to the development.

Properties owned by the Trust where a significant portion of the property is used for administrative purposes by the Trust are considered "Property, Plant and Equipment" and, therefore, fall within the scope of IAS 16 – Property, Plant and Equipment ("IAS 16") and are recorded in accordance with that standard. Where part of a building is used for administrative purposes by the Trust, but this portion is considered insignificant, this space is included as part of Investment Property under IAS 40.

Investment properties are reclassified to 'Assets held for sale' when the criteria set out in IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met (see NOTE 2(g)).

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Prior to its disposal, the carrying value of the investment property is adjusted to reflect its fair value as outlined in the purchase and sale agreement (as the purchase and sale agreement is the best evidence of fair value). This adjustment shall be recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

#### *Excess land*

Excess land represents land owned by the Trust located contiguous to land included as investment property. The Trust has the ability to develop additional multi-family residential buildings on this land or sell it separately from the investment property at a later date. Excess land is held for capital appreciation, therefore, treated as Investment Property and recorded in accordance with IAS 40 as outlined above. When determining the fair value of a project with excess land, the capitalization rate used in determining the value is adjusted accordingly.

#### **(e) Property, plant and equipment**

Tangible assets that are held for use in the production or supply of goods and services, or for administrative purposes, and are expected to be used during more than one period, except when another accounting standard requires or permits a different accounting treatment, are recorded in accordance with IAS 16 using the cost model. IAS 16, therefore, excludes tangible assets that are accounted for in accordance with IAS 40 (see NOTE 2(d) above) and IFRS 5 (see NOTE 2(g) below).

In accordance with IAS 16, the cost model, after initial recognition of the property, plant and equipment, requires the tangible asset to be carried at its cost less accumulated depreciation and any accumulated impairment losses (see NOTE 2(h)). Depreciation is recognized in a manner that reflects the pattern in which the future economic benefits of the tangible asset are expected to be consumed and realized by the Trust. The amount of depreciation will be charged systematically to the consolidated statement of comprehensive income and is the cost less residual value of the asset over its useful economic life. IAS 16 also requires that the cost and useful economic life of each significant component of a tangible asset be determined based on the circumstances of each tangible asset. The method of depreciation, residual values and estimates of the useful economic life of a tangible asset, or other property, plant and equipment, are reviewed at each financial year-end and any changes are accounted for as a change in accounting estimate in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

Property, Plant and Equipment ("PP&E") is valued using the cost model under IAS 16. PP&E is categorized into the following classes and their respective useful economic life is used to calculate the amount of depreciation or amortization for each period. Categories of PP&E with the same or similar useful lives are included in the same class.

PP&E Class	Useful Life	Depreciation method used
Administrative building	40 years	Straight-line
Site equipment	15%	Declining balance
Automobile	20%	Declining balance
Warehouse assets	10% to 20%	Declining balance
Corporate assets	10% to 20%	Declining balance
Computer hardware	35%	Declining balance
Computer software*	35%	Declining balance

\*In addition to the purchase of software from external sources, the Trust capitalizes certain programmers' salaries related to internally developed software applications used in the normal course of operations of Boardwalk REIT. These programmers' work is directly attributable to software development.

#### (f) Business combinations

In accordance with IFRS 3 – Business Combinations ("IFRS 3"), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and the liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefit. Building and other asset acquisitions, which meet the above definition of a business, are recorded as business combinations and the acquisition method of accounting for these transactions is applied. Building and other asset acquisitions, which do not meet the above definition of a business, are recorded as an asset addition.

The acquisition method requires that an acquirer be identified, a specific acquisition date be determined (which is typically the date in which control changes), all identifiable assets and liabilities assumed, as well as any non-controlling interest in the acquiree, be recognized and measured, and any goodwill or gains from a bargain purchase price are recognized and measured at fair value, including contingent liabilities when these contingent considerations are part of the consideration being transferred. All acquisition costs associated with a transaction, identified as a business combination, are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Trust in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date and is shorter than one year if all information is received) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, or IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss in the consolidated statement of comprehensive income.

When a business combination is achieved in stages, the Trust's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Trust obtains control) and the resulting gain or loss, if any, is recognized in profit or loss in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Trust reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### **(g) Assets held for sale and discontinued operations**

##### *(i) Assets (or disposal groups) held for sale*

Non-current assets and groups of assets and liabilities, which comprise disposal groups, are categorized as assets (or disposal groups) held for sale where the asset (or disposal group) is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale, there is an active program to find a buyer, the non-current asset (or disposal group) is being actively marketed at a reasonable price, the sale is anticipated to be completed within one year from the date of classification and it is unlikely there will be changes to the plan. Where an asset (or disposal group) is acquired with a view to resale, it is classified as a non-current asset (or disposal group) held for sale if the disposal is expected to take place within one year of the acquisition and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition. Retrospective application is not required; therefore, comparative figures will not be adjusted to reflect non-current assets held for sale. The gains or losses arising on a sale of assets (or disposal groups) that does not meet the definition of discontinued operations will be recognized as part of continuing operations while the gains or losses arising on a sale of assets (or disposal groups) that meet the definition of discontinued operations will be reported as part of discontinued operations in the consolidated statement of comprehensive income.

##### *(ii) Discontinued operations*

An asset or group of assets will be classified as a discontinued operation when it is a component of an entity that has either been disposed of or is classified as held for sale and represents a separate major line of business, it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or it is a subsidiary acquired exclusively with a view to resell. Profits and gains or losses related to the disposal of discontinued operations are measured based on fair value less cost to sell or on the disposal of the assets (or disposal groups) and are presented in the financial statements on an after tax basis in accordance with IFRS 5. In addition, retrospective application is required; therefore, comparative figures will be changed to reflect discontinued operations. As an individual building does not constitute a major line of business, individual building sales are not treated as discontinued operations.

#### **(h) Impairment of assets**

At the end of each reporting period, assets, other than those identified in the standard as not being applicable to IAS 36 – Impairment of Assets ("IAS 36"), such as investment properties recorded at fair value, are assessed for any indication of impairment. Should the indication of impairment exist, the recoverable amount (see below) of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Trust estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating



units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of an asset's "fair value less cost to sell" and its "value-in-use". In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

Where the carrying amount of an asset exceeds the recoverable amount determined, an impairment loss is recognized in the consolidated statement of comprehensive income. After the recognition of an impairment loss, the depreciation charge related to that asset is also revised for the adjusted carrying amount on a systematic basis over the remaining useful life of the asset. Should this impairment loss be determined to have reversed in a future period (with the exception of goodwill), a reversal of the impairment loss is recorded in profit or loss. However, the reversal of an impairment loss will not increase the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized.

#### (i) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

#### (j) Taxation

Boardwalk REIT is a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act"), and accordingly is not taxable on its income to the extent that its taxable income is distributed to its Unitholders. The Tax Act of Canada contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation"). Based on a detailed review of the SIFT Legislation, it could be interpreted that for fiscal 2010 the Trust did not qualify as a Real Estate Investment Trust ("REIT") in accordance with the definition contained in the legislation, which would be exempt from the specified investment flow-through ("SIFT") rules. As such, the Trust has considered the tax consequence of not qualifying as a REIT. However, for fiscal 2011, the Trust qualified as a REIT and is eligible for the 'REIT Exemption' under the SIFT rules. In addition, this exemption does not extend to the corporate subsidiaries of Boardwalk REIT that are subject to income tax. As such, income tax expense represents the sum of the tax currently payable and deferred taxes.

##### *Current tax*

The tax currently payable, if any, is based on taxable profit for the year for certain corporate subsidiaries of the Trust. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Trust's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the reporting date. In addition deferred income tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery (i.e. using the asset versus selling the asset). Where applicable, current and deferred income taxes relating to items recognized directly in equity or comprehensive income are also recognized directly in equity or comprehensive income, respectively.

**(k) Provisions**

In accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), a provision is a liability of uncertain timing or amount. Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discounted rate that reflects current market assessment of the time value of money and the risks and uncertainties specific to the obligation. Provisions are re-measured at each reporting date using the current discount rate. The increase in the provision due to the passage of time is recognized as a financing cost.

**(l) Unit-based payments**

Equity-settled unit-based payments to employees and Trustees are measured at the fair value of the deferred unit at the grant date and expensed over the vesting period based on the Trust’s estimate of the deferred units that will actually vest. At the end of each reporting period, the Trust revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss prospectively such that the cumulative expense reflects the revised estimate. In accordance with IAS 32 – Financial Instruments: Presentation (“IAS 32”), the deferred units are presented as a liability on the statement of financial position as the Trust is obliged to provide the holder with REIT Units once the deferred units vest. Under IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”), the deferred units are classified as ‘fair value through profit or loss’ and are measured at each reporting period at fair value with changes in fair value recognized in the consolidated statement of comprehensive income. Fair value of the deferred units is calculated based on the observable market price of the Trust’s Units.

**(m) Government assistance and grants**

The Trust receives government assistance in order to complement and partially assist the Trust’s initiatives in providing affordable housing to low income-earning individuals. Government grants are not recognized until there is reasonable assurance that the Trust will comply with the conditions attached to them and that the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Trust with no related future costs are recognized in profit or loss in the period in which they become receivable.

**(n) Revenue recognition***(i) Rental revenue*

The Trust has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on lease inception date when the tenant occupies their leased space. Rental revenue is recognized systematically over the term of the lease, which is generally not more than twelve months. Any suite specific incentives offered or initial direct costs incurred in negotiating and arranging an operating lease are also amortized over the term of the operating lease. Rental revenue is recorded based on the amount received or to be received in accordance with the operating lease.

*(ii) Building sales*

The gain or loss from the sale of an investment property is recognized when title passes to the purchaser (control is transferred) upon closing at which time all or substantially all of the funds are receivable, or have been received, and the conditions of the sale have been completed.

*(iii) Interest income*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Trust and the amount of income can be measured reliably. Interest income is accrued on a time basis when earned, by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in financing costs in the consolidated statement of comprehensive income.

*(iv) Ancillary rental income*

Ancillary rental income comprises revenue from coin laundry machines and income received from telephone and cable providers and is recorded as earned.

### (o) Financial instruments and derivatives

Financial instruments and derivatives are accounted for, presented and disclosed in accordance with IFRS 7 – Financial Instruments: Disclosures (“IFRS 7”), IAS 32 and IAS 39. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### Financial assets

Financial assets are classified into the following specified categories: financial assets at ‘fair value through profit or loss’ (“FVTPL”), ‘held-to-maturity’ investments, ‘available-for-sale’ financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. Financial assets are classified as at FVTPL when the financial asset either is held for trading or is designated as at FVTPL. Financial assets categories are defined and measured as follow:

Classification	Definition	Measurement
FVTPL	Classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL as discussed below:	
	Classified as held for trading if: it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
	Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Trust has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest method less any impairment. <sup>(1) (2)</sup>
Available-for-sale	Non-derivative financial assets that either are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.	Measured at fair value through other comprehensive income.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest method less any impairment. <sup>(1) (2)</sup>

- (1) The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.
- (2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

Boardwalk REIT's financial assets are as follow:

Financial asset	Classification	Measurement
Trade and other receivables	Loans and receivables	Amortized cost
Segregated tenants' security deposits	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The Trust derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

### Financial liabilities and equity

Debt and equity instruments issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Trust are recognized at the proceeds received, net of direct issue costs. Repurchase of Boardwalk REIT's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Trust's own equity instruments. Distributions paid on the Trust's equity instruments subsequent to, declared prior to, and with a record date at or prior to, the reporting date, are recorded as a liability.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Financial liabilities categories are defined and measured as follow:

Classification	Definition	Measurement
FVTPL	Classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL as discussed below:	
	Classified as held for trading if: it has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Trust manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
	Classified as FVTPL upon initial recognition if: such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Other financial liabilities	All other liabilities.	Measured at amortized cost using the effective interest method. <sup>(1)</sup>

- (1) The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Boardwalk REIT's financial liabilities are as follow:

Financial liability	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
LP Class B Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Refundable tenants' security deposits	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

The Trust derecognizes a financial liability when, and only when, the Trust's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

## Derivatives

The Trust may enter into a variety of derivative financial instruments to manage its exposure to interest rate risks, including interest rate swaps and bond forward contracts. Further details of derivative financial instruments are disclosed in NOTE 14 and NOTE 29. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to the host contracts and the host contracts are not measured at FVTPL. For the years ended December 31, 2011 and December 31, 2010, the Trust had no embedded derivatives requiring separate recognition.

### (p) Hedge accounting

The Trust applies hedge accounting to derivative financial instruments in cash flow hedging relationships. At the inception of the hedging relationship, the Trust documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at inception of the hedge and on an ongoing basis, the Trust documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

In cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in the consolidated statement of comprehensive income as other comprehensive income ("OCI") while the ineffective portion is recognized immediately in profit or loss. Hedging gains and losses previously recognized in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Trust revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### (q) Cash

Cash is comprised of bank balances and interest-earning bank accounts.

### (r) Critical judgment in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see NOTE 2(s) below) that have been made in applying the Trust's accounting policies and that have the most significant effect on the reported amounts in the consolidated financial statements:

#### (i) Income taxes

The Trust applies judgment in determining the tax rate applicable to its corporate, trust and partnership subsidiaries and identifying the temporary differences in each of such legal subsidiaries in respect of which deferred income taxes are recognized. Deferred taxes related to temporary differences arising from the SIFT Legislation (see NOTE 2(j)) and from its corporate subsidiaries are measured based on the tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences that are expected to reverse in the future and arise from differences between accounting and tax asset values. Effective January 1, 2011, the Trust qualified for the "REIT Exemption" and will not be subject to Canadian income taxes under the SIFT Legislation. Consequently, the deferred taxes related to temporary differences arising from the SIFT Legislation reported in 2010 were reversed on January 1, 2011.

#### (ii) Leases

The Trust's revenue recognition policy related to leases is described in NOTE 2(n)(i). The Trust makes judgments in determining whether certain leases, in particular tenant leases, as well as leased warehouse space and long-term ground

leases, which are considered leases under IFRS, where the Trust is the lessor, are operating or finance leases. The Trust has determined that all of its leases are operating leases.

*(iii) Investment property and internal capital program*

The Trust's accounting policy relating to investment property is described in NOTE 2(d) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the Trust's investment property. The Trust also undertakes capital improvements and upgrades. Such work is specifically identified, and the Trust applies judgment in the estimated amount of directly attributable on-site wages relating to capital improvements and upgrades of its real estate assets to be capitalized.

*(iv) Financial instruments*

The Trust's accounting policies relating to financial instruments are described in NOTE 2(o). Critical judgments inherent in these policies related to applying the criteria set out in IAS 39 to designate financial instruments into categories (i.e. FVTPL, etc.), assess the effectiveness of hedging relationships (for the Trust's cash flow hedges) and determine the identification of embedded derivatives, if any, in certain hybrid instruments that are subject to fair value measurement.

*(v) Basis of consolidation*

The consolidated financial statements of the Trust include the accounts of Boardwalk REIT and its wholly owned subsidiaries, as well as entities over which the Trust exercises control on a basis other than ownership of voting interest within the scope of Interpretation SIC 12. Judgment is applied in determining what is considered in substance "control" within the scope of SIC 12 and, thus, entities considered special purpose entities are to be included in the consolidated financial statements of the Trust.

**(s) Key accounting estimates and assumptions**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results could differ from estimates.

*(i) Investment property*

The choice of valuation method for fair valuing and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in NOTE 5. Significant estimates used in determining the fair value of the Trust's investment properties includes capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and standard costs). A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to NOTE 5 for sensitivity analysis.

*(ii) Property, plant and equipment*

Useful economic life of property, plant and equipment for the purposes of calculating depreciation and amortization, as disclosed in NOTE 6 and forecast of economic factors to determine recoverable amounts for the purpose of determining any impairment of assets.

*(iii) Internal Capital Expenditure Program*

The Trust's internal capital expenditure program is based on internal allocations including parts, supplies and on-site wages identified as part of the specific upgrade.

*(iv) Utility accrual*

Amount of utility accrual for charges related to the current or prior year is based on estimates of usage and price for the time period in which invoices have not been received from the utility providers.

*(v) Deferred unit-based compensation plan*

The compensation costs relating to the deferred unit plan are based on estimates of how many deferred units will actually vest and be exercised.



*(vi) Deferred taxes*

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in NOTE 17.

**NOTE 3: Transition to IFRS**

The Trust has adopted IFRS, effective January 1, 2011 (the "Effective Date") with comparative figures for the prior year commencing January 1, 2010 (the "Transition Date") restated to comply to IFRS, and has prepared its opening IFRS consolidated statement of financial position as at January 1, 2010. Prior to the adoption of IFRS, the Trust prepared its financial statements in accordance with pre-IFRS Canadian generally accepted accounting principles ("Canadian GAAP"). The Trust's consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. The Trust prepared its opening IFRS statement of financial position by applying existing IFRS standards in effect at December 31, 2011.

**(a) Elected exemptions from full retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Trust applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below:

*(i) Business combinations*

The Trust applied the business combinations exemption in IFRS 1 which allowed the Trust to not apply IFRS 3 retrospectively to past business combinations pre January 1, 2010. Accordingly, the Trust has not restated business combinations that took place prior to the Transition Date.

*(ii) Financial instruments*

Under IFRS 1, an entity identifies, recognizes, classifies and measures, as appropriate, all financial assets and financial liabilities qualifying at the date of transition for recognition in accordance with IFRS. IFRS 1 allows the entity to treat any adjustment to the carrying amount of a financial asset or financial liability as a result of adopting IFRS as a transition adjustment to be recognized in the opening balance of retained earnings at the date of transition. The Trust applied this exemption to its deferred unit-based compensation and its LP Class B Units as under Canadian GAAP these items were considered equity; however, under IFRS they are considered liabilities (see NOTE 13). Adjustments to record these financial liabilities at FVTPL were recorded as an adjustment to opening retained earnings.

*(iii) Leases*

IFRS 1 allows an entity to determine whether an arrangement existing at the Transition Date contained a lease on the basis of facts and circumstances existing at that date. The Trust has reviewed all arrangements and concluded that it is only involved in operating leases, consistent with the accounting applied under Canadian GAAP.

**(b) Mandatory exceptions to retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Trust has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied are described below:

*(i) Hedge accounting*

Only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date are reflected as hedges in the Trust's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were recorded as non-hedging derivative financial instruments.

*(ii) Estimates*

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Trust under Canadian GAAP are consistent with the application under IFRS.

**(c) Reconciliation of consolidated equity as reported under Canadian GAAP to IFRS**

The following is a reconciliation of the Trust's consolidated equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS on the Transition Date - January 1, 2010:

Note	Trust Units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings (deficit)	Other comprehensive income	Total Unitholders' equity (deficiency)
As reported under Canadian GAAP, January 1, 2010	\$ 236,385	\$ 203,343	\$ (484,544)	\$ (281,201)	\$ (224)	\$ (45,040)
Reclassification of LP B Units as a financial liability (i)	(24,840)	–	–	–	–	(24,840)
Reclassification of LP B Units distributions to cumulative profit (i)	–	(38,383)	38,383	–	–	–
Reclassification of deferred unit-based compensation as a financial liability (i)	(4,122)	–	–	–	–	(4,122)
Differences increasing (decreasing) reported amounts						
Investment properties (ii)	–	1,980,262	–	1,980,262	–	1,980,262
Financial instruments (iii)						
LP B Units	–	(140,959)	–	(140,959)	–	(140,959)
Deferred unit-based compensation	–	(74)	–	(74)	–	(74)
Effective portion of interest rate swaps	–	–	–	–	(5,668)	(5,668)
Deferred taxes (iv)	–	(597,274)	–	(597,274)	–	(597,274)
As reported under IFRS, January 1, 2010	\$ 207,423	\$ 1,406,915	\$ (446,161)	\$ 960,754	\$ (5,892)	\$ 1,162,285

The following is a reconciliation of the Trust's consolidated equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010:

Note	Trust Units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings (deficit)	Other comprehensive income	Total Unitholders' equity (deficiency)
As reported under Canadian GAAP, December 31, 2010	\$ 221,645	\$ 275,072	\$ (605,532)	\$ (330,460)	\$ (201)	\$ (109,016)
Reclassification of LP B Units as a financial liability (i)	(24,840)	–	–	–	–	(24,840)
Reclassification of LP B Units distributions to cumulative profit (i)	–	(48,676)	48,676	–	–	–
Reclassification of deferred unit-based compensation as a financial liability (i)	(4,533)	–	–	–	–	(4,533)
Differences increasing (decreasing) reported amounts						
Investment properties (ii)	–	2,258,442	–	2,258,442	–	2,258,442
Financial instruments (iii)						
LP B Units	–	(159,754)	–	(159,754)	–	(159,754)
Deferred unit-based compensation	–	(896)	–	(896)	–	(896)
Effective portion of interest rate swaps	–	–	–	–	(6,386)	(6,386)
Deferred taxes (iv)	–	(640,481)	–	(640,481)	–	(640,481)
As reported under IFRS, December 31, 2010	\$ 192,272	\$ 1,683,707	\$ (556,856)	\$ 1,126,851	\$ (6,587)	\$ 1,312,536

**(i) Reclassification of LP B Units and deferred unit-based compensation plan**

Under IAS 32, the LP B Units issued by a wholly owned subsidiary of the Trust, as well as the deferred units issued as part of the deferred unit-based compensation plan are considered financial liabilities under IFRS and are reclassified from equity to liabilities on the financial statements. Under Canadian

GAAP, the LP Class B Units were carried at cost (\$24.8 million as at January 1, 2010 and December 31, 2010). Additionally, as the LP Class B Units are liabilities, all distributions previously paid were reclassified to cumulative profit, as they would have been recorded as a financing charge under IFRS.

**(ii) Investment properties**

The Trust considers its revenue-producing properties to be investment properties under IAS 40. Investment property includes land (including excess land) and buildings held primarily to earn rental income and capital appreciation, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for investment property. The Trust has elected to use the fair value method upon initial transition to IFRS and in subsequent reporting periods. This adjustment to retained earnings represents the cumulative unrealized gain in respect of the fair value of the Trust's investment property under IFRS on January 1, 2010 and December 31, 2010.

**(iii) Financial instruments**

As a result of IAS 32 and reclassifying the LP B Units and deferred units as liabilities as outlined in note (i), IAS 39, which outlines the recognition and measurement principles in respect of financial assets and liabilities, has been applied to the following instruments:

**LP Class B Units**

Under IFRS, the LP B Units are classified as a financial liability and the Trust has designated the Units as FVTPL on the basis that this financial liability is classified as FVTPL in accordance with IAS 39. This financial liability is carried at fair value on the statement of financial position as determined by the observable market price of the Trust's Units. Under Canadian GAAP, the LP B Units were carried at cost. The market value for the LP Class B Units was \$165.8 million as at January 1, 2010 and \$184.6 million as at December 31, 2010.

**Deferred unit-based compensation plan**

Under IFRS, the deferred unit-based compensation plan is classified as a financial liability and the Trust has designated the deferred units issued as part of the deferred unit-based compensation plan as FVTPL in accordance with IAS 39. This financial liability is carried at fair value on the statement of financial position as determined by the observable market price of the Boardwalk REIT's Trust Units. The market value for the deferred unit-based compensation plan was \$4.2 million as at January 1, 2010 and \$5.4 million as at December 31, 2010. In addition, compensation expensed is based on a graded amortization rather than straight-line amortization under Canadian GAAP.

**Hedge accounting**

As outlined in IAS 39, hedge accounting has been applied to the Trust's interest rate swaps and this adjustment represents changes in the fair value of the effective portion of the Trust's interest rate swaps.

**(iv) Deferred taxes**

The increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increase in the carrying values of the Trust's investment properties as a result of adopting the fair value method under IAS 40. The deferred income tax liability method under IFRS is determined by applying tax rates to temporary differences that are consistent with the Trust's expectation that the method of realization will be through the sale of its properties rather than through owning and operating the properties.

**(d) Reconciliation of net earnings as reported under Canadian GAAP to profit for the year reported under IFRS**

The following is a reconciliation of the Trust's net earnings reported in accordance with Canadian GAAP to its profit in accordance with IFRS for the year ended December 31, 2010.

	Note	Year ended Dec 31, 2010
Net earnings as reported under Canadian GAAP		\$ 71,729
Differences increasing (decreasing) reported amounts		
Investment properties	(i)	
Fair value gain		230,575
Reverse Canadian GAAP depreciation expense		84,880
Adjustment to Canadian GAAP gain (loss) on sale		(37,273)
Financial instruments	(ii)	
LP B Units		
Fair value loss		(18,795)
Distributions recorded as financing charge		(10,293)
Deferred unit-based compensation		
Fair value loss		(623)
Compensation expense		(199)
Deferred taxes	(iii)	(43,209)
Total IFRS adjustments		\$ 205,063
Profit for the year as reported under IFRS		\$ 276,792

**(i) Investment properties**

In accordance with IFRS and the Trust's accounting policy choice, the Trust measures investment properties at fair value and records changes in fair value in the consolidated statement of comprehensive income during the period of change. Under Canadian GAAP, all revenue-producing properties were recorded at cost and depreciated over their estimated useful economic lives. In addition, intangible assets and liabilities recognized on the acquisition of investment property were also amortized to profit or loss under Canadian GAAP over the period of expected benefit, which is no longer the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property at each reporting date. As a result of applying the fair value model, depreciation expense taken under Canadian GAAP for the Trust's investment property was reversed prior to determining the fair value adjustment. In addition, the gain or loss on disposition varies from Canadian GAAP as the asset sold was carried at fair value under IFRS, which approximates the purchase and sale agreement resulting in a loss on sale due to disposition costs.

**(ii) Financial instruments**

This adjustment relates to the classification of both LP Class B Units and the Trust's deferred unit-based compensation plan as financial instruments designated as FVTPL. Under Canadian GAAP, these units were previously classified as equity and the related distributions recorded as a reduction to Unitholders' equity. As a result of the reclassification of these units as financial liabilities under IFRS, the distributions related to the LP Class B Units will now be treated as financing costs and recorded on the consolidated statement of comprehensive income, while changes to the deferred unit-based compensation plan will continue to be expensed as part of compensation expense on the consolidated statement of comprehensive income. In addition, since these financial liabilities are classified as FVTPL, they are recorded at fair value at each reporting date. Gains and losses resulting from the FVTPL approach are recorded in the consolidated statement of comprehensive income.

**(iii) Deferred taxes**

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the carrying value differences between IFRS and Canadian GAAP for the Trust's investment properties

**(e) Reconciliation of comprehensive income as reported under Canadian GAAP to IFRS**

Except for the fair value change of the effective portion of the Trust's interest rate swap and the changes in profit outlined in NOTE 3(d) above, no reconciling items occurred between the Trust's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010.

	Year ended Dec 31, 2010
Total comprehensive income as reported under Canadian GAAP	\$ 71,752
Changes to profit outlined in NOTE 3(d)	205,063
Fair value change of the effective portion of interest rate swaps	(718)
Total comprehensive income as reported under IFRS	\$ 276,097

**(f) Financial assets and liabilities**

Upon adoption of IFRS, all previously recognized financial assets and liabilities maintained their designations consistent with designations under Canadian GAAP with the exception of the LP Class B Units and the deferred unit-based compensation plan. These two financial liabilities have been designated as "FVTPL". As a result of these designations, both the LP Class B Units and the deferred unit-based compensation plan are recorded at fair value. Both of these financial liabilities were previously designated as equity under Canadian GAAP.

**(g) Changes to consolidated statement of cash flows**

As a result of the LP Class B Units being classified as a financial liability, the distributions related to these units are treated as financing costs and are recorded in the consolidated statement of comprehensive income. As a result, these distributions now appear within operating activities on the statement of cash flows while they were previously recorded as a financing activity on the statement of cash flows under Canadian GAAP. This resulted in a \$10.3 million cash inflow for financing activities and a corresponding cash outflow for operating activities for the year ended December 31, 2010 from Canadian GAAP to IFRS.

There were no other material adjustments to the cash flow statement as a result of the conversion to IFRS.

**(h) Earnings per unit**

Under Canadian GAAP, the number of Trust Units included in the calculation of basic earnings included the LP Class B Units as they were treated as equity. Under IFRS, they are considered a financial liability and as such are no longer included in the calculation. Additionally, as profit or loss under IFRS includes the distribution on the LP Class B Units, fair value adjustments on investment properties, LP Class B Units and deferred unit-based compensation and differences in the calculation of deferred

taxes, the numerator for the basic earnings calculation also changed under IFRS. For the year ended December 31, 2010, this change resulted in basic earnings per unit of \$5.75 under IFRS (see NOTE 18(d)) versus \$1.36 under Canadian GAAP.

Under Canadian GAAP, the number of Trust Units included in the calculation of diluted earnings included the number of units in the deferred unit plan that had vested. IFRS requires that the number of deferred units included in the dilution calculation be based on the number of units management estimates will be converted to Trust Units. The difference in methodology between Canadian GAAP and IFRS does not result in a material adjustment to the calculation of diluted units included in the earnings per share calculation for the Trust. However, the change in the numerator of the calculation due to the change in profit or loss under IFRS does result in a significant change to the diluted earnings per unit. For the year ended December 31, 2010, this change resulted in diluted earnings per unit of \$5.82 under IFRS (see NOTE 18(d)) versus \$1.36 under Canadian GAAP.

**(i) Impact of IFRS accounting policies on the Trust**

Boardwalk REIT has adopted and applied the accounting policies of IFRS as outlined in NOTE 2 from the Transition Date, however many of the IFRS accounting policies did not have an impact on the Trust as they were either not applicable or did not vary significantly from Canadian GAAP. Below is a summary of the accounting policies and their impact on Boardwalk REIT:

NOTE	Accounting Standard	Impact
2 (c)	Basis of consolidation	No change from Canadian GAAP, same entities included in consolidated financial statements.
2 (d)	Investment properties	Applied fair value, impact noted in notes 3(c) through 3(e).
2 (e)	Property, plant and equipment	No significant change from Canadian GAAP.
2 (f)	Business combinations	No impact, as the Trust did not have any business combinations in the applicable fiscal years.
2 (g)	Assets held for sale and discontinued operations	Under IFRS, the Trust no longer had any assets held for sale or discontinued operations. Under Canadian GAAP, the Trust had discontinued operations in fiscal 2010.
2 (h)	Impairment of assets	The Trust's PP&E assets were analyzed for componentization and indicators of impairment, no indicators of impairment were noted.
2 (i)	Inventories	No change in measurement, inventories presented separately.
2 (j)	Taxation	As a result of applying the fair value for investment properties, deferred tax liabilities increased. Impact noted in Notes 3(c) through 3(e).
2 (k)	Provisions	The Trust analyzed all outstanding provisions and contingent liabilities, no significant impact noted.
2 (l)	Unit-based payments	The Trust needed to consider how many deferred units would be converted to Trust Units. Impact insignificant.
2 (m)	Government assistance and grants	No change from Canadian GAAP.
2 (n)	Revenue recognition	No change from Canadian GAAP.
2 (o)	Financial instruments	As previously noted, the LP Class B Units and deferred unit-based compensation treated as a financial liability (rather than equity) and measured at fair value. The distributions on the LP Class B Units are considered a financing charge.
2 (p)	Hedge accounting	Increased documentation at inception.
2 (q)	Cash	No change from Canadian GAAP.

**NOTE 4: Future Accounting Policies**

The following accounting standards under IFRS have been issued or revised, however are not yet effective and as such have not been applied to these consolidated financial statements:

**Financial Instruments**

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is applicable for annual periods beginning on or after January 1, 2015, with earlier application permitted.

The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

**Income Taxes**

In December 2010, the IASB made amendments to IAS 12 – Income Taxes (“IAS 12”), that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods on or after January 1, 2012. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

**Consolidated Financial Statements**

In June 2011, the IASB issued IFRS 10 – Consolidated Financial Statements (“IFRS 10”) to replace Standing Interpretations Committee 12 – Consolidation – Special Purpose Entities and the new consolidation requirements of IAS 27 – Consolidated and Separate Financial Statements (“IAS 27”) (discussed below). IFRS 10 eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The standard provides guidance on how to apply the control principles in a number of situations, including agency relationships and holding or potential voting rights. This standard is required to be applied for accounting periods beginning on or after January 1, 2013. The Trust is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IAS 27 was revised in May 2011 and was revised to eliminate the principles of consolidation from IAS 27 (as they are now included in IFRS 10) and focus on requirements related to disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.



### Joint Arrangements

IFRS 11 – Joint Arrangements (“IFRS 11”) was issued in June 2011 and is the result of the IASB’s project to replace IAS 31 – Interests in Joint Ventures (“IAS 31”). The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect this standard to have a significant impact on its consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) was revised in May 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect these amendments to have a significant impact on its consolidated financial statements.

### Disclosure of Interests in Other Entities

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued in June 2011 and outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

### Fair Value Measurements

IFRS 13 – Fair Value Measurements (“IFRS 13”) was issued in June 2011 and provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

### Employee Benefits

IAS 19 – Employee Benefits (“IAS 19”) amendments were issued in June 2011 that will change the accounting for defined benefit plans and termination benefits. This standard requires that the changes in defined benefit obligations are recognized as they occur, eliminating the corridor approach and accelerating the recognition of past service costs. The changes in defined benefit obligation and plan assets are to be disaggregated into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. The Trust does not expect the amendments to IAS 19 to have a significant impact on its consolidated financial statements.

### Presentation of Financial Statements

IAS 1 was amended in 2011 to expand on the disclosures required of items within Other Comprehensive Income. The revised standard requires that an entity distinguishes between those items that are recycled to profit and loss versus those items that are not recycled. Retrospective application is required and the standard is effective for annual periods beginning on or after July 1, 2012. The Trust does not expect the amendments to IAS 1 to have a significant impact on its consolidated financial statements.

**NOTE 5: Investment Properties**

As at	Dec 31, 2011	Dec 31, 2010
Balance, beginning of year	\$ 4,318,242	\$ 4,129,636
Additions		
Building improvements (incl. internal capital program)	69,265	69,289
Dispositions	–	(111,258)
Fair value gains	406,388	230,575
Balance, end of year	\$ 4,793,895	\$ 4,318,242

All revenue-producing properties, which are classified as investment properties under IFRS, were fair valued by third-party external valuation professionals ("the Appraisers") at the January 1, 2010 Transition Date, in accordance with IAS 40. The Appraisers are an independent valuation firm not related to the Trust, who employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des Évaluateurs Agréés du Québec, and who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

Subsequent to January 1, 2010, external valuations were obtained from the Appraisers based on a cross section of properties from different geographical locations and markets across the Trust's rental portfolio as determined by the Trust's management. External appraisals were obtained as follows:

Date	Number of properties	Aggregate fair value	Percentage of portfolio as of that date
December 31, 2011	5	\$ 125,823	2.6%
September 30, 2011	5	\$ 238,580	5.1%
June 30, 2011	5	\$ 187,984	4.2%
March 31, 2011	11	\$ 776,987	18.0%

The fair value of the remainder of the Trust's investment property portfolio was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. In addition to performing a valuation on a selection of the Trust's properties (and not performing a valuation on all of the Trust's properties) to corroborate the Trust's internal valuation, the Appraisers provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations. As at December 31, 2010, no properties were valued by the Appraisers. Fair value was determined internally by the Trust based on assumptions and market data provided by the Appraisers and by applying the same valuation technique as the Appraisers.

The third-party valuation technique of the Trust's investment property portfolio utilizes the "Overall Capitalization Rate" method. This method requires that rental income from current leases and key assumptions about rental income, vacancies and inflation rates among other factors are used to determine a one-year income forecast for each individual property within the Trust's portfolio and also considers any capital expenditures anticipated within the year. Given the short term nature of residential leases (typically one year), revenue and costs are not discounted. A capitalization rate was also determined for each property based on market information related to the external sale of similar buildings within a similar geographic location. These factors were used to determine the fair value of investment properties at each reporting date.

The key valuation metrics for the Trust's investment properties are set out in the following tables:

As at	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
Capitalization rate by city:	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Calgary	5.25%	6.00%	5.75%	6.50%	6.00%	6.50%
Edmonton	5.50%	6.00%	6.00%	6.25%	6.25%	7.00%
Other Alberta	6.00%	7.75%	6.00%	8.25%	6.25%	8.50%
Vancouver	5.00%	6.50%	5.25%	6.75%	5.25%	7.25%
Kitchener	6.00%	6.00%	6.50%	6.50%	6.75%	6.75%
London	6.00%	6.25%	6.50%	6.75%	6.75%	7.00%
Windsor	6.75%	7.25%	7.25%	7.75%	7.25%	7.75%
Montreal	5.75%	6.75%	6.25%	7.25%	6.50%	7.50%
Quebec City	5.75%	6.25%	6.00%	6.50%	6.25%	7.50%
Regina	6.25%	6.50%	7.00%	7.25%	6.75%	7.00%
Saskatoon	6.25%	6.50%	7.00%	7.25%	6.75%	7.00%
	5.00%	7.75%	5.25%	8.25%	5.25%	8.50%
<b>Land Lease</b>	<b>5.50%</b>	<b>11.50%</b>	<b>6.00%</b>	<b>11.75%</b>	<b>6.18%</b>	<b>11.66%</b>

Overall weighted average Capitalization Rates for fair valuing the Trust's investment properties at December 31, 2011, December 31, 2010 and January 1, 2010 were 5.91%, 6.41% and 6.64%, respectively.

The "Overall Capitalization Rate" method requires that a forecasted net operating income ("NOI") be divided by a Capitalization Rate ("Cap Rate") to determine a fair value. As such, fluctuations in both NOI and Cap Rates could significantly alter the fair value. Below are tables that summarize the impact of changes in both the Cap Rates and NOI on the Trust's fair value of investment properties:

As at Dec 31, 2011 (in 000's)

Net Operating Income		-3%	-1%	As Forecasted	+1%	+3%
		\$ 274,820	\$ 280,486	\$ 283,319	\$ 286,152	\$ 291,819
Capitalization Rate						
-0.25%	5.66%	\$ 61,575	\$ 161,688	\$ 211,744	\$ 261,801	\$ 361,914
Cap Rate As Reported	5.91%	(143,817)	(47,939)	4,793,895	47,939	143,817
+0.25%	6.16%	(332,538)	(240,551)	(194,557)	(148,564)	(56,577)

As at December 31, 2010 (in 000's)

Net Operating Income		-3%	-1%	As Forecasted	+1%	+3%
		\$ 268,495	\$ 274,031	\$ 276,799	\$ 279,567	\$ 285,103
Capitalization Rate						
-0.25%	6.16%	\$ 40,448	\$ 130,318	\$ 175,253	\$ 220,188	\$ 310,058
Cap Rate As Reported	6.41%	(129,547)	(43,182)	4,318,242	43,182	129,547
+0.25%	6.66%	(286,781)	(203,658)	(162,096)	(120,535)	(37,412)

As at January 1, 2010 (in 000's)

Net Operating Income		-3%	-1%	As Forecasted	+1%	+3%
		\$ 265,982	\$ 271,466	\$ 274,208	\$ 276,950	\$ 282,434
Capitalization Rate						
-0.25%	6.39%	\$ 32,830	\$ 118,654	\$ 161,566	\$ 204,478	\$ 290,302
Cap Rate As Reported	6.64%	(123,889)	(41,296)	4,129,636	41,296	123,889
+0.25%	6.89%	(269,235)	(189,640)	(149,842)	(110,044)	(30,448)

Investment property with a fair value of \$452.6 million (\$391.9 million – December 31, 2010, \$380.6 million – January 1, 2010) is situated on land held under ground leases.

Investment properties with a fair value of \$587.3 million (December 31, 2010 – \$528.0 million, January 1, 2010 – \$489.0 million) are pledged as security against the Trust's committed revolving credit facility. Assets pledged as security for the committed revolving credit facility may also be pledged as security for the Trust's mortgages payable. In addition, investment properties with a fair value of \$4.5 billion (December 31, 2010 – \$4.1 billion, January 1, 2010 – \$3.8 billion) are pledged as security against the Trust's mortgages payable.

During the year ended December 31, 2011, the Trust capitalized \$230 thousand (year ended December 31, 2010 – \$nil) in relation to borrowing costs. These costs are directly related to the construction of qualifying assets and will be incurred until such time when substantially all of the activities required to prepare the qualifying asset for its intended use are complete.

For the years ended December 31, 2011 and December 31, 2010, investment properties earned rental revenue (excluding ancillary rental income) of \$416.0 million and \$407.8 million, respectively. Direct operating expenses in relation to investment properties were \$155.1 million and \$148.5 million, for the years ended December 31, 2011 and December 31, 2010, respectively.

#### NOTE 6: Property, Plant and Equipment

The carrying amounts of PP&E were as follows:

As at	Dec 31, 2011			Dec 31, 2010			Jan 1, 2010		
	Cost	Accum. Deprec.	Carrying amount	Cost	Accum. Deprec.	Carrying amount	Cost	Accum. Deprec.	Carrying amount
Administration building	\$ 4,434	\$ (1,848)	\$ 2,586	\$ 4,408	\$ (1,671)	\$ 2,737	\$ 4,364	\$ (1,473)	\$ 2,891
Site equipment	14,576	(6,710)	7,866	13,004	(5,459)	7,545	11,057	(4,396)	6,661
Automobiles	5,134	(3,180)	1,954	4,556	(2,763)	1,793	4,218	(2,356)	1,862
Warehouse assets	2,941	(940)	2,001	2,280	(757)	1,523	1,987	(611)	1,376
Corporate assets	3,321	(2,698)	623	3,174	(2,621)	553	3,118	(2,546)	572
Computer hardware	11,830	(10,646)	1,184	11,339	(10,138)	1,201	10,865	(9,620)	1,245
Computer software	10,212	(8,166)	2,046	9,226	(7,330)	1,896	8,435	(6,525)	1,910
<b>Total</b>	<b>\$ 52,448</b>	<b>\$ (34,188)</b>	<b>\$ 18,260</b>	<b>\$ 47,987</b>	<b>\$ (30,739)</b>	<b>\$ 17,248</b>	<b>\$ 44,044</b>	<b>\$ (27,527)</b>	<b>\$ 16,517</b>

The following table outlines a reconciliation of the carrying amount of PP&E as at December 31, 2011:

	Dec 31, 2010 opening carrying amount	Additions	Depreciation	Dec 31, 2011 closing carrying amount
Administration building	\$ 2,737	\$ 26	\$ (177)	\$ 2,586
Site equipment	7,545	1,572	(1,251)	7,866
Automobiles	1,793	578	(417)	1,954
Warehouse assets	1,523	661	(183)	2,001
Corporate assets	553	147	(77)	623
Computer hardware	1,201	491	(508)	1,184
Computer software <sup>(1)</sup>	1,896	986	(836)	2,046
<b>Total</b>	<b>\$ 17,248</b>	<b>\$ 4,461</b>	<b>\$ (3,449)</b>	<b>\$ 18,260</b>

(1) Included in computer software is \$499 thousand of capitalized programmers' salaries related to the internally developed software applications used by the Trust in the normal course of its operations.

The following table outlines a reconciliation of the carrying amount of PP&E as at December 31, 2010:

	Jan 1, 2010 opening carrying amount	Additions	Depreciation	Dec 31, 2010 closing carrying amount
Administration building	\$ 2,891	\$ 45	\$ (199)	\$ 2,737
Site equipment	6,661	2,035	(1,151)	7,545
Automobiles	1,862	338	(407)	1,793
Warehouse assets	1,376	293	(146)	1,523
Corporate assets	572	56	(75)	553
Computer hardware	1,245	476	(520)	1,201
Computer software <sup>(1)</sup>	1,910	793	(807)	1,896
<b>Total</b>	<b>\$ 16,517</b>	<b>\$ 4,036</b>	<b>\$ (3,305)</b>	<b>\$ 17,248</b>

(1) Included in computer software is \$521 thousand of capitalized programmers' salaries related to the internally developed software applications used by the Trust in the normal course of its operations.

PP&E is reviewed at each reporting date to ensure their useful economic lives remain appropriate. In addition, PP&E is reviewed at each reporting date for indicators of impairment. Where impairment exists, the PP&E asset is written down by the impaired amount. Should this impairment no longer exist, the impairment write-down is reversed up to the net book value which would have existed had the impairment not have occurred. As at December 31, 2011, December 31, 2010 and January 1, 2010, there was no indicators of impairment in relation to the Trust's PP&E.

PP&E upon transition to IFRS continued to be recorded at its original cost less accumulated depreciation. As a result, there was no adjustment recorded to PP&E as a result of the transition to IFRS.

As at December 31, 2011, December 31, 2010 and January 1, 2010, none of the Trust's PP&E was pledged as security for debt.

## NOTE 7: Inventories

Inventory consists of parts and supplies and items such as baseboards, carpet and linoleum, which the Trust routinely uses, in the maintenance and upgrading of its investment properties. These items are kept on hand so that they are readily available for use. When items of inventory are used they are expensed as part of maintenance expense or capitalized to investment properties depending on the nature of the inventory used and whether or not the useful life of an asset has been extended as a result of its use. The Trust's inventories are as follows:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Parts and supplies	\$ 2,604	\$ 2,965	\$ 2,843
Baseboard, carpet and linoleum	36	52	56
	<b>\$ 2,640</b>	<b>\$ 3,017</b>	<b>\$ 2,899</b>

## NOTE 8: Prepaid Assets

The major components of prepaid assets are as follows:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Prepaid property taxes	\$ 983	\$ 1,046	\$ 1,293
Prepaid ground leases	1,975	1,936	1,175
Prepaid expenses and other	880	638	729
	<b>\$ 3,838</b>	<b>\$ 3,620</b>	<b>\$ 3,197</b>

**NOTE 9: Trade and Other Receivables**

Trade and other receivables comprise an aggregate amount of \$2.2 million at December 31, 2011 (December 31, 2010 – \$3.0 million, January 1, 2010 – \$3.0 million) consisting mainly of mortgage holdbacks, refundable mortgage fees and amounts owed to Boardwalk REIT by tenants and revenue-sharing business partners.

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Trade receivables	\$ 1,985	\$ 2,546	\$ 2,056
Mortgage holdbacks and refundable mortgage fees	225	498	993
	<b>\$ 2,210</b>	<b>\$ 3,044</b>	<b>\$ 3,049</b>

Refer to NOTE 30(b) for the Trust's exposure to credit risk in relation to its trade and other receivables and how the Trust accounts for past due balances.

**NOTE 10: Segregated Tenants' Security Deposits**

Segregated tenants' security deposits are considered restricted cash as they are held in trust bank accounts and subject to the contingent rights of third parties. Restricted cash and deposits totaled \$11.6 million at December 31, 2011, \$12.0 million at December 31, 2010 and \$12.9 million at January 1, 2010.

**NOTE 11: Mortgages Payable**

As at	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgage payable						
Fixed rate	4.08%	\$ 2,218,731	4.20%	\$ 2,144,818	4.47%	\$ 2,145,638
Variable rate	–	–	–	8,388	–	–
<b>Total</b>		<b>2,218,731</b>		<b>2,153,206</b>		<b>2,145,638</b>
Current		\$ 497,780		\$ 290,122		\$ 474,449
Non-current		1,720,951		1,863,084		1,671,189
		<b>\$ 2,218,731</b>		<b>\$ 2,153,206</b>		<b>\$ 2,145,638</b>

Estimated future principal payments required to meet mortgage obligations as at December 31, 2011 are as follows:

	Secured By Investment Properties
2012	\$ 497,780
2013	308,974
2014	431,563
2015	442,740
2016	258,557
Subsequent	368,055
	2,307,669
Unamortized deferred financing costs	(89,104)
Unamortized mark-to-market adjustment	166
	<b>\$ 2,218,731</b>

CMHC provides mortgage loan insurance in connection with mortgages made to Boardwalk REIT. In an agreement dated September 13, 2002 and as amended and restated on January 19, 2005 and April 25, 2006, the Trust agreed to provide certain financial information to CMHC and be subject to certain restrictive covenants, including limitation on additional debt, payment of distributions in respect of Unitholders' capital in the event of default, and maintenance of certain financial ratios.



In the event of default, the Trust's total financial liability under this Agreement is limited to a one-time penalty payment of \$250 thousand under a Letter of Credit issued in favor of CMHC.

During the years ended December 31, 2010 and December 31, 2011, the Trust had a committed revolving credit facility with a major financial institution. This credit facility was secured by a first or second mortgage charge on specific real estate assets. The maximum amount available varies with the value of pledged assets to a maximum not to exceed \$200 million and an available limit of \$200 million as at December 31, 2011 (December 31, 2010 - \$200 million, January 1, 2010 - \$200 million). The credit facility requires monthly interest payments and is renewable annually subject to the mutual consent of the lender and the Trust. To the extent the credit facility is not extended, the drawn-down principal would be due July 28, 2014. There was no amount outstanding at December 31, 2011 (December 31, 2010 - \$nil, January 1, 2010 - \$nil) under this facility, except for Letters of Credit ("LCs") issued and outstanding. The LCs totaled \$3.9 million as at December 31, 2011 (\$2.9 million as at December 31, 2010 and \$1.8 million as at January 1, 2010). As such, approximately \$196.1 million was available from this facility on December 31, 2011 (December 31, 2010 - \$197.1 million, January 1, 2010 - \$198.2 million). The credit facility carries interest rates ranging from prime to prime plus 1.0% per annum and had no fixed terms of repayment.

The covenants in relation to the credit facility are discussed in NOTE 30 (d).

## NOTE 12: 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 were rated "BBB" with a stable trend by Dominion Bond Rating Services, carry a coupon rate of 5.61% (5.31% prior to July 30, 2008), and will mature on January 23, 2012. In conjunction with the debenture issue, the Trust also entered in to 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 is accounted for over the seven-year term of the unsecured debenture.

During the first quarter of 2009, the Trust acquired in the open market a total face value of \$7.6 million of these unsecured debentures for cancellation. These were purchased at a discount to the face value of the reported debentures.

The debenture holders, in a special meeting held July 30, 2008, approved an amendment to the Trust Indenture amending the maximum amount of indebtedness assumed or incurred by the Trust to not exceed 60% of Gross Book Value ("GBV") when GBV is calculated under IFRS (70% of GBV prior to January 1, 2011 when GBV is calculated under Canadian GAAP). In addition, the Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") to Consolidated Interest Expense financial covenant was amended to 1.75 to 1 from 1.50 to 1 and the rate of interest on the debenture was increased to 5.61% from 5.31% commencing July 30, 2008 until the maturity date of January 23, 2012. These debt covenants are discussed in NOTE 30 (d).

As at	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Unsecured debenture						
Fixed rate	5.61%	\$ 112,390	5.61%	\$ 112,211	5.61%	\$ 111,834
<b>Total</b>		<b>\$ 112,390</b>		<b>\$ 112,211</b>		<b>\$ 111,834</b>
Current		\$ 112,390		\$ -		\$ -
Non-current		-		112,211		111,834
		<b>\$ 112,390</b>		<b>\$ 112,211</b>		<b>\$ 111,834</b>

The unsecured debentures principal balance of \$112.4 million matures on January 23, 2012. Upon maturity, the unsecured debentures were settled using the Trust's liquidity on hand (comprised largely of cash of \$255.9 million) (see NOTE 35).

**NOTE 13: LP Class B Units**

The LP Class B Units, representing an aggregate fair value of \$225.7 million at December 31, 2011 (\$184.6 million – December 31, 2010 and \$165.8 million – January 1, 2010) are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Boardwalk REIT Units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Boardwalk REIT been issued. Each LP Class B Unit was accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The LP Class B Units have been classified as “FVTPL” financial liabilities in accordance with IAS 39. Gains or losses resulting from changes in the fair value at each reporting date are recorded in the consolidated statement of comprehensive income and are discussed in NOTE 24.

As at December 31, 2011, December 31, 2010 and January 1, 2010, there were 4,475,000 LP Class B Units issued and outstanding.

**Note 14: Other Non-Current Liabilities**

Other non-current liabilities represents the fair value of the Trust’s interest rate swaps (as described below) and totaled \$8.3 million as at December 31, 2011 (\$6.4 million – December 31, 2010 and \$5.7 million – January 1, 2010).

During the first quarter of 2008, Boardwalk REIT 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 under Canadian GAAP and meet the criteria to be designated as effective cash flow hedges under IFRS at the Transition Date. At January 1, 2010, December 31, 2010 and December 31, 2011, the Trust has determined that these cash flow hedges were effective under IFRS and hedge accounting has been applied to these agreements in accordance with IAS 39. The Trust evaluates the effectiveness of these cash flow hedges at each reporting date and measures them at fair value. Any gains or losses, which arise as a result of the “effectiveness” of the hedge, will be recognized in OCI. The ineffective portion of the hedging gain or loss on the swap transaction will be recognized immediately in profit or loss. On recognition of the financial liability of the hedged item on the statement of financial position, 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 affect 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, this amount will be immediately reclassified into profit or loss.

Settlements on both the fixed and variable portion of the interest rate swaps will occur on a monthly basis. The fixed interest rate has been set at 4.15%, plus a stamping fee of 0.25%, while the total amount of mortgage debt subject to the interest rate swaps was approximately \$87.2 million at December 31, 2011, \$88.6 million at December 31, 2010 and \$91.5 million at January 1, 2010. The mortgages of these specific properties have been included in the mortgage payable balance above (NOTE 11).

**NOTE 15: Deferred Unit-Based Compensation**

Deferred unit-based compensation is comprised of the following:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Current	\$ 2,636	\$ 2,028	\$ 1,147
Non-current	4,396	3,401	3,049
	<b>\$ 7,032</b>	<b>\$ 5,429</b>	<b>\$ 4,196</b>

The total of \$7.0 million represents the fair value of the underlying deferred units at the reporting date (\$5.4 million – December 31, 2010 and \$4.2 million – January 1, 2010). These units have been classified as “FVTPL” financial liabilities in accordance with IAS 39. Gains or losses resulting from changes in the fair value at each reporting date are recorded in the consolidated statement of comprehensive income.

### Details of the deferred unit-compensation plan:

During 2006, the Trust implemented a deferred unit-based compensation plan. The plan entitles trustees and executives, at the participant's option, to receive deferred units in consideration for trustee fees or a portion of executive cash bonuses, respectively, with the Trust matching the number of units received. The deferred units in consideration for trustee fees or a portion of executive cash bonuses vest immediately while the matching number of units received 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 to receive an equivalent number of Trust Units representing the vesting deferred units and the corresponding additional deferred units. Cash is granted for any fractional units. The deferred unit plan was approved by Unitholders on May 10, 2006 and amended on May 13, 2008 and May 13, 2009.

The deferred units granted since the inception of the deferred unit-based compensation plan in 2006 were as follows:

Deferred units granted in	Number	Grant date	Expiry Date	Fair value at grant date
2006	72,746	February, June & December 2006	February, June & December 2011	\$ 1,854
2007	51,722	February, June & December 2007	February, June & December 2012	\$ 2,373
2008	81,620	February, June & December 2008	February, June & December 2013	\$ 2,730
2009	62,822	February, June & December 2009	February, June & December 2014	\$ 2,009
2010	58,585	February, June & December 2010	February, June & December 2015	\$ 2,326
2011	51,620	February, June & December 2011	February, June & December 2016	\$ 2,456
	379,115			\$ 13,748

The initial cost of the deferred unit-based transactions is determined, in accordance with IFRS 2 – Share-based Payments ("IFRS 2"), as the fair value of the units on the grant date. The fair value of each unit granted is determined based on the weighted average observable closing market prices of the Boardwalk REIT's Trusts Units ten trading days preceding the grant date. This initial cost of deferred units in consideration for trustee fees or a portion of executive cash bonuses is expensed immediately while the cost of the matching deferred units is expensed over the vesting period as follows:

- One third of the 50%, which vests in year 3, is recognized in each of years 1, 2 and 3.
- One quarter of the 25%, which vests in year 4, is recognized in each of years 1, 2, 3 and 4.
- One fifth of the 25%, which vests in year 5, is recognized in each of years 1, 2, 3, 4 and 5.

For the year ended December 31, 2011, total costs of \$2.5 million (December 31, 2010 – \$2.5 million for the year) were recognized in profit related to executive bonuses and trustee fees under the deferred unit plan.

The status of the outstanding deferred units was as follows:

	# of Units Outstanding	# of Units vested
Balance, January 1, 2010	201,882	–
Deferred units granted	58,585	39,653
Additional deferred units earned on units	12,033	5,430
Deferred units converted to Trust Units or cash	(45,083)	(45,083)
Deferred units cancelled	(4,121)	–
Balance, December 31, 2010	223,296	–
Deferred units granted	51,620	49,160
Additional deferred units earned on units	8,963	10,118
Deferred units converted to Trust Units or cash	(59,278)	(59,278)
<b>Balance, December 31, 2011</b>	<b>224,601</b>	<b>–</b>

**NOTE 16: Trade and Other Payables**

The components of the Trust's accounts payable and accrued liabilities are as follows:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Trade payables and accrued liabilities	\$ 53,984	\$ 52,924	\$ 52,126
Provisions	2,959	2,724	2,501
	<b>\$ 56,943</b>	<b>\$ 55,648</b>	<b>\$ 54,627</b>

As at December 31, 2011, December 31, 2010 and January 1, 2010, the Trust's most significant provision relates to vacation payable to its employees within each employee's individual employment agreement. The remaining provisions relate to insignificant legal claims arising from minor tenant injuries. As at December 31, 2011, December 31, 2010 and January 1, 2010, the Trust does not have any material contingent liabilities.

**NOTE 17: Income Taxes****Current income tax**

As at December 31, 2011, December 31, 2010 and January 1, 2010, none of the Trust's corporate entities have current taxes payable. Each corporate entity either has sufficient tax deductions to offset any taxable income or has operating losses from previous years to apply against any taxable income. As such, no current income taxes payable was recorded for the Trust's corporate entities.

**Deferred income tax**

Boardwalk REIT is a "mutual fund trust" as defined under the Tax Act, and accordingly is not taxable on its income to the extent that its taxable 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 Tax Act contains SIFT Legislation. Based on a detailed review of the SIFT Legislation, it could be interpreted that for fiscal 2010 the Trust did not qualify as a REIT in accordance with the definition contained in the SIFT Legislation, which would be exempt from the SIFT rules. As such, the Trust has considered the tax consequence of not qualifying as a REIT.

On March 4, 2009, Bill C-10 (the "Bill") passed Third Reading in the House of Commons and on March 12, 2009, it received Royal Assent. Therefore, the provisions of the Bill were considered substantively enacted under IFRS at March 31, 2009. The Bill clarifies the definition of and criteria for being a REIT, including the definition of what is considered 'rent from real or immoveable properties'. However, despite clarifying the definition of and criteria for being a REIT, further clarification is still required on the characteristics of gains on dispositions of real or immoveable properties as they flow through the Trust's organizational structure.

While the Trust waited for further clarification from the Government of Canada, a deferred income tax liability has been recorded on the Trust's consolidated financial statements using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities at December 31, 2010. The Trust recorded an estimate of its deferred income tax liability recognizing the probability that it would be subject to the tax prescribed by the SIFT rules on January 1, 2011. The carrying amounts of the deferred income tax asset and deferred tax liability are reviewed at each reporting date and adjusted, if required.

On December 16, 2010, the Government of Canada proposed technical amendments through the release of draft legislation clarifying the definition of a REIT for Canadian income tax purposes. The proposed amendments included the following clarifications as applicable to the Trust: (i) amounts distributed to a REIT by an entity to which the REIT has a significant interest will retain the source character of income earned by the subsidiary entity, and (ii) the revenue requirements in the definition of a REIT will be amended by replacing the term "revenues" with the term "gross REIT revenue", which is defined as (a) an amount received in the taxation year or receivable in the taxation year by the entity otherwise than on account of capital, plus (b) capital gains on dispositions of real or immovable properties, but will not include recapture or other amounts that are on account of capital.

On July 20, 2011, the Government of Canada announced proposed changes to the SIFT Legislation including the treatment of stapled securities (particularly the deductibility of interest expense related to these securities and the treatment of distributions relating to these units) and other minor technical updates. These changes are not expected to impact the Trust's consolidated financial statements.

The proposed changes (specifically those from December 2010), in their current form, will allow the Trust to unambiguously qualify as a REIT for Canadian income tax purposes. However, as at December 31, 2011, these changes were not considered substantively enacted in accordance with IFRS. Whether or not these proposed changes become substantively enacted, the Trust believes it qualified as a REIT for Canadian income tax purposes commencing on January 1, 2011. Consequently, the Trust reversed its deferred income tax liability related to the SIFT rules on January 1, 2011.

The source of deferred tax balances and movements were as follows:

As at	Dec 31, 2010	Recognized in profit	Dec 31, 2011
Deferred tax asset (liabilities) related to:			
Operating losses	\$ 565	\$ 1	\$ 566
Differences in tax base and carrying amount, net, investment properties and PP&E under SIFT Legislation	(740,355)	740,355	–
Differences in tax base and carrying amount, net, investment properties and PP&E for corporate entities	117	42	159
Other	(5)	(5)	(10)
<b>Net deferred tax (liabilities) assets</b>	<b>\$ (739,678)</b>	<b>\$ 740,393</b>	<b>\$ 715</b>
Deferred tax asset	681	44	725
Deferred tax liability	(740,359)	740,349	(10)
<b>Net deferred tax (liabilities) assets</b>	<b>\$ (739,678)</b>	<b>\$ 740,393</b>	<b>\$ 715</b>

As at	Jan 1, 2010	Recognized in profit	Dec 31, 2010
Deferred tax assets (liabilities) related to:			
Operating losses (income)	\$ 686	\$ (121)	\$ 565
Differences in tax base and carrying amount, net, investment properties and PP&E, SIFT Legislation	(692,538)	(47,817)	(740,355)
Differences in tax base and carrying amount, net, investment properties and PP&E, Corporations	(15)	132	117
Other	(363)	358	(5)
<b>Net deferred tax liabilities</b>	<b>\$ (692,230)</b>	<b>\$ (47,448)</b>	<b>\$ (739,678)</b>
Deferred tax asset	686	(5)	681
Deferred tax liability	(692,916)	(47,443)	(740,359)
<b>Net deferred tax liabilities</b>	<b>\$ (692,230)</b>	<b>(47,448)</b>	<b>\$ (739,678)</b>

No current income taxes or deferred income taxes were recognized in equity, other than profit, or OCI for the years ended December 31, 2011 or December 31, 2010.

Wholly owned Canadian corporate subsidiaries have deferred tax assets of \$0.6 million (December 31, 2010 – \$0.6 million, January 1, 2010 – \$0.7 million) related to operating losses, which expire over the next four to twenty years. The Trust believes that future income of these entities, which gave rise to the deferred tax assets, will be sufficient to utilize these deferred tax assets prior to their expiration.

The major components of income tax expense (recovery) include the following:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Current tax expense	\$ 2	\$ –
Deferred tax (recovery) expense	(740,393)	47,448
<b>Total income tax (recovery) expense</b>	<b>\$ (740,391)</b>	<b>\$ 47,448</b>

The income tax expense (recovery) for the year can be reconciled to the accounting profit as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Profit before income tax expense	\$ 484,695	\$ 324,240
Remove profit from non-taxable entities	(442,184)	(283,225)
Accounting profit subject to tax	42,511	41,015
Deduct management fee charged to corporate entities	(42,395)	(41,190)
Taxable profit (loss)	116	(175)
Weighted average substantively enacted tax rate	26.5%	26.6%
Calculated income tax (recovery) expense	31	(47)
Reversal of previously recorded SIFT liability	(740,355)	–
Changes to other deferred tax liabilities	(67)	47,495
<b>Total income tax (recovery) expense</b>	<b>\$ (740,391)</b>	<b>\$ 47,448</b>

As at December 31, 2011, December 31, 2010 and January 1, 2010, the Trust does not have any unrecognized deductible temporary differences, unrecognized tax losses and unused tax credits.

#### NOTE 18: Unitholders' Equity

The Plan of Arrangement (the "Arrangement") converting 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 Units ("LP Class B Units") of a controlled limited partnership of the Trust, Boardwalk REIT Limited Partnership. 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 LP Class B Units are classified as a financial liability in accordance with IAS 32 and are discussed in NOTE 13.

##### (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.



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.

Units issued and outstanding are as follows:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
REIT Units outstanding, beginning of year	47,891,133	48,269,467	49,002,042
Units issued for vested deferred units	59,259	45,066	57,425
Units purchased and cancelled	(160,900)	(423,400)	(790,000)
REIT Units outstanding, end of year	47,789,492	47,891,133	48,269,467

On a periodic basis, Boardwalk REIT will apply to the Toronto Stock Exchange ("TSX") for approval of Normal Course Issuer Bids (the "Bids"). Pursuant to regulations of these Bids, Boardwalk REIT will receive approval to purchase and cancel a specified number of Trust Units, representing 10% of the public float of its Trust Units at the time of the TSX approval. The Bids will terminate on the earlier of the termination date or at such time as the purchases under the Bid are completed.

In August of 2011, Boardwalk REIT filed an application for a Bid (Boardwalk's fifth Bid since its first Bid in August of 2007), which received regulatory approval from the TSX and commenced on August 24, 2011. The Bid allowed Boardwalk REIT to purchase and cancel up to 3,884,118 Trust Units.

For the years ended December 31, 2011 and December 31, 2010, Boardwalk REIT purchased and cancelled the following Trust Units:

Bid Number	Dec 31, 2011			Dec 31, 2010		
	Number of Trust Units Purchased and Cancelled	Purchase Cost	Cost per Trust Unit	Number of Trust Units Purchased and Cancelled	Purchase Cost	Cost per Trust Unit
1	—	—	—	—	—	—
2	—	—	—	—	—	—
3	—	—	—	208,400	\$ 8,221	\$ 39.45
4	160,900	\$ 6,740	\$ 41.89	215,000	\$ 8,803	\$ 40.95
5	—	—	—	—	—	—
	160,900	\$ 6,740	\$ 41.89	423,400	\$ 17,024	\$ 40.21

Since the Trust began utilizing normal course issuer bids, Boardwalk REIT has purchased and cancelled Trust Units as follows:

Year Ended December 31,	Cumulative Number of Trust Units Purchased and Cancelled	Cumulative Purchase Cost	Average Cost per Trust Unit
2007	856,447	\$ 38,577	\$ 45.04
2008	2,312,000	85,412	\$ 36.94
2009	790,000	22,756	\$ 28.80
2010	423,400	17,024	\$ 40.21
2011	160,900	6,740	\$ 41.89
	4,542,747	\$ 170,509	\$ 37.53

#### (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.

In summary, the trust has the following capital securities outstanding:

	Units outstanding Dec 31, 2011	Monthly Distribution	Units outstanding Dec 31, 2010	Monthly Distribution
Boardwalk REIT Units	47,789,492	\$ 0.15/unit	47,891,133	\$ 0.15/unit
Special Voting Units	4,475,000	N/A	4,475,000	N/A

Monthly distributions are determined at the discretion of the Board of Trustees. The Board of Trustees declares distributions to be paid on the 15th of the month following the record date. Distributions to be paid subsequent to the reporting date (to be paid on February 15, 2012) totaled \$7.8 million (\$0.15 per unit) and have not been included as a liability in the statement of financial position as the record date for these distributions was January 31, 2012.

### (c) Other comprehensive income

For years ended December 31, 2011 and December 31, 2010, other comprehensive income ("OCI") consists of the following amounts:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
OCI, beginning of year	\$ (6,587)	\$ (5,892)
Change in fair value of the effective portion of the interest rate swaps	(1,896)	(718)
Losses on settlement of effective bond forward	25	23
OCI, end of year	\$ (8,458)	\$ (6,587)

During the first quarter of 2008, Boardwalk REIT 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 under Canadian GAAP and meet the criteria to be designated as effective cash flow hedges under IFRS at the Transition Date. At January 1, 2010, December 31, 2010 and December 31, 2011, the Trust has determined that these cash flow hedges were effective under IFRS and hedge accounting has been applied to these agreements in accordance with IAS 39. The Trust evaluates the effectiveness of these cash flow hedges at each reporting date and measures them at fair value. Any gains or losses, which arise as a result of the "effectiveness" of the hedge, will be recognized in OCI. The ineffective portion of the hedging gain or loss on the swap transaction will be recognized immediately in profit or loss. On recognition of the financial liability of the hedged item on the statement of financial position, 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 affect 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, this amount will be immediately reclassified into profit or loss. For the year ended December 31, 2011, a loss of \$1.9 million was recognized in OCI from the effective portion of the swap (year ended December 31, 2010 – \$0.7 million).

In the beginning of 2008, the Trust entered into a forward bond transaction (the "Transaction") with a major Canadian financial institution. In total, the Transaction, which comprised of bond forward contracts on specific mortgages set to mature and be renewed in 2008, was for a total nominal amount of \$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 loss of \$100 thousand related to the changes. This contract was assessed to be an ineffective hedge and the settlement loss of \$100 thousand was included in financing costs for the quarter ended June 30, 2008. During the second quarter ended June 30, 2008, the remaining bond forward contracts in the Transaction were settled. Except for one of the contracts, all remaining contracts were assessed to be ineffective hedges and the net settlement loss of \$168 thousand was included in financing costs for the second quarter of 2008. The bond forward contract assessed to be an effective hedge was settled for a loss of \$284 thousand, which will be amortized over the term of the new financing. As of December 31, 2011, the unamortized balance was \$176 thousand (December 31, 2010 unamortized balance - \$201 thousand and \$224 thousand at transition date on January 1, 2010). The amount of \$25 thousand was recognized in profit or loss under financing charges for the year ended December 31, 2011 (\$23 thousand for the year ended December 31, 2010).

**(d) Earnings per unit**

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
<b>Numerator</b>		
Profit – basic	\$ 1,225,086	\$ 276,792
Loss on fair value adjustments to unexercised deferred units	874	623
Distribution paid on LP Class B units	8,055	10,293
Loss (gain) on fair value adjustment to LP Class B units	41,125	18,795
Profit – diluted	1,275,140	\$ 306,503
<b>Denominator</b>		
Weighted average units outstanding – basic	47,782,400	48,145,204
Conversion of LP Class B units	4,475,000	4,475,000
Weighted average units outstanding – diluted	52,257,400	52,620,204
Earnings per unit – basic	\$ 25.64	\$ 5.75
Earnings per unit – diluted	\$ 24.40	\$ 5.82

All dilutive elements were included in the calculation of diluted per unit amounts, as the effect of settling all outstanding deferred units and LP Class B Units is dilutive.

**NOTE 19: Rental Revenue**

The Trust leases residential rental properties under operating leases generally with a term of not more than 12 months and in many cases tenants lease rental space on a month-to-month basis. Rental incentives may be offered as part of a rental agreement and the costs associated with these incentives are amortized over the term of the lease and netted against residential rental revenue. As such, rental revenue represents all revenue earned from the Trust's operating leases and totaled \$416.2 million for the year ended December 31, 2011 (\$414.0 million – year ended December 31, 2010).

As at December 31, 2011, under its non-cancellable operating leases, Boardwalk REIT was entitled to the following minimum future payments:

	Within 12 months	2 to 5 years	Over 5 years
Operating leases	\$ 11,989	\$ 381	\$ 92

**NOTE 20: Ancillary Rental Income**

Ancillary rental income was comprised of the following:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Revenue from coin laundry machines	\$ 5,342	\$ 5,487
Revenue from telephone and cable providers	1,233	912
Total	\$ 6,575	\$ 6,399

**NOTE 21: Financing Costs**

Financing costs are comprised of interest on mortgages payable, interest on the unsecured debentures, distributions paid to the LP Class B Unitholders and other interest charges. Financing costs are net of interest income earned. Financing costs total \$105.6 million for the year ended December 31, 2011 (\$112.6 million – year ended December 31, 2010) and can be summarized as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Interest on secured debt (mortgages payable)	\$ 92,320	\$ 96,174
Interest on unsecured debt (debentures)	6,306	6,306
LP Class B unit distribution	8,055	10,293
Other interest charges	1,583	1,617
Interest income	(2,695)	(1,752)
Total	\$ 105,569	\$ 112,638

**NOTE 22: Depreciation and Amortization**

The components of depreciation and amortization were as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Amortization of deferred financing costs	\$ 7,071	\$ 6,989
Depreciation of property, plant and equipment	3,449	3,305
Total	\$ 10,520	\$ 10,294

**NOTE 23: Loss on Sale of Assets**

For the year ended December 31, 2011, there were no dispositions of the Trust's investment properties.

For the year ended December 31, 2010, the Trust sold the following investment properties:

Property Name	Location	Operating Segment	Number of Units
Habitat du Lac Leamy	Gatineau, Quebec	Quebec	321
Heritage Gardens	Calgary, Alberta	Alberta	91
Les Jardins Bourassa	Montreal, Quebec	Quebec	178
Cascade Lodge	Regina, Saskatchewan	Saskatchewan	12
Glen Garry	Regina, Saskatchewan	Saskatchewan	12
600 Cote Vertu	St. Laurent, Quebec	Quebec	88
Willow Glen Apartments	Edmonton, Alberta	Alberta	88
Braemar Court	Coquitlam, B.C.	British Columbia	105
California Gardens	Burnaby, B.C.	British Columbia	79
Ridgemont Apartments	Coquitlam, B.C.	British Columbia	41
Parkwest Apartments	Victoria, B.C.	British Columbia	96
Eagle Manor <sup>(1)</sup>	Grand Prairie, Alberta	Alberta	31
			1,142

(1) The building in Grande Prairie, Alberta, consisting of 31 units, was completely destroyed in a November 28, 2009 fire and was settled with the insurers for proceeds of \$3.4 million in July 2010, which approximated the net book value of the building prior to being destroyed.

The loss on sale of assets was as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Gross sales price	\$ –	\$ 111,258
Costs of disposition	–	(2,157)
Net cash proceeds	–	109,101
Carrying value of investment property sold	–	(111,258)
Other adjustments on disposition	–	(890)
Loss on sale of assets	\$ –	\$ (3,047)

#### NOTE 24: Fair Value Gains (Losses)

The components of fair value gains (losses) were as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Investment properties	\$ 406,388	\$ 230,575
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	(874)	(623)
LP Class B Units	(41,125)	(18,795)
Total fair value gains	\$ 364,389	\$ 211,157

#### NOTE 25: Sale of Equipment

During the third quarter of 2011, coin laundry appliances were sold for net cash proceeds of \$618 thousand. No gain or loss on sale was recorded as the proceeds approximated fair value.

#### NOTE 26: Operating Leases

The Trust has entered into various lease agreements as part of the normal course of its operations. The following represents the major type of leases the Trust maintains as lessee, all of which qualify as operating leases in accordance with IAS 17 - Leases ("IAS 17"):

(i) *Ground leases*

The Trust has entered into non-cancellable ground leases for land related to five of its buildings, which sit on land that is not owned by the Trust. Remaining terms of the Trust's ground leases range from 19 to 55 years as at December 31, 2011.

(ii) *Warehouse and office space leases*

The Trust has entered into lease agreements for warehouse space and some office space it utilizes but does not own. A portion of the office space leased is subleased to other businesses. All of the leasing arrangements related to warehouse space have renewal options of between one and five years with the exception of one of the leasing arrangements for which no renewal option exists. The office space lease expires in December of 2012 with no additional renewal option to extend the lease. The same terms exist for the office space subleases.

As at December 31, 2011, future minimum lease payments related to these leases were as follows:

	Within 12 months	2 to 5 years	Over 5 years
Ground leases	\$ 3,415	\$ 13,662	\$ 132,600
Warehouse and office space *	705	1,639	–
	\$ 4,120	\$ 15,301	\$ 132,600

\*This is net of \$52 thousand of funds received annually from the sublease of office space to a third-party lessee. This sublease expires in December 2012.

The Trust recognized lease expenses of \$4.4 million and received sublease payments of \$229 thousand for the year ended December 31, 2011 (\$4.0 million and \$272 thousand, respectively, for the year ended December 31, 2010).

#### **NOTE 27: Guarantees, Contingencies, Commitments and Other**

From time to time, the Trust enters into various supply contracts for energy commodities to hedge its usage.

A supply contract was negotiated to provide price certainty for natural gas usage in the province of Saskatchewan. The contract covered all of the Trust's natural gas requirements for this province. The physical supply agreement for Saskatchewan, which covered the period from November 1, 2009 to October 31, 2010, provided the commodity at a price of \$4.98/GJ. This physical supply agreement was renewed for a further one-year term, commencing November 1, 2010 to October 31, 2011, and provided the natural gas commodity at a price of \$4.81/GJ.

In addition to the Province of Saskatchewan, the Trust entered into a natural gas supply contract for the Provinces of Ontario and Quebec. The supply contract covered the period from November 1, 2009 to October 31, 2010, and was negotiated to ensure supply of approximately 50% of the natural gas usage for Ontario and Quebec at a price of \$7.65/GJ. This supply contract was renewed for a further one-year term commencing November 1, 2010 to October 31, 2011. The renewal provides the commodity at a price of \$4.07/GJ. On October 21, 2010, the Trust negotiated a two-year supply contract to ensure supply of the remaining 50% of natural gas usage for Ontario and Quebec at a price of \$4.11/GJ for the period from November 1, 2010 to October 31, 2012.

On June 10, 2010, the Trust entered into a long-term supply contract with one electrical utility company to supply the Trust with its electrical power needs for Southern Alberta for a three-year period commencing October 1, 2010 and ending September 30, 2013 at a blended rate of approximately \$0.06/kWh.

On September 13, 2010, the Trust entered into a long-term supply contract with one electrical utility company to supply the Trust with its electrical power needs for Northern Alberta for a five-year period commencing October 1, 2010 and ending September 30, 2015 at a blended rate of approximately \$0.06/kWh.

The unsecured debentures principal balance of \$112.4 million matures on January 23, 2012. Upon maturity, the unsecured debentures were settled using the Trust's liquidity on hand (comprised largely of cash of \$255.9 million).

Boardwalk REIT, in the normal course of operations, will become subject to a variety of legal and other claims against the Trust, most of which are minor in nature. 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.

In the normal course of business, various agreements may be entered that may contain features that meet the definition of a contingent liability in accordance with IAS 37. 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. These guarantees are considered contingent liabilities as payment of the amount will only occur if the purchaser defaults. If the purchaser does not default, the balance is not payable. Boardwalk REIT's maximum exposure at December 31, 2011 is \$nil (December 31, 2010 - \$6.7 million). In the event of default by the purchaser, Boardwalk REIT's recourse for recovery includes the sale of the respective building asset. Boardwalk REIT expects that the proceeds from the sale of the building asset will cover, and in most likelihood exceed, the maximum potential liability associated with the amount being guaranteed. Therefore, at December 31, 2011, December 31, 2010 and January 1, 2010, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

#### **NOTE 28: Capital Management and Liquidity**

The Trust defines capital resources as the aggregate of Unitholders' equity at market value, debt (both secured and unsecured), cash flows from operations and amounts available under credit facilities net of 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 REIT's DOT as well as existing debt covenants and



continue building long-term Unitholder value while maintaining sufficient capital contingency. 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 (the "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 a maximum total debt level of up to 70% of Gross Book Value ("GBV"), defined in the DOT as total assets plus the amortization of property, plant and equipment as recorded by the Trust (and calculated in accordance with the DOT). The DOT also defines debt to exclude trade accounts payable, distribution payable, securities issued by the Trust or its subsidiaries, including, but not limited to, the LP Class B Units, and accrued liabilities arising in the ordinary course of business. Therefore, the LP Class B Units and the deferred unit-based compensation plan are excluded from the calculation of the Debt to GBV covenant test.

The following table highlights Boardwalk REIT's existing leverage ratio in accordance with the DOT:

As at	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Total assets	\$ 5,089,023	\$ 4,585,925	\$ 4,359,226
Amortization of non-building assets	34,190	30,739	27,527
	5,123,213	4,616,664	4,386,753
Mortgages payable	2,218,731	2,153,206	2,145,638
Unsecured debenture	112,390	112,211	111,834
	2,331,121	2,265,417	2,257,472
Adjusted Debt to GBV	45.5%	49.1%	51.5%

With a DOT limit not to exceed 70% on Adjusted Debt-to-Gross Book Value, a Debenture Trust Indenture not to exceed 60% on Adjusted Debt-to-Gross Book Value and a credit facility not to exceed 75% on Adjusted Debt-to-Gross Book Value, Boardwalk REIT has the ability to add additional debt of approximately \$722.3 million (December 31, 2010 – \$486.1 million, January 1, 2010 – \$358.1 million) to its existing portfolio. Additionally, the Trust's DOT contains provisions that have the effect of limiting capital expended by the Trust.

The Trust employs a broad range of financing strategies to facilitate growth and manage financial risk. The Trust's objective is to reduce its weighted average cost of capital and improve Unitholder distributions through value enhancement initiatives and consistent monitoring of the balance between debt and equity financing. As at December 31, 2011, the Trust's weighted average cost of capital was 4.24%.

The following schedule details the components of the Trust's capital and the related costs thereof:

As at	Dec 31, 2011		Dec 31, 2010		Jan 1, 2010	
	Cost of Capital <sup>(1)</sup>	Underlying Value <sup>(2)</sup>	Cost of Capital <sup>(1)</sup>	Underlying Value <sup>(2)</sup>	Cost of Capital <sup>(1)</sup>	Underlying Value <sup>(2)</sup>
<b>Liabilities</b>						
Mortgages payable	4.08%	\$ 2,343,615	4.20%	\$ 2,221,676	4.47%	\$ 2,192,768
Unsecured debenture	5.61%	112,504	5.61%	115,521	5.61%	116,449
LP Class B Units	3.57%	225,719	4.36%	184,594	4.86%	165,799
Deferred unit-based compensation	4.40%	7,032	5.26%	5,429	5.96%	4,196
<b>Unitholders' equity</b>						
Boardwalk REIT Units	4.40%	2,410,502	5.26%	1,975,509	5.96%	1,788,384
<b>Total</b>	<b>4.24%</b>	<b>\$ 5,099,372</b>	<b>4.71%</b>	<b>\$ 4,502,729</b>	<b>5.01%</b>	<b>\$ 4,267,596</b>

(1) As a percentage of average carrying value unless otherwise noted.

(2) Underlying value of liabilities represents carrying value or the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of the Trust's Units.

**Mortgages payable** – These are the mortgages outstanding on the Trust's investment properties. The debt is primarily fixed rate debt and approximately 99.0% of this debt at December 31, 2011 is insured under the National Housing Act ("NHA"). These financings are typically structured on a loan to appraised value basis between 75-80%. The Trust currently has a level of indebtedness of approximately 51% of the fair value of the Trust's investment properties. This level of indebtedness is considered by the Trust to be within its target.

**Unsecured debenture** – The unsecured debenture represents the debt outstanding on a debenture issuance in a public offering 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 were rated "BBB" with a stable trend by Dominion Bond Rating Services, carry a coupon rate of 5.61% (5.31% prior to July 30, 2008), and matures on January 23, 2012. During the first quarter of 2009, the Trust acquired in the open market a total face value of \$7.6 million of these unsecured debentures for cancellation. These were purchased at a discount to the face value of the reported debentures. See Note 12 above for additional information on the unsecured debenture.

**LP Class B Units** – These units are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Boardwalk REIT Units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Boardwalk REIT been issued. Each LP Class B Unit was accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The LP Class B Units have been classified as "FVTPL" financial liabilities in accordance with IAS 32. Gains or losses resulting from changes in the fair value at each reporting date are recorded in the consolidated statement of comprehensive income.

As outlined in NOTE 30 (d), Boardwalk REIT's debenture and committed revolving credit facility agreements contain financial covenants.

Available liquidity as at December 31, 2011 included cash on hand of \$255.9 million (December 31, 2010 - \$228.1 million, January 1, 2010 - \$190.3 million) as well as an unused committed revolving credit facility of \$196.1 million (December 31, 2010 - \$197.1 million, January 1, 2010 - \$198.2 million). The Trust monitors its ratios and as at December 31, 2011 and 2010, December 31, 2010 and January 1, 2010, the Trust was in compliance with all covenants in both its DOT and all existing debt facilities.

## NOTE 29: Financial Instruments

### (a) Hedging transactions

In the beginning of 2008, the Trust entered into a bond forward transaction (the "Transaction") with a major Canadian financial institution. In total, the Transaction, which comprised of bond forward contracts on specific mortgages set to mature and be renewed in 2008, was for a total notional amount of \$101.6 million with a weighted average term and interest rate of 7.2 years and 3.63%, respectively; except for one of the contracts, all remaining contracts were assessed to be ineffective hedges. The bond forward contract assessed to be an effective hedge was settled for a loss of \$284 thousand, which will be amortized over the term of the new financing. As at December 31, 2011, the unamortized balance was \$176 thousand (December 31, 2010 unamortized balance - \$201 thousand, January 1, 2010 - \$224 thousand) and \$25 thousand was recognized in profit under financing charges for the year ended December 31, 2011 (\$23 thousand for the year ended December 31, 2010).

During the first quarter of 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 was May 1, 2008 and the agreements 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 of 0.25%, while the total amount of the mortgage debt subject to the interest rate swap is \$87.2 million (December 31, 2010 - \$88.6 million, January 1, 2010 - \$91.5 million).

The Trust has determined the interest rate swap agreement described above to be an effective cash flow hedge in accordance with IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). The effectiveness of the hedging relationship has been assessed at the transition date to IFRS and 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"). To date, these interest rates swaps have been effective, and therefore all gains or losses have been recorded to OCI. The ineffective portion of the hedging gain or loss on the swap transaction will be recognized immediately in net earnings. However, to date there have been no ineffective portions on these swaps. On recognition of the financial liability of the hedged item on the statement of financial position, the associated gains or losses that were recognized in OCI will be reclassified into profit or loss in the same period or periods during which the interest payments of the hedged item affected profit or loss. 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 profit or loss.

As at December 31, 2011, the interest rate swap agreement was reassessed to be an effective hedge and, consistent with the previous periods, any gains or losses on the interest rate swap agreement were recognized in profit or loss in the periods during which the interest payments on the hedged items were recognized. For the year ended December 31, 2011, a loss of \$1.9 million was recognized in OCI for the fair value change of the interest rate swaps (December 31, 2010 – loss of \$0.7 million).

#### (b) Fair value of financial instruments

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risk. The fair values of the Trust's financial instruments were determined as follows:

- (i) the carrying amounts of trade and other receivables, segregated tenants' security deposits, cash, refundable tenants' security deposits and trade and other payables 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.
- (iii) the fair values of the deferred unit compensation plan and the LP Class B Units are estimates at a specific point in time, based on the closing market price of the REIT Units listed on the Toronto Stock Exchange.
- iv) the fair value of the effective portion of the interest rate swaps, reported as other non-current liabilities, are estimates at a specific point in time, based on quoted prices in markets that are not active for substantially the same term as the remaining effective portion of the derivatives.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment 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 December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

As at	Dec 31, 2011				Dec 31, 2010		Jan 1, 2010	
	Fair Value	Other liabilities Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Financial liabilities								
Mortgages payable	\$ –	\$ 2,218,731	\$ 2,218,731	\$ 2,343,615	\$ 2,153,206	\$ 2,221,676	\$ 2,145,638	\$ 2,192,768
Debentures	–	112,390	112,390	112,504	112,211	115,521	111,834	116,449
LP Class B Units	225,719	–	225,719	225,719	184,594	184,594	165,799	165,799
Other non-current liabilities	8,282	–	8,282	8,282	6,386	6,386	5,668	5,668
Deferred unit-based compensation	7,032	–	7,032	7,032	5,429	5,429	4,196	4,196

The fair value of the Trust's mortgages payable and debentures exceeded the recorded value by approximately \$125.0 million at December 31, 2011 (December 31, 2010 - \$71.8 million and \$51.7 million at January 1, 2010), due to changes in interest rates since the dates on which the individual mortgages and debentures were last contracted. 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, 2011, December 31, 2010 and January 1, 2010, respectively; the amount is subject to change and the future amounts will converge. There are no additional costs or penalties to Boardwalk REIT if the mortgages and debentures are held to maturity.

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

As at	Dec 31, 2011			Dec 31, 2010			Jan 1, 2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial liabilities									
LP Class B Units	225,719	–	–	184,594	–	–	165,799	–	–
Other non-current liabilities	–	8,282	–	–	6,386	–	–	5,668	–
Deferred unit-based compensation	7,032	–	–	5,429	–	–	4,196	–	–

The three levels of the fair value hierarchy are described as follows:

*Level 1:* Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

*Level 2:* Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

As at December 31, 2011, December 31, 2010 and January 1, 2010, 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.

### NOTE 30: 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 mortgages payable and debentures in fixed terms arrangements. As such, the Trust's cash flows 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 the Canadian Mortgage and Housing Corporation ("CMHC") under the National Housing Act ("NHA") mortgage program. This added level of insurance offered to lenders allows the Trust to receive advantageous interest rates while minimizing the risk of mortgage renewals or extensions, and significantly reduces the potential for a lender to call a loan prematurely. In addition, management is constantly reviewing its committed revolving 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 December 31, 2011, the Trust had no amount outstanding on its committed revolving credit facility and, as such, of the Trust's total debt at December 31, 2011, 100% was fixed-rate debt and 0% was floating-rate debt. For the year ended December 31, 2011, all else being equal, the increase or decrease in net earnings for each 1% change in market interest rates would be \$nil (December 31, 2010 – \$nil).

**b) Credit risk**

The Trust is exposed to credit risk as a result of its trade and other receivables. This balance is comprised of mortgage holdbacks and refundable mortgage fees, accounts receivable from significant customers and tenant receivables. As at December 31, 2011, 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 the Trust's revenue sharing initiatives. Given the Trust's collection history and the nature of these customers, credit risk is assessed as low. 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.

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. Rent payments from tenants are due on the first of the month and tenants generally pay a security deposit – both of these actions mitigate against bad debts.

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 (receivables which are greater than 30 days) 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 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. For the year ended December 31, 2011 bad debt expense totaled \$5.61 million (year ended December 31, 2010 – \$5.17 million).

The credit risk of both Boardwalk REIT and the counter party have been taken into account in determining the fair value of Boardwalk REIT's trade and other receivables.

**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 conservatively leveraged assets and can finance any future growth through one or a combination of internally generated cash flows, borrowing under an existing committed revolving 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 and reviewed on a regular basis to ensure the Trust has sufficient cash flows to make its monthly distributions to its Unitholders. Finally, financial assets, such as cash and trade and other receivables, will be realized within the next twelve months and can be utilized to satisfy the Trust's financial liabilities. 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.

The following table details the Trust's remaining contractual maturity for its non-derivative financial liabilities listed by year of maturity date:

Year of Maturity	Mortgages payable		Debentures	
	Weighted average interest rate	Principal outstanding	Weighted average interest rate	Principal outstanding
2012	4.69%	\$ 465,129	5.61%	\$ 112,405
2013	4.51%	286,152	–	–
2014	3.51%	425,734	–	–
2015	3.71%	453,473	–	–
2016	3.94%	270,545	–	–
Subsequent	4.13%	406,636	–	–
Unamortized deferred financing costs	4.08%	2,307,669 (89,104)	5.61%	112,405 (15)
Unamortized mark-to-market adjustment		166		–
		\$ 2,218,731		\$ 112,390

#### 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 favor of CMHC.

In accordance with the debenture agreement, the Trust is required to pay semi-annual interest installments on January 23rd and July 23rd 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 Trust's Unsecured Debenture agreement contains three financial covenants as follows:

- (i) The Trust will maintain a Consolidated EBITDA, as defined by the agreement, to Consolidated Interest Expense ratio of not less than 1.75 to 1. For the year ended December 31, 2011, this ratio was 2.42 to 1 (December 31, 2010 – 2.34 to 1) and, the Trust was 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 60% (70% prior to January 1, 2011). The debenture trust indenture specifies that the calculations of the components of debt are determined based on amounts calculated in accordance with Canadian GAAP as at January 21, 2005. As a result of this, the Trust's calculation of Debt to Gross Book Value upon the adoption of IFRS excludes items, which are classified as debt under IFRS standards, but were, in fact, classified as equity in accordance with Canadian GAAP standards as at January 21, 2005. Therefore, the LP Class B Units and the deferred unit-based compensation plan are excluded from the calculation of the Debt to GBV covenant test. These two items are classified as financial liabilities under IFRS but were, in fact, considered equity under Canadian GAAP as at January 21, 2005, resulting in their exclusion from the calculation. As at December 31, 2011, this amount was 45.5% (December 31, 2010 – 49.1%, January 1, 2010 – 51.5%) and the Trust was in compliance.



(iii) The Trust will maintain at all times, an Adjusted Unitholders' Equity of at least \$300 million. Adjusted Unitholders' Equity is defined as Unitholders' Equity as per the consolidated financial statements plus any depreciation taken on PP&E assets. Adjusted Unitholders' Equity was \$2.4 billion as at December 31, 2011 (December 31, 2010 - \$1.3 billion and January 1, 2010 - \$1.2 billion) and, the Trust was in compliance.

The Trust has a committed revolving credit facility with a major financial institution. This credit facility is secured by a pledge of a group of specific real estate assets (fair value at December 31, 2011 of approximately \$587.3 million). The amount available through the committed revolving credit facility varies with the value of the pledged assets, with a maximum limit not to exceed \$200.0 million and an available limit of \$196.1 million as at December 31, 2011. The revolving facility requires monthly interest payments, is for a three-year term maturing on July 28, 2014 and can be extended annually thereafter, subject to the mutual consent of the lender and the Trust. In the event the committed revolving credit facility is not extended, the drawn-down principal would be due on the maturity date of the credit agreement.

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, 2011, this ratio was 1.74 (December 31, 2010 - 1.89 and January 1, 2010 - 1.73).
- (ii) The Trust will maintain a Debt Service Coverage Ratio, specific to the Security Portfolio of at least 1.15 (tested semi-annually). As at December 31, 2011, this ratio was 1.79 (December 31, 2010 - 1.54 and January 1, 2010 - 1.51).
- (iii) Total indebtedness of the Trust will not exceed 75% of the GBV of all assets for the two most recent quarters as defined in the credit agreement. The calculation of the components of Debt to Gross Book Value in accordance with the credit agreement is similar to that defined in the DOT as outlined in NOTE 28; however, the credit facility uses the two most recent quarters while the DOT is only for the current quarter. As at December 31, 2011, this ratio was 46.3% (December 31, 2010 - 49.1% and January 1, 2010 - 51.5%).

As at December 31, 2011, December 31, 2010 and January 1, 2010, 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 27, the Trust has commitments to certain utility contracts to reduce the risk of exposure to adverse changes in commodity prices.

**NOTE 31: Subsidiaries**

The entities included in the Trust's consolidated financial statements are as follows:

Entity	Type	Relationship
Boardwalk Real Estate Investment Trust ("BREIT")	Trust	Parent
Boardwalk Real Estate Management Ltd.	Corporation	100% owned by BREIT
Top Hat Operating Trust ("TOT")	Trust	100% owned by BREIT
BPCL Holdings Inc. ("BPCL")	Corporation	Special Purpose Entity
Boardwalk REIT Limited Partnership ("BLP")	Partnership	A Units are 100% owned by TOT B Units and C Units are 100% owned by BPCL
Boardwalk REIT Properties Holdings (Alberta) Ltd.	Corporation	100% owned by BLP
Boardwalk REIT Quebec Inc.	Corporation	100% owned by BLP
Boardwalk Quebec Trust	Trust	100% owned by BLP
Boardwalk St. Laurent Limited Partnership	Partnership	100% owned by Boardwalk Quebec Trust
9108-4749 Quebec Inc.	Corporation	100% owned by BLP
Nun's Island Trust 1	Trust	100% owned by BLP
Nun's Island Trust 2	Trust	100% owned by BLP
Metropolitan Structures (MSI) Inc.	Corporation	100% owned by BLP
Boardwalk GP Holding Trust	Trust	100% owned by BLP
6222285 Canada Inc.	Corporation	100% owned by BLP
Boardwalk GP Operating Trust	Trust	100% owned by 6222285 Canada Inc.
Boardwalk General Partnership ("BGP")	Partnership	99.99% owned by Boardwalk GP Holding Trust 0.01% owned by Boardwalk GP Operating Trust
Boardwalk REIT Properties Holdings Ltd.	Corporation	100% owned by BGP
2044760 Ontario Inc.	Corporation	100% owned by BGP
Boardwalk Equities (B.C.) Inc.	Corporation	100% owned by BGP
Horizon Towers Holdings Ltd.	Corporation	100% owned by Boardwalk Equities (B.C.) Inc.
Surrey Village Holdings Ltd.	Corporation	100% owned by Boardwalk Equities (B.C.) Inc.

BPCL represents the only entity which is not 100% owned by the Trust or one of its subsidiaries. Under IFRS, BPCL is considered a Special Purpose Entity ("SPE") as it was created to accomplish a narrow and well-defined objective. BPCL was created specifically to transfer the beneficial interest in the Corporation's assets. The Trust does not have any voting interest in BPCL; however, the Trust controls BPCL because the Trust has the decision-making powers to obtain the majority of the benefits of the activities of BPCL and the Trust retains the majority of the residual or ownership risks related to BPCL. Due to the above, BPCL is part of the Trust's consolidated group.

**NOTE 32: Related Party Disclosures**

IAS 24 – Related Party Disclosures requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. Balances and transactions between the Trust and its subsidiaries (as outlined in NOTE 31), which are related parties of the Trust, have been eliminated on consolidation and are not disclosed in this note.

The following outlines the individuals considered key personnel of the Trust:

**(a) Trustees**

The Trustees of Boardwalk REIT during the year ended December 31, 2011 and up to the date of this report were:

James R. Dewald  
 Gary Goodman  
 Arthur L. Havener, Jr.  
 Sam Kolias  
 Al W. Mawani

**(b) Key management personnel**

Key management personnel of the Trust during the year ended December 31, 2011 and up to the date of this report were:

Sam Kolias, Chief Executive Officer  
 Van Kolias, Senior VP, Quality Control  
 P. Dean Burns, General Counsel & Corporate Secretary  
 William Chidley, Senior VP, Corporate Development  
 Roberto Geremia, President  
 William Wong, Chief Financial Officer

The remuneration of the Trust's key management personnel were as follows:

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Short-term benefits	\$ 941	\$ 914
Post-employment benefits	45	44
Other long-term benefits	6	3
Deferred unit-based compensation	1,216	899
	<b>\$ 2,208</b>	<b>\$ 1,860</b>

In addition, the LP Class B Units are held by Sam Kolias (Chairman of the Board, Chief Executive Officer and Trustee) and Van Kolias (Senior Vice President, Quality Control). Under IAS 32, the LP B Units issued by a wholly owned subsidiary of the Trust are considered financial liabilities under IFRS, and were reclassified from equity to liabilities on the financial statements. Additionally, as the LP Class B Units are liabilities, all distributions paid are recorded as a financing charge under IFRS. For the year ended December 31, 2011, distributions on the LP Class B Units totaled \$8.1 million (\$10.3 million – year ended December 31, 2010). Distributions on the LP Class B Units are made on terms equivalent to those in arms-length transactions and to distributions made on Boardwalk REIT Units.

As at December 31, 2011, there was \$671 thousand owed to related parties (\$671 thousand – December 31, 2010 and \$671 thousand – January 1, 2010) based on the LP Class B Units distribution outlined above.

**NOTE 33: Other Information****(a) Supplemental cash flow information**

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Taxes paid	\$ 2	\$ –
Interest paid	\$ 107,641	\$ 114,468
<b>Net change in operating working capital</b>		
Net change in inventories	\$ 377	\$ (118)
Net change in prepaid assets	(218)	(423)
Net change in trade and other receivables	834	5
Net change in segregated and refundable tenants' security deposits	(4)	223
Net change in deferred unit-based compensation	1,801	2,396
Net change in trade and other payables	1,295	1,021
	<b>\$ 4,085</b>	<b>\$ 3,104</b>

(b) Included in administration costs is \$1.84 million relating to RRSP matching for the year ended December 31, 2011 (\$1.72 million for the year ended December 31, 2010).

**NOTE 34: Segmented Information**

Boardwalk REIT specializes in multi-family residential housing and operates primarily within one business segment in five provinces located wholly in Canada. Each provincial segment operates with a high degree of autonomy. Management monitors the operating results on a regional basis. Segment performance is evaluated on a number of measures including net profit. Financial information reported is on the same basis as used for internal evaluation and allocation of resources. The REIT does not have any one or group of tenants. Expiring leases are either renewed or new tenants are found.

Net debt, interest income and expenses, and income taxes are managed on a group basis. Transfer prices between locations are set on an arm's-length basis in a manner similar to transactions with third parties and are eliminated upon inter-company consolidation.

All other segments items represent corporate functions, technology assets, activities incidental to operations and certain comparative data for divested assets, and are recognized in the relevant segments.

Details of segmented information are as follows:

As at	Dec 31, 2011						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Assets	\$ 3,145,356	\$ 110,432	\$ 608,303	\$ 277,408	\$ 706,639	\$ 240,885	\$ 5,089,023
Liabilities	1,473,167	63,455	266,183	125,793	334,389	381,246	2,644,233

As at	Dec 31, 2010						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Assets	\$ 2,810,391	\$ 98,624	\$ 546,332	\$ 251,494	\$ 662,650	\$ 216,434	\$ 4,585,925
Liabilities	1,401,306	64,031	261,896	128,029	384,602	1,033,525	3,273,389

As at	Jan 1, 2010						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Assets	\$ 2,642,934	\$ 133,283	\$ 509,305	\$ 247,791	\$ 600,501	\$ 225,412	\$ 4,359,226
Liabilities	1,362,445	72,281	250,416	130,043	389,485	992,271	3,196,941

	Year ended Dec 31, 2011						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Rental revenue	\$ 245,644	\$ 7,966	\$ 56,043	\$ 38,321	\$ 67,986	\$ 192	\$ 416,152
Ancillary rental income	3,890	139	609	832	1,109	(4)	6,575
Total rental revenue	249,534	8,105	56,652	39,153	69,095	188	422,727
Rental expenses							
Operating expenses	47,683	1,341	9,418	7,241	14,211	4,506	84,400
Utilities	21,541	805	4,725	6,696	6,247	326	40,340
Property taxes	18,503	423	3,929	5,385	6,999	89	35,328
Net operating income	161,807	5,536	38,580	19,831	41,638	(4,733)	262,659
Financing costs (a)	59,838	2,935	11,161	5,499	13,130	13,006	105,569
Administration	159	25	(6)	70	136	25,880	26,264
Depreciation and amortization (b)	3,531	124	605	327	2,849	3,084	10,520
Profit (loss) from continuing operations before gains and other items, fair value gains (losses) and income tax (recovery)	98,279	2,452	26,820	13,935	25,523	(46,703)	120,306
Fair value gains (losses)	297,024	10,219	55,272	18,349	25,523	(41,998)	364,389
Profit (loss) before income tax expense	395,303	12,671	82,092	32,284	51,046	(88,701)	484,695
Income tax expense (c)	–	–	–	–	–	(740,391)	(740,391)
Profit (loss)	\$ 395,303	\$ 12,671	\$ 82,092	\$ 32,284	\$ 51,046	\$ 651,690	\$ 1,225,086
Other comprehensive (loss)	(1,097)	–	(774)	–	–	–	(1,871)
Comprehensive income	\$ 394,206	\$ 12,671	\$ 81,318	\$ 32,284	\$ 51,046	\$ 651,690	\$ 1,223,215
Additions to non-current assets (d)	\$ 37,406	\$ 1,600	\$ 6,669	\$ 7,466	\$ 16,680	\$ 3,905	\$ 73,726

	Year ended Dec 31, 2010						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Rental revenue	\$ 240,735	\$ 7,811	\$ 54,833	\$ 37,666	\$ 66,744	\$ 6,244	\$ 414,033
Ancillary rental income	3,724	99	672	859	922	123	6,399
Total rental revenue	244,459	7,910	55,505	38,525	67,666	6,367	420,432
Rental expenses							
Operating expenses	41,376	949	7,395	6,681	15,245	4,978	76,624
Utilities	22,368	756	4,674	6,838	6,370	1,216	42,222
Property taxes	18,996	424	3,830	6,027	6,719	533	36,529
Net operating income	161,719	5,781	39,606	18,979	39,332	(360)	265,057
Financing costs (a)	62,278	2,977	11,117	5,701	13,426	17,139	112,638
Administration	190	5	39	–	264	25,497	25,995
Depreciation and amortization (b)	3,400	114	667	355	2,519	3,239	10,294
Profit (loss) from continuing operations before gains and other items, fair value gains (losses) and income tax (recovery)	95,851	2,685	27,783	12,923	23,123	(46,235)	116,130
(Loss) on sale of assets	(20)	–	–	–	–	(3,027)	(3,047)
Fair value gains (losses)	145,236	6,392	30,167	(6,304)	55,310	(19,644)	211,157
Profit (loss) before income tax expense	241,067	9,077	57,950	6,619	78,433	(68,906)	324,240
Income tax expense (c)	–	–	–	–	–	47,448	47,448
Profit (loss)	\$ 241,067	\$ 9,077	\$ 57,950	\$ 6,619	\$ 78,433	\$ (116,354)	\$ 276,792
Other comprehensive (loss)	(414)	–	(281)	–	–	–	(695)
Comprehensive income (loss)	\$ 240,653	\$ 9,077	\$ 57,669	\$ 6,619	\$ 78,433	\$ (116,354)	\$ 276,097
Additions to non-current assets (d)	\$ 35,882	\$ 1,758	\$ 6,937	\$ 9,983	\$ 13,672	\$ 5,093	\$ 73,325

**(a) Financing costs**

Financing costs were as follows:

	Year ended Dec 31, 2011						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Interest on secured debt (mortgages payable)	\$ 59,668	\$ 2,934	\$ 11,151	\$ 5,445	\$ 13,120	\$ 2	\$ 92,320
Interest on unsecured debt (debentures)	–	–	–	–	–	6,306	6,306
LP Class B unit distribution	–	–	–	–	–	8,055	8,055
Other interest charges	170	1	16	54	29	1,313	1,583
Interest income	–	–	(6)	–	(19)	(2,670)	(2,695)
<b>Total</b>	<b>\$ 59,838</b>	<b>\$ 2,935</b>	<b>\$ 11,161</b>	<b>\$ 5,499</b>	<b>\$ 13,130</b>	<b>\$ 13,006</b>	<b>\$ 105,569</b>

	Year ended Dec 31, 2010						
	Alberta	British Columbia	Saskatchewan	Ontario	Quebec	All other segments	Total
Interest on secured debt (mortgages payable)	\$ 62,188	\$ 2,977	\$ 11,102	\$ 5,621	\$ 13,403	\$ 883	\$ 96,174
Interest on unsecured debt (debentures)	–	–	–	–	–	6,306	6,306
LP Class B unit distribution	–	–	–	–	–	10,293	10,293
Other interest charges	91	–	16	87	26	1,397	1,617
Interest income	(1)	–	(1)	(7)	(3)	(1,740)	(1,752)
<b>Total</b>	<b>\$ 62,278</b>	<b>\$ 2,977</b>	<b>\$ 11,117</b>	<b>\$ 5,701</b>	<b>\$ 13,426</b>	<b>\$ 17,139</b>	<b>\$ 112,638</b>

**(b) Depreciation and amortization**

This represents depreciation and amortization on items carried at cost and primarily includes deferred financing charged, corporate assets, technology assets, site equipment and other assets. These figures exclude any impairment charges.

**(c) Income tax expense (recovery)**

This relates to any current and deferred taxes. Excluded are deferred tax assets, which are presented separately on the statement of financial position. The tax charge is the REITs estimate of the deferred income tax liability at June 30, 2007, and adjusted quarterly, recognizing the probability that it would be subject to the tax prescribed by the SIFT rules on January 1, 2011. On December 16, 2010, the Department of Finance announced proposed amendments to the real estate investment trust rules and released for consultation draft legislation to implement such amendments. Notwithstanding if and when these proposed changes become substantively enacted, the Trust's qualifies as a REIT for Canadian income tax purposes commencing January 1, 2011 and reversed the deferred income tax liability related to the SIFT Legislation at this time. Subsequently, the remaining tax charges relate to corporate entities taxed separately under the Income Tax Act.

**(d) Additions to non-current assets (other than financial instruments and deferred tax assets)**

This represents the total cost incurred during the year to acquire non-current assets (other than financial instruments and deferred tax assets), measured on an accrual basis.

**NOTE 35: Subsequent Events**

On January 23, 2012, the unsecured debenture principal balance owing of \$112.4 million was paid in full.

Subsequent to year end, the Trust's Board of Trustees approved an increase to the Trust's annual distributions to \$1.86 per Trust Unit (or \$0.155 per month) from the previous distribution of \$1.80 (or \$0.15 per month) per Trust Unit, effective with the commencement of the February 29, 2012 record date.

**NOTE 36: Approval of Financial Statements**

The financial statements were approved by the Board of Trustees and authorized for issue on February 16, 2012.



## FIVE YEAR SUMMARY

	2007	2008		2009	2010	2011
<i>(\$000's except per unit and per square foot)</i>	(CDN GAAP)	(CDN GAAP)	<i>(\$000's except per unit and per square foot)</i>	(IFRS)	(IFRS)	(IFRS)
<b>Assets</b>			<b>Assets</b>			
Revenue producing properties	\$ 2,149,853	\$ 2,173,583	Investment properties	\$ 4,129,636	\$ 4,318,242	\$ 4,793,895
Discontinued operations	6,293	27,278				
Other assets	39,742	158,063	Other assets	229,590	267,683	295,128
<b>Total assets</b>	<b>\$ 2,195,888</b>	<b>\$ 2,358,924</b>	<b>Total assets</b>	<b>\$ 4,359,226</b>	<b>\$ 4,585,925</b>	<b>\$ 5,089,023</b>
Mortgages payable	\$ 1,770,015	\$ 2,035,192	Mortgages payable	\$ 2,145,638	\$ 2,153,206	\$ 2,218,731
Debenture	118,768	119,073	Debenture	111,834	112,211	112,390
Discontinued operations	–	22,122				
Other liabilities	64,465	73,442	Other liabilities	246,553	267,613	313,102
	\$ 1,953,248	\$ 2,249,829		\$ 2,504,025	\$ 2,533,030	\$ 2,644,223
Future income taxes	100,287	100,602	Deferred income taxes	692,916	740,359	10
Unitholders' equity (deficiency)	142,353	8,493	Unitholders' equity (deficiency)	1,162,285	1,312,536	2,444,790
<b>Total liabilities and unitholders' equity</b>	<b>\$ 2,195,888</b>	<b>\$ 2,358,924</b>	<b>Total liabilities and unitholders' equity</b>	<b>\$ 4,359,226</b>	<b>\$ 4,585,925</b>	<b>\$ 5,089,023</b>
Trust unit outstanding (000) (including LP B Units)	55,709	53,477	Trust unit outstanding (000) (including LP B Units)	52,744	52,366	52,264
Trust unit price at year-end (\$)	\$ 44.55	\$ 25.56	Trust unit price at year-end (\$)	\$ 37.05	\$ 41.25	\$ 50.44
Market capitalization (\$MM)	2,481.8	1,366.9	Market capitalization (\$MM)	1,954.2	2,160.1	2,636.2
<b>Number of rental units</b>	<b>36,487</b>	<b>36,785</b>	<b>Number of rental units</b>	<b>36,419</b>	<b>35,277</b>	<b>35,277</b>
Book value per rental unit (\$000)	59	59	Fair value per rental unit (\$000)	113	122	136
Long-term debt per rental unit (\$000)	52	59	Long-term debt per rental unit (\$000)	62	64	66
<b>Net rentable square feet (000)</b>	<b>30,852</b>	<b>31,094</b>	<b>Net rentable square feet (000)</b>	<b>30,757</b>	<b>29,936</b>	<b>29,936</b>
Book value per square foot (\$)	70	70	Fair value per square foot (\$)	134	144	160
Long-term debt per square foot (\$)	61	69	Long-term debt per square foot (\$)	73	76	78
Average net rentable SF per unit	846	845	Average net rentable SF per unit	845	849	849
<b>L/T debt weighted average interest rate</b>	<b>5.11%</b>	<b>4.83%</b>	<b>L/T debt weighted average interest rate</b>	<b>4.52%</b>	<b>4.27%</b>	<b>4.14%</b>

Balance sheet as at December 31, 2007 was not retroactively restated in accordance with CICA handbook section 3475, disposal of long-lived assets and discontinued operations, for discontinued operations reclassified in fiscal year ended December 31, 2008.

Balance sheet as at December 31, 2008 was not retroactively restated in accordance with CICA handbook section 3475, disposal of long-lived assets and discontinued operations, for discontinued operations reclassified in fiscal year ended December 31, 2009.

Fiscal years as at December 31, 2007 and 2008 are in accordance with Canadian GAAP, while fiscal years as at December 31, 2009, 2010 and 2011 are in accordance with IFRS.

## FIVE YEAR SUMMARY

	2007	2008	2009
(\$000's except per unit)	(CDN GAAP)	(CDN GAAP)	(CDN GAAP)
<b>Revenue producing properties</b>	\$ 375,012	\$ 419,799	\$ 416,815
Rental income			
<b>Operating expenses</b>			
Revenue producing properties	64,934	73,539	73,229
Utilities	42,276	48,906	42,222
Property taxes	32,300	33,616	35,438
	139,510	156,061	150,889
<b>Net operating income</b>	235,502	263,738	265,926
<b>Operating margin</b>	63%	63%	64%
Financing costs	97,805	105,849	105,793
Amortization of deferred financing costs	1,820	4,971	6,022
Amortization	82,425	87,869	85,313
<b>Earnings before corporate charges</b>	53,452	65,049	68,798
<b>Corporate charges</b>			
Administration	21,213	24,180	26,711
Current income taxes	15	4	3
Future income taxes (recovery)	100,597	315	(5,646)
Other income and expenses	(755)	–	(408)
	121,070	24,499	20,660
<b>Earnings (loss) from continuing operations</b>	(67,618)	40,550	48,138
<b>Earnings from discontinued operations, net of tax</b>	8,292	5,135	13,929
<b>Net earnings for the year</b>	\$ (59,326)	\$ 45,685	\$ 62,067
<b>Earnings per unit - diluted</b>	\$ (1.05)	\$ 0.84	\$ 1.17
<b>Funds from operations</b>	\$ 116,461	\$ 129,918	\$ 133,094
<b>Funds from operations per unit - fully diluted</b>	\$ 2.07	\$ 2.39	\$ 2.51
Interest Coverage Ratio, Continuing operations	2.31	2.29	2.27

	2010	2011
(\$000's except per unit)	(IFRS)	(IFRS)
<b>Rental revenue</b>	\$ 414,033	\$ 416,152
Ancillary rental income	6,399	6,575
<b>Total rental revenue</b>	420,432	422,727
<b>Rental expenses</b>		
Operating expenses	76,624	84,400
Utilities	42,222	40,340
Property taxes	36,529	35,328
<b>Net operating income</b>	265,057	262,659
<b>Operating margin</b>	63%	62%
Financing costs	112,638	105,569
Administration	25,995	26,264
Depreciation and amortization	10,294	10,520
<b>Profit from continuing operations before loss on sale of assets, fair value gains and income tax expense (recovery)</b>	116,130	120,306
Loss on sale of assets	(3,047)	–
Fair value gains	211,157	364,389
<b>Profit before income tax expense (recovery)</b>	324,240	484,695
Income tax expense (recovery)	47,448	(740,391)
<b>Profit for the year</b>	276,792	1,225,086
Other comprehensive (loss)	(695)	(1,871)
<b>Total comprehensive income</b>	\$ 276,097	\$ 1,223,215
<b>Earnings per unit - diluted</b>	\$ 5.82	\$ 24.40
<b>Funds from operations</b>	\$ 129,728	\$ 131,808
<b>Funds from operations per unit - fully diluted</b>	\$ 2.47	\$ 2.52
Interest Coverage Ratio, Continuing operations	2.34	2.42

Fiscal years ended December 31, 2007, 2008 and 2009 are in accordance with Canadian GAAP, while fiscal years ended December 31, 2010 and 2011 are in accordance with IFRS.

## 2011 QUARTERLY RESULTS

(\$000's except per unit)	Q1	Q2	Q3	Q4	31-Dec-11
<b>Rental revenue</b>	\$ 102,642	\$ 103,818	\$ 104,353	\$ 105,339	\$ 416,152
Ancillary rental income	1,654	1,546	1,641	1,734	6,575
<b>Total rental revenue</b>	104,296	105,364	105,994	107,073	422,727
<b>Rental expenses</b>					–
Operating expenses	20,474	20,668	21,961	21,297	84,400
Utilities	13,508	8,299	8,157	10,376	40,340
Property taxes	9,446	9,305	8,361	8,216	35,328
<b>Net operating income</b>	60,868	67,092	67,515	67,184	262,659
Financing costs	26,473	26,466	26,118	26,512	105,569
Administration	6,508	6,169	6,877	6,710	26,264
Depreciation and amortization	2,534	2,596	2,629	2,761	10,520
<b>Profit from continuing operations before loss on sale of assets, fair value gains and income tax expense (recovery)</b>	25,353	31,861	31,891	31,201	120,306
Loss on sale of assets	–	–	–	–	–
Fair value gains (losses)	(43,033)	164,181	137,505	105,736	364,389
<b>Profit before income tax expense (recovery)</b>	(17,680)	196,042	169,396	136,937	484,695
Income tax expense (recovery)	(740,194)	(549)	309	43	(740,391)
<b>Profit for the period</b>	722,514	196,591	169,087	136,894	1,225,086
Other comprehensive income (loss)	12	3	2	(1,888)	(1,871)
<b>Total comprehensive income</b>	\$ 722,526	\$ 196,594	\$ 169,089	\$ 135,006	\$ 1,223,215
<b>Earnings per unit - diluted</b>	\$ 14.35	\$ 3.82	\$ 3.27	\$ 2.96	\$ 24.40
<b>Funds from operations</b>	\$ 28,132	\$ 34,700	\$ 34,806	\$ 34,170	\$ 131,808
<b>Funds from operations per unit - fully diluted</b>	\$ 0.54	\$ 0.66	\$ 0.67	\$ 0.65	\$ 2.52

## 2010 QUARTERLY RESULTS

(\$000's except per unit)	Q1	Q2	Q3	Q4	31-Dec-10
<b>Rental revenue</b>	\$ 104,174	\$ 103,415	\$ 102,887	\$ 103,557	\$ 414,033
Ancillary rental income	1,641	1,779	1,405	1,574	6,399
<b>Total rental revenue</b>	105,815	105,194	104,292	105,131	420,432
<b>Rental expenses</b>					–
Operating expenses	19,082	19,367	18,915	19,260	76,624
Utilities	14,323	8,811	8,274	10,814	42,222
Property taxes	9,023	8,719	9,764	9,023	36,529
<b>Net operating income</b>	63,387	68,297	67,339	66,034	265,057
Financing costs	28,056	27,728	30,021	26,833	112,638
Administration	6,415	6,593	5,945	7,042	25,995
Depreciation and amortization	2,551	2,512	2,522	2,709	10,294
<b>Profit from continuing operations before loss on sale of assets, fair value gains and income tax expense (recovery)</b>	26,365	31,464	28,851	29,450	116,130
Loss on sale of assets	(594)	(498)	(489)	(1,466)	(3,047)
Fair value gains (losses)	28,083	(7,542)	179,118	11,498	211,157
<b>Profit before income tax expense (recovery)</b>	53,854	23,424	207,480	39,482	324,240
Income tax expense (recovery)	9,979	(173)	43,414	(5,772)	47,448
<b>Profit for the period</b>	43,875	23,597	164,066	45,254	276,792
Other comprehensive income (loss)	10	2	3	(710)	(695)
<b>Total comprehensive income</b>	\$ 43,885	\$ 23,599	\$ 164,069	\$ 44,544	\$ 276,097
<b>Earnings per unit - diluted</b>	\$ 1.15	\$ 0.48	\$ 3.80	\$ 0.39	\$ 5.82
<b>Funds from operations</b>	\$ 29,156	\$ 34,247	\$ 33,928	\$ 32,397	\$ 129,728
<b>Funds from operations per unit - fully diluted</b>	\$ 0.55	\$ 0.65	\$ 0.65	\$ 0.62	\$ 2.47

## MARKET AND UNITHOLDER INFORMATION

### SOLICITORS

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Calgary, Alberta T2P 5C5

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

### BANKERS

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

### AUDITORS

**Deloitte & Touche LLP**  
700, 850 – 2 Street SW  
Calgary, Alberta T2P 0R8

### REGISTRAR & TRANSFER AGENT

#### Computershare Trust Company of Canada

Our Transfer Agent can help you with a variety of unitholder related services, including change of address, tax forms, accounts consolidation and transfer of stock.

600, 530 – 8 Avenue SW  
Calgary, Alberta T2P 3S8  
Telephone: 403 267-6800

### Investor Relations

Unitholders seeking financial and operating information may contact:

**James Ha, Director; Mortgage and Finance**

Telephone: 403 531-9255  
Facsimile: 403 531-9565  
Website: [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com)  
Email: [investor@bwalk.com](mailto:investor@bwalk.com)

### ONLINE INFORMATION

For an online version of the current and past annual reports, quarterly reports, press releases and other Trust information, please visit our investor website at [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com).

### SPECIAL MEETING

The Annual and Special Meeting of the Unitholders of Boardwalk REIT will be held at the Lougheed House, 707 – 13th Avenue SW, Calgary, Alberta, at 2:00 pm (Mountain Standard Time) on May 15, 2012.

Unitholders are encouraged to attend and those unable to do so are requested to complete the Form of Proxy and forward it at their earliest convenience.

### EXCHANGE LISTINGS

**The Toronto Stock Exchange**  
Symbol: **BEI.UN**

### TRADING PROFILE

TSX: Jan 1, 2011 to Dec. 31, 2011

High: \$53.32

Low: \$41.02

Year-end Closing Price: \$50.44

\*effective May 3, 2004, Boardwalk was converted into a Real Estate Investment Trust from its predecessor, Boardwalk Equities Inc.

### Monthly Distributions

Month	Per Unit	Record Date	Payable Date
Jan - 11	\$0.15	31 - Jan - 11	15 - Feb - 11
Feb - 11	\$0.15	28 - Feb - 11	15 - Mar - 11
Mar - 11	\$0.15	31 - Mar - 11	15 - Apr - 11
Apr - 11	\$0.15	29 - Apr - 11	16 - May - 11
May - 11	\$0.15	31 - May - 11	15 - Jun - 11
Jun - 11	\$0.15	30 - Jun - 11	15 - Jul - 11
Jul - 11	\$0.15	29 - Jul - 11	15 - Aug - 11
Aug - 11	\$0.15	31 - Aug - 11	15 - Sep - 11
Sep - 11	\$0.15	30 - Sep - 11	17 - Oct - 11
Oct - 11	\$0.15	31 - Oct - 11	15 - Nov - 11
Nov - 11	\$0.15	30 - Nov - 11	15 - Dec - 11
Dec - 11	\$0.15	30 - Dec - 11	16 - Jan - 12
Jan - 12	\$0.15	31 - Jan - 12	15 - Feb - 12

# CORPORATE INFORMATION

## EXECUTIVE OFFICES

### Calgary

First West Professional Building  
Suite 200, 1501 – 1 Street SW  
Calgary, Alberta T2R 0W1  
Phone: 403 531-9255  
Fax: 403 531-9565  
Web: [www.BoardwalkREIT.com](http://www.BoardwalkREIT.com)

## BOARD OF TRUSTEES

### Sam Kolias

Chairman of the Board  
Calgary, Alberta

**James Dewald** <sup>(1) (3)</sup>  
Calgary, Alberta

**Gary Goodman** <sup>(2) (3)</sup>  
Toronto, Ontario

**Art Havener** <sup>(2) (3)</sup>  
St. Louis, MO

**Al Mawani** <sup>(2)</sup>  
Thornhill, Ontario

<sup>(1)</sup> Lead Trustee

<sup>(2)</sup> Member of the Audit and  
Risk Management Committee

<sup>(3)</sup> Member of the Compensation,  
Governance and Nominations Committee

## SENIOR MANAGEMENT

### Jonathan Brimmell

Vice President, Operations,  
Ontario and Quebec

### Dean Burns

General Counsel and Secretary

### William Chidley

Senior Vice President, Corporate  
Development

### Jean Denis

Vice President, Acquisitions,  
Eastern Canada

### Ian Dingle

Vice President, Purchasing and Contracts

### Roberto Geremia

President

### Michael Guyette

CIO, VP Operations for Southern Alberta  
and BC

### Sam Kolias

Chief Executive Officer

### Van Kolias

Senior Vice President, Quality Control

### Kelly Mahajan

Vice President, Customer Service  
and Process Design

### Helen Mix

Vice President, Human Resources

### Lisa Russell

Vice President, Acquisitions,  
Western Canada

### William Wong

Chief Financial Officer

### Bill Zigomanis

Vice President, Investments