

# FINANCIAL REVIEW

## Management's Discussion and Analysis ..... 26

▲ Executive Summary .....	27
Business Overview .....	27
MD&A Overview .....	27
Outlook .....	27
Harmonized Sales Tax .....	28
Declaration of Trust .....	28
Values, Vision and Objectives .....	29
Investment Philosophy .....	30
Hedging Activities .....	32
Note Regarding Non-GAAP Financial Measures .....	33
Performance Review Of 2010 .....	34
▲ Transition To International Financial Reporting Standards .....	38
Overall Review .....	38
▲ Consolidated Operations and Earnings Review .....	40
Overall Review .....	40
Segmented Operational Review .....	41
Operational Sensitivities .....	44
Same-Property Results .....	46
Estimated Loss-to-Lease .....	46
Financing Costs .....	48
Other Income and Expenses .....	50
▲ Financial Condition .....	51
Review of Consolidated Statements of Cash Flows .....	51
Review of Consolidated Balance Sheets .....	54
Capital Structure and Liquidity .....	54
▲ Risks and Risk Management .....	58
General Risks .....	58
Specific Risks .....	60
Additional Risks and Uncertainties .....	63
Certain Tax Risks .....	64
Risks Associated with Disclosure Controls and Procedures & Internal Control over Financial Reporting .....	66
▲ Accounting and Control Matters .....	66
Critical Accounting Policies .....	66
Future Changes in Critical Accounting Policies .....	68
International Financial Reporting Standards ("IFRS") .....	68
Disclosure Controls and Procedures & Internal Control over Financial Reporting .....	81
▲ Financial Outlook for 2011 .....	82
Selected Consolidated Financial Information .....	82

## Financial Statements

▲ Management's Report .....	84
▲ Auditors' Report .....	85
▲ Financial Statements .....	86
▲ Notes to Financial Statements .....	90

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2010

## 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, 2010 and 2009. This MD&A is current as of February 17, 2011 unless otherwise stated, and should be read in conjunction with Boardwalk's audited annual consolidated financial statements for the years ended December 31, 2010 and 2009, 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 under "Risks and Challenges" in this MD&A, 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 to be 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 intends to qualify for the REIT Exemption commencing January 1, 2011. If this does not occur, certain statements contained in this MD&A may need to be modified.

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

### 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 and May 18, 2010 (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 2010, 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, 2010, Boardwalk REIT’s property portfolio was concentrated in the provinces of British Columbia, Alberta, Saskatchewan, Ontario and Quebec.

Boardwalk REIT is Canada’s largest multi-family real estate investment trust as measured by assets and total enterprise value, and Canada’s largest owner/operator of multi-family rental communities.

To accomplish its main objective, the Trust follows a strategy of owning, managing and operating multi-family residential units in Canada, and has developed operating and investment strategies, detailed later in this document, that primarily focus on its key stakeholders, these being its valued Associates, Customers and Trust Unitholders.

### MD&A Overview

This Management’s Discussion and Analysis (“MD&A”) focuses on key statistics 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, 2010 and 2009 and the Annual Information Form (“AIF”) dated February 17, 2011, 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 2010 year continued to show signs of stability returning to the Canadian and global real estate markets. During the year, many real estate entities elected to access the equity and debt markets. Given Boardwalk REIT’s existing liquidity position and access to Government of Canada-backed securities, along with a lack of appropriately priced assets to acquire, the Trust elected not to participate in any new issuance, but rather felt it was a better investment to purchase for cancellation its own Trust Units on the open market.

Although history has shown that the apartment real estate asset class tends to demonstrate lower volatility to changes in market conditions, it is not immune to them. Notwithstanding these factors, 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 non-public sector customer, has kept revenue stable and risks low. In the debt capital market, the fact that approximately 99% 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 distribution payout ratio of approximately 70% of Funds From

Operations (“FFO”) and approximately 80% of Adjusted Funds From Operations (“AFFO”) in 2010 and with continued access to low-rate Government of Canada-backed debt in the form of NHA insurance (which is administered by Canada Mortgage and Housing Corporation).

In 2011, the outlook for Canada’s economy in general and Alberta’s economy in particular is one of positive growth. In the latest outlook by RBC Economics, real GDP growth for Canada in 2011 will be 3.2%. Due to energy-related spending and the expansion of non-conventional oil production, Alberta’s 2011 real GDP growth is forecasted to be 4.3%, second only to Saskatchewan’s forecast of 5.3%. As we move forward, we remain in a strong liquidity position, details of which will also be discussed later in this report. However, at this time we continue to look for accretive opportunities to deploy a portion of these funds while still maintaining a strong overall liquidity position. We are currently, and have been since becoming a real estate investment trust, in compliance with our existing Declaration of Trust and all existing debt covenants.

## 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 2.2% and 7.2%, respectively, of total 2010 net operating income reported by the Trust.

## 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 37 of the AIF. Some of the main financial guidelines and operating policies as set out in the DOT are as follow:

### INVESTMENT GUIDELINES

1. Acquire, develop and operate multi-family residential property;
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); and
3. Investments in joint ventures are permitted, subject to the approval of the Board of Trustees.

### 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 Canada Mortgage and Housing Corporation (“CMHC”) onsite 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.

<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.

## COMPLIANCE WITH DOT

At December 31, 2010, 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 ownership and 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 the most significant 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";
- ▲ 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.

## 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 Funds From Operations ("FFO") per unit and Adjusted Funds From Operations ("AFFO") per 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").

During fiscals 2010 and 2009, Boardwalk REIT purchased and cancelled the following Trust Units:

Bid Number	For the Year Ended December 31, 2010			For the Year Ended December 31, 2009		
	Number of Trust Units Purchased and Cancelled	Purchase Cost (\$000)	Cost per Trust Unit	Number of Trust Units Purchased and Cancelled	Purchase Cost (\$000)	Average Cost Per Trust Unit
1	-	-	-	-	-	-
2	-	-	-	790,000	\$ 22,756	\$ 28.81
3	208,400	\$ 8,221	\$ 39.45	-	-	-
4	215,000	\$ 8,803	\$ 40.95	-	-	-
	<b>423,400</b>	<b>\$ 17,024</b>	<b>\$ 40.21</b>	790,000	\$ 22,756	\$ 28.81

Since 2007, Boardwalk REIT purchased and cancelled Trust Units under the following NCIBs:

Bid Number	Approval Date	Termination Date	Maximum Trust Units Allowed to be Purchased and Cancelled	Cumulative Number of Trust Units Purchased and Cancelled	Cumulative Purchase Cost (\$000)	Average Cost per Trust Unit
1	August 10, 2007	August 17, 2008	4,267,048	2,522,447	\$ 103,865	\$ 41.18
2	August 18, 2008	August 19, 2009	4,040,192	1,436,000	42,880	\$ 29.86
3	August 24, 2009	August 23, 2010	3,932,211	208,400	8,221	\$ 39.45
4	August 20, 2010	August 23, 2011	3,918,286	215,000	8,803	\$ 40.95
Total				4,381,847	\$ 163,769	\$ 37.37

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 this time.

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.

#### 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 investments. It can be also 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 low 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 amount 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 2010, the Trust reported FFO per Trust Unit of \$2.47. When compared to the simple average Trust Unit market price of \$40.69 for the month of December 2010, this equates to approximately 6% 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 trade at or 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 adjustment rate. 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 term at the longer end of the curve, usually with terms ranging from seven and ten years.

It is management's belief that the Trust's investment strategy addresses the key components in determining whether an investment is accretive for the Trust as a whole. When comparing the external investment opportunity to our internal opportunity of acquiring our own Trust Units for 2010, management felt that, on a risk adjusted basis, the better investment was in the Trust's own real estate through the purchase of Trust Units on the open market and the divestiture of Non-Core properties in our portfolio. The proceeds of these divestitures are then evaluated to determine where to place these investments. For 2010, a portion of these funds were used to assist in the repurchase of our Trust Units as well as to fund a special cash distribution of \$0.50 per outstanding Trust Unit that was paid in September of 2010.

## Hedging Activities

### BOND FORWARD TRANSACTION

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 that matured and was 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. 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 loss is being amortized over the term of the new financing. As at December 31, 2010, the unamortized amount of this effective hedge was \$201 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 date of maturity, May 1, 2015. Hedge accounting has been applied to these agreements in accordance with CICA Handbook section 3865.

Boardwalk REIT has determined that the hedging of its interest rate exposure was effective. 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 net earnings. On recognition of the financial liability of the hedged item on the balance sheet, the associated gains or losses that were recognized in OCI will be reclassified into net earnings in the same period or periods during which the interest payments of the hedged item 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 net earnings.

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 \$88.5 million (2009 – \$91.5 million).

As at December 31, 2010, the interest rate swap agreement was reassessed to be an effective hedge and, consistent with the previous year, any gains or losses on the interest rate swap agreement were recognized in earnings in the periods during which the interest payments on the hedged items were recognized.

#### UNSECURED DEBENTURES

During the first quarter of 2009, the Trust acquired in the open market a total face value of \$7.6 million of its unsecured debentures for cancellation. These were purchased at a discount to the face value and the cost paid by the Trust was \$7.2 million, of which \$55 thousand represented accrued interest. The remaining difference of \$408 thousand between the face value and the discounted price paid was reported as “Other Income” on the financial statements in the first quarter of 2009. There has been no further debenture buybacks since the first quarter of 2009.

The unsecured debenture holders, in a special meeting held July 30, 2008, approved an amendment to the trust indenture amending the definition of Gross Book Value (“GBV”) for an additional \$410 million to be added to the one-time adjustment to assets, thereby, increasing it from \$231 million to \$641 million. 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 the current 5.31%, commencing July 30, 2008 until the maturity date of January 23, 2012.

The unsecured debentures principal balance of \$112.4 million is scheduled to mature on January 23, 2012. Given the current pricing in the unsecured market, it is our intention upon maturity to repay this outstanding liability through a combination of existing cash on hand, our committed revolving credit facility and new secured NHA-mortgages on existing assets, which currently would carry interest rates substantially below the face rate on the unsecured debenture of 5.61%. As the maturity of this debenture continues to be well out into the future, that is, January 23, 2012, the passage of time brings the increased risk of interest rates increasing in the interim. To date, the Trust has forwarded committed on seventeen specific NHA secured mortgages for a total of \$107 million. The average forward-locked interest rate on these secured mortgages is 3.99% with an average term of 6.5 years. It should be noted that the Trust is currently in the final process of forward-locking one remaining mortgage of a total of seventeen mortgages to complete the target debt financing amount of \$107 million, but anticipates the aggregate average interest rate to remain near 3.99%. The remainder of the proceeds required to repay the unsecured debentures of \$5.4 million will come from cash reserves. The estimated annual interest savings in 2012 as a result of the repayment of the unsecured debenture is estimated to be \$1.82 million.

#### Note Regarding Non-GAAP Financial Measures

Boardwalk REIT assesses and measures operating results based on performance measures referred to as “Funds From Operations” (“FFO”), “Distributable Income” (“DI”) and Adjusted Funds From Operations (“AFFO”). FFO and DI are widely accepted supplemental measures of the performance of a Canadian real estate entity; however, they are not measures defined by generally accepted accounting principles (“GAAP”). In recent periods, additional attention has been given to AFFO as a supplemental measurement as well. The GAAP measurements most comparable to FFO and DI are net earnings and total cash flow from operating activities, respectively. The reconciliation from Net Earnings to FFO and the reconciliation from Total Operating Cash Flows to DI 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, DI and AFFO, however, should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as indicators of Boardwalk REIT’s performance. In addition, Boardwalk REIT’s calculation methodology for FFO, DI and AFFO may differ from that of other real estate companies and trusts.

Changes to GAAP 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 GAAP in effect at that time. Expected future changes in GAAP will only serve to further decrease the reliability of Distributable Income as it becomes 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 to eliminate any reference to Distributable Income from the Declaration of Trust. This proposal was voted on and passed by Unitholders that day. It is the intent of the Trust to cease to report on Distributable Income, effective January 1, 2011.

## Performance Review Of 2010

All Canadian investment trusts are governed by the rules set out in a trust indenture or Declaration of Trust. This document outlines both qualitative and quantitative guidelines for management to follow. Two key performance indicators, although not specifically referred to in the DOT, are FFO and AFFO. An additional financial indicator in the Trust's DOT is "Distributable Income" ("DI"). Although these reported amounts are non-GAAP measures (unlike net earnings and cash flow from operating activities), both the real estate industry and management feel they are useful indicators of performance. It should be noted that as was passed at the Trust's Unitholder meeting on May 18, 2010, effective January 1, 2011, the Trust will no longer be referring or reporting on DI, but rather will focus its disclosure on the two other key indicators, namely, FFO and AFFO.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values, instead, have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, the Real Property Association of Canada ("REALpac") feels the use of FFO as a supplemental measure of operating performance that excludes historical costs depreciation, among other items, from net income based on generally accepted accounting principles is appropriate. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of real estate companies and investment trusts among the investing public and making financial comparisons between such corporations and trusts more meaningful. We generally consider FFO to be useful measures for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net earnings, which remains the primary measure of performance). By excluding real estate asset depreciation and amortization, as well as future income taxes, FFO can help better compare the operating performance of a real estate entity between periods and across different companies or trusts. We believe that FFO is the best measure of economic profitability for real estate investment trusts. 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.

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.

Boardwalk REIT also generates 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.

### PERFORMANCE MEASURES

As was previously discussed, for fiscal years beginning after January 1, 2011, the Trust will no longer be referencing the term 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, otherwise in their absolute discretion, determine a different amount. Throughout the year, the Trust regularly distributed \$1.80 per outstanding Trust Unit on an annualized basis (or \$0.15 per Trust 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. 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. Additional Information related to this special distribution is discussed below.

For the year ended December 31, 2010, the Trust declared regular distributions of \$94.7 million, representing approximately 73% of FFO, in addition to the special distribution of \$26.3 million as discussed above. The reader should note that the overall operat-

ing 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 pay out approximately 70% of its reported FFO and the current year's regular distributions are in line with our expectations. The Trust previously had in place a Distribution Reinvestment Plan ("DRIP"). The essence of this plan was that the Unitholder had the option, in lieu of receiving monthly distributions, to receive Trust Units from treasury. The DRIP allowed participants to accept all or part of their monthly distributions in additional Trust Units. To promote this plan, the Trust offered a 3% premium on the units distributed under the plan. Effective February 29, 2008, Boardwalk REIT suspended the DRIP plan for Unitholders. The suspension of the DRIP did not affect regular distributions and Unitholders will continue to receive the regular distribution as declared. The Board of Trustees, in suspending the DRIP, noted that the Trust is in a strong liquidity position and is currently acquiring its own publicly traded Trust Units on the Toronto Stock Exchange and, as such, the ability to access additional equity capital through this program was not needed.

### SPECIAL DISTRIBUTION

Unlike many REITs and real estate companies, Boardwalk REIT does not include any gains reported on the sale of its properties in its calculation of FFO. The Trust feels that such income is volatile and unpredictable, and would significantly dilute the relevance of FFO as a measure of performance.

To date, the net proceeds of the sale of certain Non-Core properties have assisted in the purchase of REIT Units for cancellation on the open market. Although the Trust continues to be committed to this strategy, consistent with our balanced approach, it was determined that a portion of these proceeds should be returned to the Trust Unitholders in the form of a special distribution. As this special distribution comes directly from the cash proceeds on the sale of these properties, the Trust is not dependant on its existing FFO to fund this distribution, but rather will continue its conservative regular distribution of \$0.15 per Trust Unit on a monthly basis (\$1.80 per Trust Unit on an annualized basis) from operational FFO. Boardwalk REIT's Board of Trustees agreed to have the Trust issue a special distribution of \$0.50 per outstanding Trust Unit. The date of record of the special distribution was August 31, 2010, with a payment date of September 15, 2010.

### HOW DID WE DO?

At the beginning of the 2010 fiscal year, certain selective performance targets were set out for fiscal 2010. 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 2010.

	2010 Actual	2010 Objectives Revised in Q3 2010	2010 Original Objectives
FFO Rental Operations	\$2.47	\$2.40 to \$2.50	\$2.45 to \$2.60
Distributable Income	\$2.49	\$2.42 to \$2.52	\$2.47 to \$2.62
New Unit Acquisitions	No new apartment acquisitions	No new apartment acquisitions	No new apartment acquisitions
Stabilized Building NOI	-1.2%	-3.0% to 0%	-2.0% to 0%

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 DI for fiscal 2010 were within the revised guidance given at the end of the third quarter of fiscal 2010. The following table outlines, on a per Trust Unit basis, where the growth was derived for the Trust compared to the results posted for fiscal 2009.

## FFO RECONCILIATION FROM 2009 TO 2010

FFO Reconciliation	12 Months
FFO December 31, 2009	\$ 2.51
NOI from Stabilized	\$ (0.06)
Interest Income	\$ 0.01
Unit Buyback	\$ 0.02
Financing Cost	\$ 0.05
Deferred Financing Cost	\$ (0.02)
Administration and Other	\$ 0.02
FFO Loss from Sold Properties	\$ (0.06)
<b>FFO December 31, 2010</b>	<b>\$ 2.47</b>

There were a number of factors that both positively and negatively affected our results for 2010. The most significant related to the unanticipated sale of selective Non-Core properties, which accounted for a net loss of FFO of \$0.04 (that is, loss of FFO from sold properties of \$0.06 partially mitigated by Unit Buyback accretion of \$0.02). As was noted above, the net proceeds of these sales have assisted in the current NCIB as well as the funding of our special distribution of \$0.50 per Trust Unit that was paid in September of 2010.

## 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 with 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, it was felt that increasing its overall cash liquidity position was prudent in order to capitalize swiftly on any opportunities that would be in the best interest of the Trust. Even though the credit spread had increased dramatically from more recent levels, when combined with the unprecedented decrease in the underlying Government of Canada bonds, total overall interest rates were still at historical lows.

As of December 31, 2010, the Trust increased its cash position to \$228.1 million from the \$190.3 million reported as at December 31, 2009. However, there is a cost to having this much liquidity on the balance sheet, which earned, and is continuing to earn, a very conservative but safe investment return.

## STABILIZED PROPERTIES

"NOI", or Net Operating Income, includes all rental revenue generated at the rental property level, less related direct costs such as utilities, property taxes, insurance and on-site Customer service and maintenance wages and salaries. "Stabilized Properties" are defined as properties that have been owned by Boardwalk for a 24-month period or greater.

Boardwalk's Stabilized Properties reported a decrease of 1.2% in NOI for fiscal 2010 compared to the same period in 2009. In our 2010 original guidance, and subsequent quarterly revisions, it was our expectation that the NOI on our Stabilized Properties would be between 0 and -3%. The reported result was in line with our projection.

## FFO AND DI RECONCILIATIONS

In the following tables, Boardwalk REIT provides reconciliations of FFO and DI, both non-GAAP measures, to their closely-related GAAP measures for the year.

FFO Reconciliation	12 Months 2010	12 Months 2009	% Change
<i>In \$000's, except per unit amounts</i>			
Net earnings from continuing operations	\$ 36,246	\$ 48,138	
Adjustments			
Earnings from discontinued operations	\$ 35,483	\$ 13,929	
Deduct gain on dispositions	\$ (34,226)	\$ (11,614)	
Other income	\$ -	\$ (408)	
Future income taxes (recovery)	\$ 4,241	\$ (5,646)	
Amortization of assets	\$ 88,185	\$ 88,695	
Funds from operations	\$ 129,929	\$ 133,094	(2.4) %
Funds from operations – per unit	\$ 2.47	\$ 2.51	(1.6) %

<b>Distributable Income Reconciliation</b> <i>In \$000's, except per unit amounts</i>	<b>12 Months 2010</b>	12 Months 2009	% Change
Total Operating Cash Flows	\$ 139,301	\$ 141,859	
Net change in operating working capital	\$ (2,383)	\$ (2,605)	
Deduct deferred financing costs amortization after May 3, 2004	\$ (5,814)	\$ (3,837)	
Add (deduct) net discounts (premiums) adjustment after May 3, 2004	\$ (104)	\$ (109)	
<b>Distributable income</b>	<b>\$ 131,000</b>	<b>\$ 135,308</b>	<b>(3.2)%</b>
<b>Distributable income – per unit</b>	<b>\$ 2.49</b>	<b>\$ 2.55</b>	<b>(2.4)%</b>

Overall, Boardwalk REIT earned \$129.9 million in FFO for year ended December 31, 2010 compared to \$133.1 million for the same period last year. FFO on a per unit basis for 2010 decreased approximately 1.6% compared to the same period in the prior year, from \$2.51 to \$2.47. DI for the year ended December 31, 2010 was \$2.49 per Trust Unit, compared to \$2.55 for the same period last year, representing a decrease of approximately 2.4%.

### NEW PROPERTY ACQUISITIONS

In 2010, there were no new acquisitions. In 2009, Boardwalk REIT acquired one new unit in a property, which the Trust already owned substantially all of the apartment units.

### DISPOSITIONS

In 2010, Boardwalk REIT reported total gains of approximately \$34.2 million on the disposition of 1,142 apartment units comprising twelve selected property assets. Included in the dispositions was the insurance settlement for a 31-unit rental property located in Grand Prairie, Alberta, which was previously destroyed by fire.

<i>Cdn\$ Thousands, except units sold</i>	<b>Year ended December 31, 2010</b>	Year ended December 31, 2009
Cash received	\$ 111,258	\$ 40,072
Cost of dispositions	(2,072)	(37)
Net cash proceeds	109,186	40,035
Net book value	(74,960)	(28,421)
<b>Gain (loss) on dispositions</b>	<b>\$ 34,226</b>	<b>\$ 11,614</b>
<b>Multi-family units sold</b>	<b>1,142</b>	<b>368</b>

### Dispositions for 2010

Property Name	Location	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>	Grande Prairie, Alberta	Alberta	31
			<b>1,142</b>

<sup>1</sup> 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 gross proceeds of \$3.4 million in July 2010, which equaled the net book value of the building at the time of the incident.

**Dispositions for 2009**

Property Name	Location	Segment	Number of Units
Gateway Place	Surrey, B.C.	British Columbia	133
Cedar Court Gardens	Calgary, Alberta	Alberta	65
Domaine du Rocher	Levis, Quebec	Quebec	64
Le Laurier	Quebec City, Quebec	Quebec	105
Century Tower (condo development and sale) <sup>2</sup>	Calgary, Alberta	Alberta	1
			<b>368</b>

2 Included in dispositions for the year ended December 31, 2009 was the sale and closing of 1 unit in a 90-unit property located in Calgary, Alberta that was developed into condominium units for sale. Under the percentage of completion method, sales of \$0.5 million for the year ended December 31, 2009 were recorded against cost of sales of \$0.6 million.

**FINANCIAL PERFORMANCE SUMMARY****At a Glance**

<i>In \$000's, except per unit amounts</i>	2010	2009	% Change
Total Assets	\$ 2,326,802	\$ 2,378,278	(2.2 %)
Total Rental Revenue	\$ 416,110	\$ 416,815	(0.2)%
Net Earnings	\$ 71,729	\$ 62,067	15.6%
Total Funds From Operations	\$ 129,929	\$ 133,094	(2.4)%
Net Earnings Per Unit	\$ 1.36	\$ 1.17	16.2%
Funds From Operations Per Unit	\$ 2.47	\$ 2.51	(1.6)%

Total Assets decreased slightly compared to the prior year, mainly the result of the disposition of non-core assets in the portfolio. Total Rental Revenue decreased marginally by 0.2%, the result of the disposition of selected revenue producing properties in 2010. Net Earnings increased significantly, due to a decrease in overall utility and financing costs, despite the slight decrease in rental revenue as noted above.

**TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS****Overall Review**

On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the change over date of January 1, 2011 as the date in which all publicly accountable enterprises (“PAEs”), including Boardwalk REIT, will be required to report all interim and annual financial statement information in accordance International Financial Reporting Standards (“IFRS”), which will become Canadian GAAP.

The impact of the adoption of IFRS on the consolidated financial statements of Boardwalk REIT is significant and the Trust has developed and implemented its convergence and implementation plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. Boardwalk REIT has substantially completed the process of evaluating the potential impact of IFRS on its consolidated financial statements. This process, however, will be an on-going one as new standards and recommendations are issued by the International Accounting Standards Board and the AcSB.

The Canadian Securities Administrators issued Staff Notice 52-321, “Early Adoption of International Financial Reporting Standards”, which provided issuers with the option to early adopt IFRS effective January 1, 2009. Boardwalk REIT has chosen not to early adopt IFRS standards.

Boardwalk has implemented a top down approach to its convergence plan, which consists of a number of steps to allow the Trust to meet its transition deadline of January 1, 2011. The first of these steps included a diagnostic analysis of the standards to assess their impact on the Trusts financial statements, information technology and systems, and disclosure requirements. The second step involved the design and planning for the implementation of IFRS standards as well as determining their impact on the Trust’s internal controls. The third step involved the implementation of the IFRS standards once final approval has been received from the Board of Trustees. The final step in Boardwalk’s transition plan is a post implementation step.

The following table outlines certain elements of the transition plan and an assessment of the related progress. The reader should be aware that as the Trust works through its detailed project plan certain project activities and milestones could change. Given the progress of the project and the outcomes identified, changes in regulation or economic condition at the date of transition or throughout the project could result in changes to the project activities outlined. A more detailed analysis of the Trust's transition to IFRS can be found later in Management's Discussion and Analysis.

KEY ACTIVITY	KEY MILESTONES	STATUS
<b>Accounting Policy and Implementation</b> <ul style="list-style-type: none"> <li>Identify differences in Canadian GAAP and IFRS accounting policies</li> <li>Select Boardwalk's ongoing IFRS policies</li> <li>Assess and quantify the effects of change upon initial and continuous IFRS implementation</li> <li>Develop financial statement format under IFRS</li> </ul>	Detailed analysis of IFRS standards and their impact on the Trust's financial statements	Completed
	Prepare January 1, 2010 opening balance sheet in accordance with IFRS standards	Completed
	Board sign-off of IFRS policies which will be implemented upon transition to IFRS	Completed
	Develop action plans to implement policy choices	Completed
	Develop mock up financial statements under IFRS which outline disclosure requirements	Completed [and currently being reviewed]
<b>Information Technology and Data Systems</b> <ul style="list-style-type: none"> <li>IT initiatives required, developed and tested</li> </ul>	Identify information requirements under IFRS and develop IT initiatives to meet these requirements	Completed
	Design and develop these IT initiatives	Completed
	Test IT systems to ensure information requirements are met	Completed
	Implementation of new systems	Completed
<b>Internal Controls over Financial Reporting and Disclosure Controls and Procedures</b> <ul style="list-style-type: none"> <li>For all IFRS accounting policy changes, assess control design and effectiveness implications</li> <li>Document and test process changes</li> </ul>	Assess material impacts of IFRS standards on an entity level, information technology, disclosure and business process controls	Completed
	Map and test process and control changes, which result from the implementation of IFRS standards	Ongoing
<b>Financial Reporting Expertise</b> <ul style="list-style-type: none"> <li>Define and introduce the appropriate level of IFRS expertise for the IFRS transition team, accounting staff, senior management and Audit Committee/Board of Trustees</li> </ul>	Training for the IFRS transition team to occur on an ongoing basis as required	Completed and ongoing
	Training for accounting staff, Audit Committee and Board on an ongoing basis as required	Completed and ongoing



KEY ACTIVITY	KEY MILESTONES	STATUS
<b>Business Activities</b> • Assess impact of transition to IFRS on businesses activities such as hedging, debt covenants, performance measures and compensation arrangements	Determine the impact of IFRS policies on various business activities	Projections of the impact to financial and debt covenants and to the Declaration of Trust have been completed and recalculated based on Boardwalk's January 1, 2010 IFRS opening balance sheet. Assessment of business activities and documentation requirements substantially completed in 2010
	Identify changes to structure, Declaration of Trust or other requirements, which need to be addressed prior to the transition date.	No additional changes required
<b>External Communications</b> • Assess the impact of IFRS related accounting policy on external communications including, investor communications, public reporting documents and processes implemented to deal with IFRS queries from the public.	Assess the initial and ongoing impact the transition to IFRS will have on all public forms of communication.	Updated disclosure has been completed and continued monitoring for future reporting requirements.
	Disclose the effects of the implementation to the public	The impact of IFRS on the opening balance sheet at January 1, 2010 and its impact on financial and debt covenants has been completed and disclosed to the public.
	Develop a process to receive and deal with external IFRS inquiries.	Individuals involved in the completion of the external communication are part of the IFRS project team.

Boardwalk REIT continues to evaluate and assess the impact of IFRS standards, their differences from Canadian GAAP and the effects of these differences on the Trust's financial statements. As this convergence project moves through its life cycle, areas are being identified where significant differences from Canadian GAAP may not have initially been considered, but upon further examination, was later identified. One such area exists with IAS 32 – Financial Instruments: Presentation. Upon initial examination of this standard, the Trust disclosed in its 2009 Annual Report that Boardwalk expects its REIT Units and LP Class B Units to be treated as equity under IFRS. However, upon further examination, the Trust has now identified that while the REIT Units are still expected to be treated as equity, the LP Class B Units will be treated as debt with the corresponding distributions for these LP Class B Units treated as financing costs. This reclassification will have no impact on any of the Trust's debt covenants, and the distributions on the LP Class B Units will be added back in the calculation of FFO and AFFO.

## CONSOLIDATED OPERATIONS AND EARNINGS REVIEW

### Overall Review

#### CONSOLIDATED STATEMENTS OF EARNINGS AND OTHER 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 vacancy revenue 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.

Boardwalk REIT, from time to time, will generate interest revenue from interest charged on vendor mortgages receivable and from the investment of excess cash on hand. These excess funds are invested in low-risk, interest-bearing investments. The amount of interest revenue reported for fiscal 2010 was \$1.8 million compared to \$1.3 million for fiscal 2009. Interest revenue is included in rental revenue in the consolidated statements of earnings and other comprehensive income. However, the amounts referred to as rental revenue in the segmented operations review by geographic provinces and in the stabilized property analysis (discussed later

in the MD&A) exclude the interest revenue component. If interest revenue is excluded from consolidated rental revenue, rental revenue would have declined approximately \$1.1 million, or 0.3%, from \$415.5 million in fiscal 2009 to \$414.4 million in fiscal 2010.

<i>In \$000's, except number of suites</i>	12 Months 2010	12 Months 2009	% Change
Rental revenue	\$ 416,110	\$ 416,815	(0.2)%
Expenses			
Operating expenses	\$ 75,378	\$ 73,229	2.9%
Utilities	\$ 41,489	\$ 42,596	(2.6)%
Utility rebate	\$ -	\$ (374)	(100)%
Property taxes	\$ 36,078	\$ 35,438	1.8%
	\$ 152,945	\$ 150,889	1.4%
Net operating income	\$ 263,165	\$ 265,926	(1.0)%
Operating margins	63%	64%	
Number of suites at Dec. 31	35,277	36,419	

Overall, Boardwalk REIT's consolidated rental operations reported good results. The Trust reported a 0.2% decrease in revenue for the year ended December 31, 2010. The reader should note that the amounts reported above have been reduced to remove revenue and any costs related to properties classified as discontinued operations in the fiscal year in accordance with the treatment required under Canadian GAAP. The majority of the decrease is mainly the effect of revenue generated from our same-store properties, or properties referred to as stabilized. More specifically, the decrease in rental revenue for the year ended December 31, 2010 is mainly attributable to the performance of our properties in the province of Alberta. Total rental expenses increased by 1.4% for the year ended December 31, 2010 compared to 2009. This increase is mainly attributable to higher rental operating expenses and property taxes. Utility cost decreases occurred largely in the provinces of Saskatchewan and Quebec as a result of the renewal of fixed rate natural gas contracts at significantly lower fixed rates in both of these provinces. Property taxes increased 1.8% for the year ended December 31, 2010 compared to the same period last year, primarily due to increased property valuations, largely in the provinces of Saskatchewan, Ontario and Quebec. 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 included in income when they are received.

The Alberta Provincial Government discontinued the natural gas rebate program after March 31, 2009. Consequently, no utility rebates were received in fiscal 2010 compared to \$0.4 million for fiscal 2009.

Overall, the operating margin for the year decreased slightly to 63%, when compared to 64% for the same period in 2009.

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 2010	12 Months 2009	% Change
Rental revenue	\$ 7,897	\$ 7,739	2.0%
Expenses			
Operating expenses	\$ 949	\$ 917	3.5%
Utilities	\$ 756	\$ 807	(6.3)%
Property taxes	\$ 424	\$ 459	(7.6)%
	\$ 2,129	\$ 2,183	(2.5)%
Net operating income	\$ 5,768	\$ 5,556	3.8%
Operating margins	73%	72%	
Number of suites at Dec. 31	633	954	

Boardwalk REIT's British Columbia portfolio continued to report good results. British Columbia represented approximately 2% of the Trust's total Net Operating Income. Rental revenues increased slightly while overall operating expenses decreased as

a result lower utility costs resulting from lower utility prices and a decrease in overall property taxes. Operating expenses were higher for the year ended December 31, 2010 compared to 2009 due to an insurance reimbursement received in 2009 as well as a 2009 adjustment to parts and supplies inventory levels. Operating margins for the year ended December 31, 2010 increased slightly to 73% from 72% for the same period in the prior year as a result of both an increase in rental revenue and a decrease in overall rental expenses.

#### ALBERTA RENTAL OPERATIONS

<i>In \$000's, except number of suites</i>	12 Months 2010	12 Months 2009	% Change
Rental revenue	\$ 244,336	\$ 252,002	(3.0)%
Expenses			
Operating expenses	\$ 43,223	\$ 42,901	0.8%
Utilities	\$ 22,597	\$ 22,377	1.0%
Utility rebate	\$ -	\$ (374)	(100)%
Property taxes	\$ 19,068	\$ 19,198	(0.7)%
	\$ 84,888	\$ 84,102	0.9%
Net operating income	\$ 159,448	\$ 167,900	(5.0)%
Operating margins	65%	67%	
Number of suites at Dec. 31	19,743	19,953	

Alberta represents the Trust's largest holding. The province's revenue represented approximately 59% of total rental revenue and 61% of total Net Operating Income and comprised only 56% of total apartment units owned by the Trust. Boardwalk REIT's Alberta operations for the year ended December 31, 2010 posted a decrease in rental revenue for 2010 when compared to the amount reported in fiscal 2009. The reported rental revenue change is the result of a combined effect of changes to in-place occupied rents and incentives in an effort to maintain, and in some cases increase, overall occupancy levels compared to the prior year. Operating costs have increased slightly for the year ended December 31, 2010, mainly as a result of an increase in utility costs. These factors have contributed to a decrease in Net Operating Income of 5.0% for the province. Over the past several years, until March 31, 2009, Boardwalk's Alberta portfolio has been the beneficiary of the Alberta Provincial Government energy rebate program. Details of this program can be located at the Alberta Provincial Government website (<http://www.energy.gov.ab.ca>). On March 31, 2009, the Natural Gas Rebate Program expired, and the Government of Alberta announced it will not be renewed for the foreseeable future.

During the fourth quarter of 2009, one of Boardwalk's buildings, consisting of 31 apartment units and located in Grande Prairie, was destroyed by a fire. As is the Trust's policy, this building was insured up to its replacement value and also had business interruption insurance coverage for one year. In 2010, the decision was made not to rebuild and the Trust received from the insurers insurance proceeds of \$3.4 million.

In 2010, the Trust has 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 2010	12 Months 2009	% Change
Rental Revenue	\$ 55,573	\$ 52,139	6.6%
Expenses			
Operating expenses	\$ 7,795	\$ 7,679	1.5%
Utilities	\$ 4,691	\$ 5,346	(12.3)%
Property taxes	\$ 3,840	\$ 3,773	1.8%
	\$ 16,326	\$ 16,798	(2.8)%
Net operating income	\$ 39,247	\$ 35,341	11.1%
Operating margins	71%	68%	
Number of suites at Dec. 31	4,636	4,660	

Saskatchewan revenue represented approximately 13% of total rental revenue and 15% of total net operating income on a property portfolio that was 13% of total apartment units owned by the Trust.

Boardwalk REIT's Saskatchewan operations reported strong results for the year ended December 31, 2010 compared to the same period in fiscal 2009. Overall rental revenue increased by 6.6%. The increase is mainly the result of strong rental market fundamentals in both Regina and Saskatoon. Rental expenses decreased by 2.8% for the year ended December 31, 2010 compared to the same period in the prior year, mainly as a result of a decrease in utility costs despite a slight increase in property taxes for our Saskatchewan properties. The Trust had previously locked into a fixed price natural gas contract for its Saskatchewan natural gas consumption at a quoted price of \$8.28/GJ. This compared to a current AECO natural gas market price for Alberta in the low \$3.00/GJ range. This contract expired in October of 2009 and the Trust negotiated 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 19 of the Trust's consolidated financial statements for the year ended December 31, 2010.

#### ONTARIO RENTAL OPERATIONS

<i>In \$000's, except number of suites</i>	12 Months 2010	12 Months 2009	% Change
Rental revenue	\$ 38,569	\$ 37,950	1.6%
Expenses			
Operating expenses	\$ 6,873	\$ 6,873	–%
Utilities	\$ 6,850	\$ 6,620	3.5%
Property taxes	\$ 6,027	\$ 5,536	8.9%
	\$ 19,750	\$ 19,029	3.8%
Net operating income	\$ 18,819	\$ 18,921	(0.5)%
Operating margins	49%	50%	
Number of suites at Dec. 31	4,265	4,265	

Ontario reported approximately 9% of total rental revenue and 7% of total Net Operating Income on a property portfolio comprised of 12% of total apartment units owned by the Trust. Overall, Ontario's reported net operating income decreased by approximately 0.5% from the prior year. Rental revenues increased by 1.6% compared to the prior year while total operating expenses increased by 3.8%. This overall increase is largely due to an increase in property tax assessments for our Ontario portfolio and an increase in utility costs. Similar to the Trust's Saskatchewan property portfolio, there was a fixed price natural gas contract in place for Ontario and Quebec. The fixed price of this contract was \$7.65/GJ for 50% of our 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 19 of the Trust's consolidated financial statements for the year ended December 31, 2010. The fixed price is below the current floating prices for natural gas.

#### QUEBEC RENTAL OPERATIONS

<i>In \$000's, except number of suites</i>	12 Months 2010	12 Months 2009	% Change
Rental revenue	\$ 67,707	\$ 65,646	3.1%
Expenses			
Operating expenses	\$ 15,330	\$ 13,641	12.4%
Utilities	\$ 6,386	\$ 7,457	(14.4)%
Property taxes	\$ 6,719	\$ 6,472	3.8%
	\$ 28,435	\$ 27,570	3.1%
Net operating income	\$ 39,272	\$ 38,076	3.1%
Operating margins	58%	58%	
Number of suites at Dec. 31	6,000	6,587	

Quebec represented the Trust's second largest holding and reported approximately 16% of total rental revenue and 15% of total Net Operating Income on a property portfolio comprised of 17% of total apartment units owned by the Trust. Boardwalk REIT's Quebec operations reported a slight increase in rental revenue of 3.1% for the year ended December 31, 2010 compared to the same

period in the prior year. Reported rental expenses for the current year were up slightly from the same period in the prior year. Utilities were lower for 2010 as a result of natural gas credit adjustments received. However, this was mitigated by higher repair and maintenance expense in the current year. There was a fixed price natural gas contract at \$7.65/GJ for 50% of Quebec's natural gas consumption that expired on October 31, 2010 and was renewed for an additional one year term at the same rate as the Ontario renewal contract. Similarly, as in Ontario, 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. More details of this commitment are reported in Note 19 of the Trust's consolidated financial statements for the year ended December 31, 2010.

## Operational Sensitivities

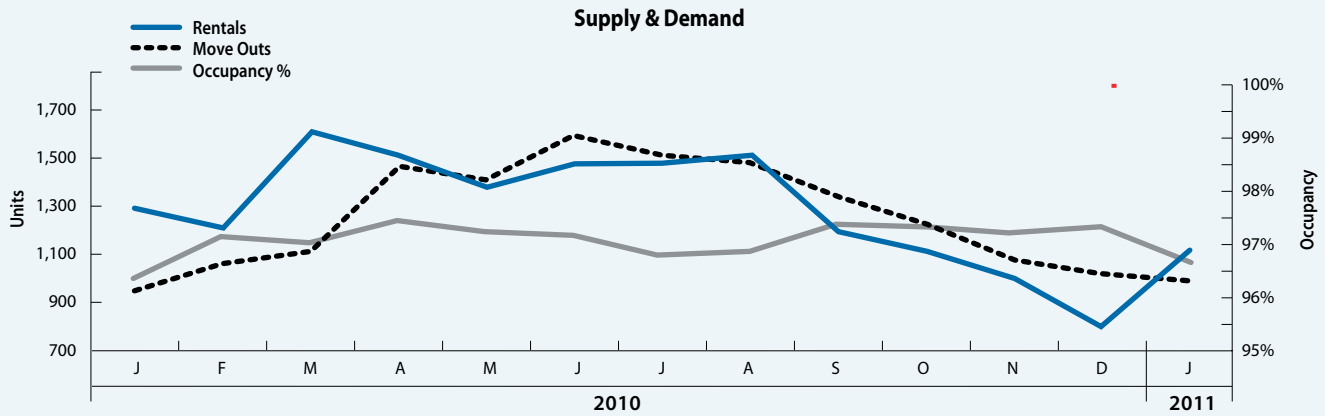
Boardwalk's rental revenue strategy focuses on maximizing rental revenues through actively managing three main variables: occupancy levels, market rents and suite-specific incentives. It is important to note that these variables are in constant flux and may be different between regions and buildings within the same region. The main goal of our strategy is to maximize revenues over the year. In a more competitive market like the one we are in, 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 today with the Customer not moving in until the next fiscal period. 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	2010	2009
Calgary	97.94%	95.57%
Edmonton	96.75%	94.80%
Gatineau	98.91%	97.71%
Kitchener	97.69%	98.25%
London	97.40%	96.28%
Montreal	96.81%	96.54%
Other Alberta	93.24%	92.38%
Quebec City	97.94%	98.13%
Regina	97.44%	97.06%
Saskatoon	97.96%	96.66%
Vancouver	97.48%	94.90%
Victoria	97.97%	97.08%
Windsor	96.85%	92.13%
<b>Total</b>	<b>97.11%</b>	<b>95.45%</b>

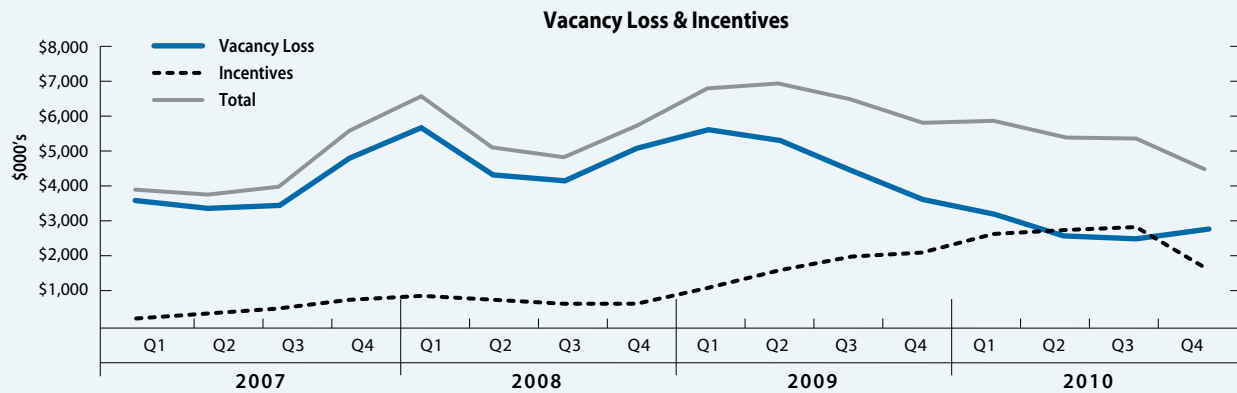
In fiscal 2010, not only did the Trust reported an increase in overall occupancy rate to 97.11% from 95.45% for the same period in the prior year but, with the exception of Kitchener, each and every noted market also reported occupancy improvements. Boardwalk's overall rental revenue maximization strategy 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. The reported increase in occupancy rates in Calgary, Edmonton and Regina can be attributable to Boardwalk REIT decreasing market rates to levels where demand increased, resulting in overall higher reported occupancy levels. As a strategy, the Trust is constantly adjusting market rents based on demand and seasonal factors.

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. In the first quarter of fiscal 2009, the Trust made the decision to adjust downward market rents in selective markets – in particular, Alberta. This strategy was initiated with the intent of increasing occupancy rates in these markets. This strategy continues to be viewed as a success; as a result, we have been able to increase the overall occupancy rate to 97.11% compared to 2009 when the occupancy rate was 95.45%. Boardwalk REIT will continue with this strategy; however, the Trust is now in the position whereby we may see some upward rental adjustments in certain selective markets. The reader is cautioned that adjusting market rental rates is an on-going 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 while seeing incentives increase during 2010 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.

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 would impact overall rental revenue by approximately \$4.3 million, or \$0.08 per Trust Unit on a diluted basis.



## Same-Property Results

Boardwalk defines a same-property (or 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, 2010, or a total of 35,277 units. The table below provides a regional breakdown on these properties for fiscal 2010 as compared to fiscal 2009.

Dec 31 2010 – 12 M	# of Units	% Revenue Growth	% Operating Expense Growth	% Net Operating Income Growth	% of NOI
Calgary	5,234	-5.5%	0.6%	-8.1%	17.6%
Edmonton	12,337	-1.6%	2.0%	-3.5%	37.0%
Other Alberta	2,172	-4.4%	-4.3%	-4.5%	6.1%
British Columbia	633	2.0%	-2.5%	3.8%	2.2%
Ontario	4,265	1.7%	3.8%	-0.4%	7.2%
Quebec	6,000	3.1%	3.1%	3.1%	15.0%
Saskatchewan	4,636	6.6%	-2.8%	11.1%	14.9%
	35,277	-0.3%	1.2%	-1.2%	100.0%

Overall, rental revenue (which excludes interest revenue earned) decreased by 0.3% compared to the prior year. Operating expenses reported for the year increased by 1.2% from 2009, resulting in a NOI decrease of 1.2% compared to the prior year. The decrease in reported stabilized revenue was driven mainly by the Trust's Alberta operations, which account for approximately 61% of the Trust's reported stabilized Net Operating Income. The majority of the reported increase in expenses for the year ended December 31, 2010 was due to higher operating expenses and property taxes.

The 2009 reported results were favorably impacted by Alberta natural gas rebates in the amount totaling approximately \$0.4 million. As was previously noted, this rebate program expired in March of 2009 and was not renewed for the foreseeable future and, as such, we were not eligible for any additional rebates for the 2010 fiscal year and the latter part of the 2009 fiscal year. For a more detailed analysis of the program, please visit the following Alberta Government website: <http://www.energy.gov.ab.ca>.

## Estimated Loss-to-Lease

### ESTIMATED LOSS-TO-LEASE CALCULATION

Boardwalk REIT's estimated loss-to-lease, representing the difference between estimated market rents and actual occupied rents on December 31, 2010, adjusted for current occupancy levels, totaled \$2.4 million on an annualized basis, representing \$0.05 per outstanding Trust Unit. The estimated loss-to-lease is the direct result of Boardwalk's proactive strategy to reduce rents in Alberta to increase its occupancy. 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 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.

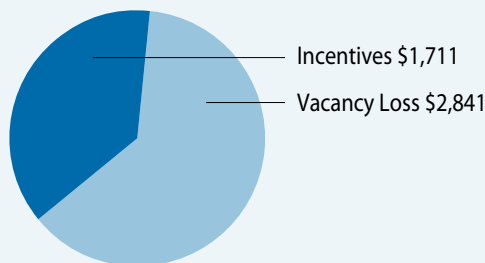
	Dec 2010 Occupied Rent	Dec 2010 Market Rent	Mark to Market Per Month	Annualized Mark to Market Adjusted for Vacancies (\$000's)	Weighted Average Units	% of Portfolio
Calgary	\$ 1,107	\$ 1,157	\$ 49	\$ 3,049	5,310	15%
Edmonton	\$ 1,057	\$ 1,044	\$ (13)	\$ (1,897)	12,498	35%
Other Alberta	\$ 1,025	\$ 1,022	\$ (4)	\$ (85)	1,936	6%
Alberta Portfolio	\$ 1,067	\$ 1,072	\$ 5	\$ 1,068	19,744	56%
Saskatchewan	\$ 1,039	\$ 1,034	\$ (6)	\$ (305)	4,636	13%
Ontario	\$ 783	\$ 795	\$ 11	\$ 574	4,265	12%
Quebec	\$ 979	\$ 987	\$ 8	\$ 564	5,999	17%
British Columbia	\$ 962	\$ 1,027	\$ 65	\$ 482	633	2%
Total Portfolio – Dec 2010	\$ 1,012	\$ 1,018	\$ 6	\$ 2,382	35,277	100%
Total Portfolio – Dec 2009	\$ 1,013	\$ 998	\$ (15)	\$ (6,373)	36,419	100%

The increase in the loss-to-lease for our portfolio, from a negative \$6.4 million at December 2009 to a \$2.4 million at December 2010, was due primarily to the Trust’s focused strategy in 2009 of reducing market rent prices in an attempt to increase overall occupancy, with the main focus on increasing overall rental revenue. If Boardwalk REIT was able to increase and maintain its overall occupancy target at 97.5%, the potential increase in rental revenue from a higher occupancy level would have more than offset the adjustment to market rents. 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.

REVENUE OPPORTUNITIES

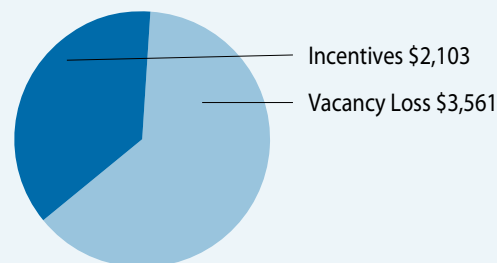
Q4 2010 – Total Market Rent

\$105.6 Million



Q4 2009 – Total Market Rent

\$106.3 Million



For fiscal 2010, the Trust focused its approach on decreasing vacancy loss through the combined use of decreased market rents and suite-specific incentives. The amounts reported above are significantly impacted by the amount of market rent charged for the apartment units at the noted time. Reported market rent for the fourth quarter of 2010 was approximately \$105.6 million compared to \$106.3 million for the same period in 2009. This represents a decrease of \$0.7 million or 0.7%. In the short term, the opportunity continues to be focusing on reducing vacancy loss while minimizing the amount of suite-specific incentives. Boardwalk will continue to focus on these areas, trying to balance the amount of incentives we offer to new and existing Customers with the increased revenue derived from a decrease in the noted vacancy loss.

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 2010 of \$103.3 million have decreased from \$105.8 million reported for the prior year. At December 31, 2010, the reported weighted average interest rate of 4.27% was down from the weighted average interest rate of 4.52% at December 31, 2009. 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. In 2009, as a normal part of Boardwalk's review of its mortgage maturity schedule, the Trust was successful in "blending and extending" its largest mortgage originally scheduled to mature in 2012. The Trust was able, on a non-dilutive basis, to extend the maturity of this debt for an additional 2 years to November 1, 2014. More details on this will be discussed later in the document.

Boardwalk REIT's acquisition strategy involves locating and acquiring accretive properties at prices that are below replacement value and are positive to the Trust's reported Distributable Income. Once acquired, these properties undergo various value-enhancing upgrades as part of Boardwalk REIT's stabilization program. In addition, if the right economic conditions exist, Boardwalk REIT may decide to develop new rental properties in selective markets. Boardwalk REIT utilizes external financing to leverage these properties up to a maximum of 75% of the purchase price and, where appropriate, Boardwalk REIT adds additional financing for all upgrades performed.

Boardwalk REIT concentrates on multi-family residential real estate. 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. Although the amount of the interest rate spreads will vary, they are currently between 70 and 90 basis points above the respective Government of five-year Canada Bonds. This compares favorably to the spreads on conventional financing, which currently range from 200 to 250 basis points above such bonds.

The second benefit of the CMHC insurance relates to the lowering of Boardwalk REIT's overall renewal risk. Once insurance is obtained on the related mortgage, the insurance is transferable and follows the mortgage for the complete amortization period, typically between 25 and 40 years, depending on the type of asset being insured. With the insurance being transferable between approved lenders, it lowers the overall risk of Boardwalk REIT not being able to refinance the asset on maturity. The current cost of this insurance is 2.25% of the loan amount and is included as part of the loan proceeds. This cost is amortized over the useful life of the insurance, which equates to the amortization period of the respective mortgage.

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, 2010, approximately 99% of Boardwalk REIT's mortgages were backed by this NHA insurance, with a weighted average amortization period of approximately 32 years.

## 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 2011, the Trust anticipates having approximately \$257 million of mortgages maturing with a weighted average rate of 4.56%. 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 3.10% (as of December 31, 2010), resulting in a 146 basis points cushion built into our soon-to-mature mortgages.

## PROPERTY SALES

Part of Boardwalk REIT's overall strategy is selling Non-Core properties with lower future growth prospects or condominium converting properties and the reinvesting of these funds back into other accretive opportunities;

<i>In \$000's, except number of units</i>	<b>Year Ended Dec. 31, 2010</b>	Year Ended Dec. 31, 2009
Cash received	\$ 111,258	\$ 40,072
Cost of dispositions	(2,072)	(37)
Total proceeds	109,186	40,035
Net book value	(74,960)	(28,421)
Gain on dispositions	\$ 34,226	\$ 11,614
Multi-family units sold	1,142	368

For a list of dispositions in 2010 and 2009, please refer to the section titled, "Dispositions" above. 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.

## ADMINISTRATION

Included in administration expenses are costs associated with Boardwalk REIT's centralized administrative functions. The amount reported for fiscal 2010 of \$25.8 million was a decrease of \$0.9 million over the \$26.7 million reported in fiscal 2009. The reported decrease for the year ended December 31, 2010 is mainly the result of the retirement of Boardwalk's Senior Vice President of Operations and the separate retirement of one of our Trustees in 2009, which under the existing deferred Trust Unit plan calls for the immediate vesting of all the related outstanding deferred units relating to these individuals. All unamortized deferred compensation costs related to these deferred units were written off in the second quarter of 2009.

For the current and prior comparative years, Boardwalk REIT has reclassified certain administration costs from corporate and non-operating to rental operating expenses. The amounts reclassified relate to specific administrative costs associated with primarily operation-specific staff and related support initiatives. The total of these adjustments were \$18.5 million for the year ended December 31, 2010, compared to \$17.1 million for the year ended December 31, 2009.

## DEFERRED FINANCING COSTS AMORTIZATION

The amounts reported here relate primarily to the amortization of CMHC premiums, which are paid as part of mortgage financing. Under current reporting requirements, if Boardwalk REIT replaces an existing mortgage with a new mortgage, all costs associated with the original mortgage, including the unamortized balance of the CMHC premium, are required to be charged to income in the period that this occurs. As a result, 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, 2010, deferred financing costs of approximately \$0.8 million were written off due to the maturity and payout of 20 mortgages in Boardwalk's secured portfolio. All mortgages had NHA insurance on them. The Trust decided to pay out these maturing mortgages, totaling approximately \$37.3 million, with some of the excess cash it had generated from previous financings during the year. The properties associated with these maturing mortgages have either been sold or now sit unencumbered and can be leveraged at a future date, if warranted.

## AMORTIZATION

Amortization expense is a charge taken against earnings to reflect the estimated depreciation that has occurred to our fixed assets during the reporting period in question. Although multi-family property assets have historically appreciated in value over time, under existing generally accepted accounting principles, amortization charges are required during each reporting period.

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

The amounts reported as amortization of capital and intangible assets from continuing operations for the year ended December 31, 2010 were \$86.7 million, consistent with the \$85.3 million for the prior year.

## Other Income and Expenses

### FUTURE INCOME TAXES

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, and adjusted quarterly, if necessary, recognizing the probability that it would be subject to the tax prescribed by the SIFT rules on January 1, 2011. The Trust reported a future income tax liability at December 31, 2007 of \$99.9 million, which was revised upward by \$0.3 million to \$100.2 million at December 31, 2008.

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 immovable 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 immovable 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.

Submissions on the proposed amendments were due by January 31, 2011. Furthermore, these changes have not been substantively enacted as at December 31, 2010 in accordance with Canadian GAAP. As a result, the Trust continues to carry forward the previously recorded future income tax liability. The liability recorded as a result of the SIFT tax legislation was \$95.2 million as at December 31, 2009, and increased by \$4.8 million for the year ended December 31, 2010 to \$100.0 million due to an increase in the timing differences between accounting and tax asset values. It should be noted that if these proposed amendments are substantively enacted in 2011, the Trust will be able to continue its strategy of selling Non-Core assets without the risk of losing its REIT exemption status. Notwithstanding if and when these proposed changes become substantively enacted, it is the Trust’s intention to qualify as a REIT for Canadian income tax purposes commencing January 1, 2011 and will reverse the future income tax liability related to the SIFT Legislation at that time. However, until such time as these amendments are enacted, Boardwalk REIT will continue with a cautious approach on the sale of Non-Core assets to qualify for REIT exemption status under the existing rules.

### EARNINGS FROM DISCONTINUED OPERATIONS

For a list of property dispositions in 2010 and 2009, please refer to the section titled, “Dispositions” above.

Although, as was previously noted, the selective selling of rental properties is part of its business strategy, under existing generally accepted accounting principles, the selling of these assets is treated as a disposal of discontinued assets and, as such, is accounted

for separately and is reported net of any applicable tax. The gains on disposition of \$34.2 million on the residential properties were not included when the Trust computed FFO and, therefore, had no impact on reported FFO.

## NET EARNINGS

For fiscal 2010, Boardwalk REIT reported net earnings before other comprehensive income of \$71.7 million, or \$1.36 per Trust Unit. This compares to a reported net income before other comprehensive income for 2009 of \$62.1 million, or \$1.17 per Trust Unit.

## 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 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”). 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 computes FFO as follows:

<i>In \$000's, except per unit amounts</i>	2010	2009	% Change
Net earnings from continuing operations	\$ 36,246	\$ 48,138	
Adjustments			
Earnings from discontinued operations	\$ 35,483	\$ 13,929	
Deduct gain on disposition	\$ (34,226)	\$ (11,614)	
Other income	\$ –	\$ (408)	
Future income taxes (recovery)	\$ 4,241	\$ (5,646)	
Amortization of assets	\$ 88,185	\$ 88,695	
Funds from operations	\$ 129,929	\$ 133,094	(2.4)%
Funds from operations – per unit	\$ 2.47	\$ 2.51	(1.6)%

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, 2010, Boardwalk REIT reported total FFO of \$129.9 million, or \$2.47 per fully diluted Trust Unit. This represented a decrease of 2.4% and 1.6% compared to the \$133.1 million, or \$2.51 per fully diluted Trust Unit, reported for fiscal 2009. The decrease is primarily due to the performance of Boardwalk REIT’s Alberta portfolio.

#### 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 2010, the Trust declared regular distributions of \$94.7 million to its Unitholders in addition to a special distribution of \$26.3 million made in the third quarter of 2010, compared to \$95.3 million for fiscal 2009.

The reader should understand the nature of these payments as, in general, the majority of the quoted market yields are presumed to be solely a return on investment rather than a combination of a return on investment and a return of capital. The following table provides the reader with a breakup of the distributions declared in 2010 and 2009, showing the portion that would be considered as income and the component considered as a return of capital. The following table attempts to break up the reported distribution into reported accounting income, commonly referred to as return on capital, and the portion allocated to return of capital.

<i>in \$000's, except per unit amounts</i>	2010	Per Unit		2009	Per Unit	
Total Distributions Declared – Regular	\$ 94,704	\$ 1.80	78%	\$ 95,250	\$ 1.80	100%
Total Distributions Declared – Special	\$ 26,283	\$ 0.50	22%	–	–	–
Total Distributions	\$ 120,987	\$ 2.30	100%	\$ 95,250	\$ 1.80	100
Net Earnings	\$ 71,729	\$ 1.36	59.3%	\$ 62,067	\$ 1.17	65.2%
Return of Capital	\$ 49,258	\$ 0.94	40.7%	\$ 33,183	\$ 0.63	34.8%
Total Distributions	\$ 120,987	\$ 2.30	100%	\$ 95,250	\$ 1.80	100%

The reader should be cautioned that this reported information is based on the reported accounting information found elsewhere in this report, and will differ from the amounts reported for tax purposes. Subsequent to the date of this report, the Trust will be posting its distribution allocation for tax purposes and these amounts may have a materially different allocation than what is illustrated above.

### Financing of Revenue Producing Properties

During the year ended December 31, 2010, the refinancing of existing properties totaled approximately \$107.1 million versus \$307.8 million for the year ended December 31, 2009. During the financing and refinancing process, Boardwalk REIT was able to decrease the weighted average interest rate on its mortgage and debt portfolio from 4.52% at December 31, 2009 to 4.27% at December 31, 2010.

### Acquisitions

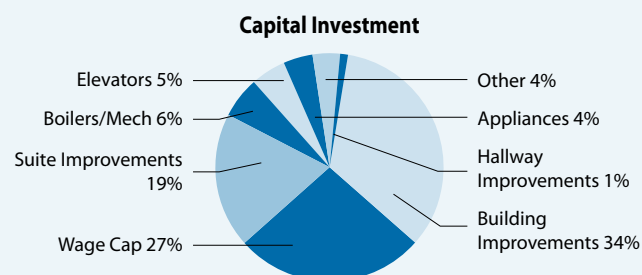
<i>In \$000's, except number of units</i>	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009
Cash paid	\$ –	\$ 217
Debt assumed	–	–
Total purchase price	\$ –	\$ 217
Fair value adjustments to debt	–	–
Book value	\$ –	\$ 217
Allocation of book value to revenue producing properties	\$ –	\$ 217
Allocation of book value to other assets	–	–
	\$ –	\$ 217
Multi-family units acquired	–	1

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 Canadian GAAP, 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 2010 and 2009. Therefore, the adjustment for fiscal 2010 and 2009 was nil.

There were no new property acquisitions in 2010. During 2009, one only one additional rental unit was acquired in a property already substantially owned by Boardwalk REIT.

### CAPITAL IMPROVEMENTS

In fiscal 2010, Boardwalk REIT invested approximately \$71.6 million back into its properties in the form of project enhancements, an increase of \$ 1.2 million from the \$70.4 million invested in the same period in 2009. The increase in the current year compared to the same period in the prior year is due primarily to a increase in the expenditures largely related to building exterior and suite improvements. The following chart details in which areas these funds were expended for the twelve months ended December 31, 2010.



On an overall basis, capital expenditures were consistent with those reported in the prior year; however, included in these amounts is approximately \$19.5 million of capitalized onsite wages and salaries, an increase of 34% compared to \$14.5 million for the same period last year. This increase was mainly the result of the Trust's increased focus on performing Capital projects "in-house" rather than contracting such services out in the past. "In-house" capital projects allow the Trust to eliminate contractor's profit margins and realize higher productivity and better value. Although most capital areas were targeted in this area, of particular focus were in the category of 'Building, Hallway & Suite Improvements'. This amount is an estimate of site personnel cost associated with the completion of these capital projects, and is consistent with internal expectations since a significant portion of the improvements are now performed "in-house". The capitalized wages and salaries do not include any administrative costs.

#### 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 productive, 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 also designed to maintain the productive 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>	12 Months 2010	Per Suite	12 Months 2009	Per Suite
Repairs and Maintenance – expense	\$ 21,543	\$ 601	\$ 19,912	\$ 543
On-Site Maintenance Personnel – expense	\$ 21,815	\$ 609	\$ 22,704	\$ 619
	\$ 43,358	\$ 1,210	\$ 42,616	\$ 1,162
Estimated Maintenance Capital Expenditures	\$ 16,119	\$ 450	\$ 16,507	\$ 450
Stabilizing & Value Enhancing Capital	\$ 55,500	\$ 1,549	\$ 53,940	\$ 1,470
Invested Capital – cost	\$ 71,619	\$ 1,999	\$ 70,447	\$ 1,920
Total	\$ 114,977	\$ 3,209	\$ 113,063	\$ 3,082

Items reported as capital are determined as investments in assets that have a useful life longer than the current reporting period and, as such, the related cost of these assets are depreciated over this useful economic life period. Management has determined that for both fiscal 2010 and fiscal 2009, 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 \$55.5 million and \$53.9 million, respectively, or \$1,549 and \$1,470 per apartment unit. On an overall basis, the Trust invested \$115.0 million in fiscal 2010, or \$3,209 per residential unit on its real estate portfolio compared to \$113.1 million, or \$3,082 per residential unit, in 2009 in the form of both expensed and capitalized items. The reader should note that the above financial analysis is consistent with the previously discussed operating guidelines of the Trust as a whole.

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 72.9% of reported FFO and 83.2% of AFFO for the twelve month period ended December 31, 2010 compared to 71.6% and 81.7%, respectively, for the prior year.

<i>(000's)</i>	12 months 2010	12 months 2009
Funds From Operations (FFO)	\$ 129,929	\$ 133,094
Maintenance Capital Expenditures	\$ 16,119	\$ 16,492
Adjusted Funds From Operations (AFFO)	\$ 113,810	\$ 116,601
Unitholder Distributions – Regular	\$ 94,704	\$ 95,250
Distribution as a % of FFO	72.9%	71.6%
Distribution as a % of AFFO	83.2%	81.7%

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 Balance Sheets

### MORTGAGES AND ACCOUNTS RECEIVABLE

The majority of the amounts reported as mortgages and accounts receivable in 2010 consist of mortgage holdbacks, refundable mortgage fees and tenant receivables.

## Capital Structure and Liquidity

Liquidity refers to the Trust's ability to generate sufficient cash to fund our ongoing operations and capital commitments as well as our 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 refinancing maturing debt.

In 2009, many of our lending partners have suffered losses that were mainly the result of the overall weaker economy and an overall general erosion of financial strength. As a result, many of these lenders tightened their borrowing standards, and made accessing additional cost-effective debt capital more difficult. Although it is impossible to eliminate this risk, the Trust does mitigate this with the use of NHA mortgage insurance, the benefits of which we discussed in detail above. In such 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, 2010	\$ 228,086,000
Committed Additional Financing to 2011	\$ –
	\$ 228,086,000
Committed Revolving Credit Facility Available	\$ 197,087,000
<b>Total Available Liquidity</b>	<b>\$ 425,173,000</b>

In addition to this, the Trust currently has approximately 2,707 rental apartment units that currently have no debt encumbrances at all. Management estimates that, based on current underwriting parameters, the value of these properties is approximately \$240 million and, if necessary, the Trust could obtain NHA-insured mortgages on these properties.

The reader should also be aware that of the \$257.1 million of debt coming due in 2011 (as shown in the table below), all has NHA insurance and represent in aggregate approximately 45% of current estimated values on those individual secured assets. Currently, all interest rates for terms five years or less are well below the reported 4.56% weighted average we have coming due next year. 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.

One of Boardwalk REIT's objectives is to ensure, in advance, ample capital resources available for the execution of its business plan. Capital resources are defined as the combination of mortgage debt, unsecured debentures, unit capital equity, internally generated funds and cash on hand. Significant liquidity provides greater certainty as to execution, which in turn gives the Trust a competitive advantage in its negotiation and acquisition of additional investments. The selective conversion of lower yielding mature properties into cash for deployment into higher yielding investments is another source of liquidity.

The Trust's principal liquidity demands in the future are expected to be the repayment of maturing mortgage debt, interest on its debts, ongoing operating costs, capital improvements, acquisition of new rental units, the potential for Trust Unit repurchases in the public market, and the payment of declared distributions.

The Trust intends to meet its short-term liquidity requirements through net cash flows provided by operating activities, the financing or refinancing of real estate properties, the issuance of additional unsecured debentures, and the use of existing cash reserves. If warranted, the Trust will issue units to the public.

## MORTGAGES PAYABLE AND DEBENTURES

Boardwalk REIT's long-term debt consists mainly of low-rate, fixed-term mortgage financing and unsecured debentures. Long-term debt consists of individual mortgages or debentures registered against the appropriate real estate assets. The maturity dates for these mortgages have been staggered to lower the overall interest rate risk.

Total mortgages payable (net of unamortized transaction costs) on December 31, 2010 were \$2.15 billion, unchanged compared to \$2.15 billion reported on December 31, 2009.

During fiscal 2010, and in prior years, Boardwalk REIT refinanced certain maturing mortgages to higher levels, demonstrating the value creation that is occurring in its portfolio. We utilized these additional funds to assist in the financing of capital improvement projects.

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, 2010 was 4.27% compared to 4.52% on December 31, 2009. The reader should note that the current market interest rate on a five-year term on NHA insured loans is approximately 3.10%, as of 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 warrants, the Trust will convert short-term, floating rate debt, if any, to longer term, fixed rate mortgages.

### Debt Maturity Table

Year	Principal Outstanding as at Dec. 31, 2010	Weighted Average Interest Rate By Maturity	% of Total
2011	257,110,363	4.56%	10.91%
2012	570,908,589	4.89%	24.22%
2013	291,347,366	4.51%	12.36%
2014	433,039,477	3.51%	18.37%
2015	432,952,185	3.73%	18.37%
2016	130,931,235	4.59%	5.55%
2017	108,508,612	3.69%	4.60%
2018	9,799,141	5.11%	0.42%
2019	77,332,338	5.09%	3.28%
2020	40,186,570	4.44%	1.70%
2021	5,047,951	4.06%	0.22%
<b>Total Principal Outstanding</b>	<b>2,357,163,827</b>	<b>4.27%</b>	<b>100.00%</b>

## 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 are rated "BBB" with a stable trend by Dominion Bond Rating Services, carry a coupon rate of 5.31% and will mature on January 23, 2012. Net proceeds of approximately \$119 million were used to fund acquisitions, repay operating lines of credit and for general trust purposes. In conjunction with the debenture issue, the Trust also entered into a bond forward contract to hedge the risk of interest rate fluctuations prior to the final pricing of the debenture. The bond forward contract was settled when the debentures were issued for the settlement amount of \$0.7 million. The settlement amount will be accounted for over the seven-year term of the unsecured debentures.

The unsecured debenture holders, in a special meeting held July 30, 2008, approved an amendment to the Trust Indenture amending the definition of Gross Book Value ("GBV") for an additional \$410 million to be added to the one-time adjustment to assets, thereby, increasing it from \$231 million to \$641 million. In addition, the Consolidated Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") to Consolidated Interest Expense financial covenants was amended to 1.75 to 1 from the current 1.50 to 1 and the rate of interest on the debenture was increased to 5.61% from the current 5.31%, commencing July 30, 2008 until the maturity date of 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 its unsecured debentures for cancellation. These were purchased at a discount to the face value and the cost paid by the Trust was \$7.2 million, of

which \$55 thousand represented accrued interest. The remaining difference of \$408 thousand between the face value and the discounted price paid has been reported as “Other Income” on the financial statements. There were no debenture buybacks during the remainder of 2009 or in 2010.

Boardwalk had \$112.2 million of unsecured debentures, net of transaction costs, outstanding at December 31, 2010, with principal repayment of \$112.4 million on the maturity date of January 23, 2012. As was previously noted, in anticipating the repayment of the unsecured debentures on the maturity date, the Trust has started to forward-commit the interest rates and mortgage proceeds on select properties set to mature at or prior to January 23, 2012. An increased leverage on these selected properties, coupled with Boardwalk REIT’s cash balance and unused committed revolving line-of-credit, should be more than sufficient to pay off the unsecured debentures on January 23, 2012.

### 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, is reviewed periodically with DBRS. More information regarding the credit ratings of DBRS can be found on their website at: <http://www.dbrs.com>.

### STABILITY RATING

DBRS provides stability ratings for real estate investment trusts. DBRS has 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 was constrained by certain tests that have been adopted in both its Declaration of Trust, as well as in its Unsecured Debentures Indenture. The most constraining to date is what is referred to as its Debt-to-Gross Book Value. With this in mind, along with the fact that, effective January 1, 2011, Canadian GAAP will be following IFRS standards, which will allow the Trust to replace the existing book cost of its investment assets (apartments) with their reported fair value, the Trust recommended and received approval from both its Unitholders as well as its Unsecured Debenture Holders an interim step of adjusting upward the current basis of this calculation. At its Unitholders meeting in May of 2008 and at the Debenture Holders special meeting dated July 30, 2008, the holders of these instruments approved an additional provisional bump to the calculation of the Trust’s Gross Book Value. The additional bump was in the amount of \$410 million. The determination was completed in a similar manner to the original one completed in May of 2004 in conjunction with our conversion to a Trust – with one significant difference. In the most recent adjustment, we recommended an adjustment that would only move the Trust to one-half of the estimated enterprise value of its investment assets, an amount the Trust feels is still well below the fair value of its assets. In total, the adjustment of \$641 million will improve the Trust’s ability to fully implement its strategy.

With these adjustments, Boardwalk REIT’s financial position continues to be strong, with the overall debt level reported at 61% of GBV. GBV is a non-GAAP term that is defined in the Trust’s DOT. In general, it is determined by taking total reported assets of the Trust, adding back accumulated amortization and making a one-time adjustment in the amount of approximately \$641

million (see NOTE 15 to the audited consolidated financial statements for the year ended December 31, 2010). The following table sets out the Trust's adjusted Debt-to-Gross Book Value calculation as at December 31, 2010:

(\$000's)	Dec. 31, 2010	Dec. 31, 2009
Total reported assets	\$ 2,326,802	\$ 2,378,278
Reported amortization	746,820	677,613
Conversion adjustment	641,460	641,460
	\$ 3,715,082	\$ 3,697,351
Mortgages payable	\$ 2,153,206	\$ 2,145,638
Debentures	112,211	111,834
	\$ 2,265,417	\$ 2,257,472
Debt to GBV	61%	61%
DOT Limit	70%	70%

With a DOT stipulation not to exceed 70% on Debt-to-Gross Book Value, Boardwalk REIT has the ability to add additional leverage of approximately \$335.1 million to its existing debt portfolio to facilitate with the Trust's business and financial strategies.

Currently, Boardwalk REIT has a committed revolving credit facility with a major financial institution with the amount available varying with the value of pledged real estate assets and with a maximum limit not to exceed \$200 million. As at December 31, 2010, no amount of the credit facility was owing and outstanding. For the year ended December 31, 2010, Boardwalk REIT's overall interest coverage ratio of adjusted EBITDA (i.e. earnings before interest, taxes, depreciation and amortization) to interest expense after excluding gains was 2.32 as compared to 2.28 for the same period last year.

#### UNITHOLDERS' EQUITY

The following table discloses the changes in reported Unitholders' Capital:

Summary of Unitholders' Capital Contributions	Units	Amount
December 31, 2008	53,477,042	\$ 256,773
Deferred unit plan	-	389
Units issued for vested deferred units	57,425	1,979
Units purchased and cancelled	(790,000)	(22,756)
December 31, 2009	52,744,467	\$ 236,385
Deferred unit plan	-	411
Units issued for vested deferred units	45,066	1,873
Units purchased and cancelled	(423,400)	(17,024)
<b>December 31, 2010</b>	<b>52,366,133</b>	<b>\$ 221,645</b>

The Trust continues to view the purchase of its own Trust Units in the public market as an accretive investment at this time. In fiscal 2010, the Trust purchased and cancelled 423,400 Trust Units for \$17.0 million, or an average cost of \$40.21 per Trust Unit, compared to 790,000 Trust Units for \$22.8 million, or an average cost of \$28.81 per Trust Unit, in the prior year. Cumulatively, since 2007, Boardwalk REIT purchased and cancelled approximately 4.4 million Trust Units for a total purchase price of \$163.8 million, or an average cost of \$37.37 per Trust Unit.

As is reported on the face of the balance sheet, the Trust had Unitholders' Deficit of \$109.0 million at December 31, 2010. To allow the reader to review the details of this account, the Trust now includes a separate Consolidated Statement of Unitholders' Equity (Deficit). As reported on this schedule, there is a continued drawdown of reported cumulative income, which is the direct result of the Trust's distributions declared to its Unitholders. The Trust's monthly distribution has two components. The first relates to the distribution of income and the second relates to a return of capital. On an annualized basis, for Canadian taxation purposes, it is estimated that about 60% of Boardwalk REIT's distribution will be in the form of a return of capital with the remainder 40% constituting regular income. As these two components together determine the reported distributions, it was inevitable that the Trust would, over time, distribute amounts in excess of reported cumulative earnings.

The Trust moved closer to reporting cumulative distributions being in excess of cumulative earnings at the end of the second quarter of 2007, when it recorded a future tax loss of \$111.1 million as a result of the SIFT Legislation. The future tax liability as a result of the SIFT Legislation was adjusted downward to \$99.9 million as at December 31, 2007, and adjusted upward to \$100.2 million as at December 31, 2008. As was previously noted, the proposed amendments announced on December 16, 2010 provide

further clarity on the characteristics of gains on disposition of real or immovable property and 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. However, these changes have not been substantively enacted as at December 31, 2010. As a result, the previously recorded future income tax liability of \$100.2 million as at December 31, 2008, was decreased by \$5.0 million for the year ended December 31, 2009 to \$95.2 million due to a decrease in enacted future tax rates and revised upward by \$4.8 million to \$100.0 million at December 31, 2010 due to an increase in the timing differences between accounting and tax asset values. Additional discussion on this issue can be found on page 64 of this document in the section titled, "Certain Tax Risks – Mutual Fund Trust Status".

Boardwalk REIT has one class of voting securities known as "REIT Units". As at December 31, 2010, there were 47,891,133 REIT Units issued and outstanding. In addition, there were 4,475,000 Class "B" special voting 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 52,366,133.

### EQUITY

Boardwalk has an equity market capitalization of approximately \$2.2 billion based on a unit closing price of \$41.25 on the Toronto Stock Exchange on December 31, 2010.

### ENTERPRISE VALUE

With a total enterprise value of approximately \$4.5 billion (consisting of total debt of \$2.3 billion and market capitalization of \$2.2 billion) as at December 31, 2010, Boardwalk's total debt is approximately 51% 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 17, 2011, with reference to page 51 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 Calgary, Edmonton, and three 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 distribute amounts in line with its Distributable Income ("DI"), the actual amount of DI distributed 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. DI 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 dependant 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 responsibilities 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 either with the existing or an additional lender (Renewal Risk).*

Interest risk is the one area where over the 2010 fiscal year we have seen the highest increase in exposure. 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 charges 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 terming loan and, in addition, where requested additional funds continue to be available to us on these 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 terming 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 the 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 OF DEBENTURES

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 (including holders of unsecured debentures) 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 2009 and 2010, the guideline amounts have been established at 1.8% and 2.1%, respectively, and for 2011 the guideline amount has been set at 0.7%. 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 2009 and 2010, this guideline amount has been set at 3.7% and 3.2%, respectively, and for 2011 the guideline amount is 2.3%. 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. While there is no fixed rate increase specified by regulation, rent increases normally. Rent increases also take into account a return on capital expenditures (for 2011 this return is 3.0% compared to 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, 2011 and before April 2nd, 2012, before any consideration for increases to municipal and school taxes and capital expenditures, are: 0.6% for electricity heated dwellings, 0.6% for gas heated dwellings, 2.7% for oil heated dwellings and 0.5% 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 assumption 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 to 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, 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 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 '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. These changes have not been substantively enacted as at December 31, 2010. As a result, the Trust continues to report a future income tax liability as at December 31, 2010. Commencing January 1, 2011, regardless of if and when this draft legislation is substantively enacted, Boardwalk REIT's intent is to meet the definition of and the criteria for a 'real estate investment trust' in order to be exempt from the SIFT rules.

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. As a result, it continues to be the position of the Trust that we qualify as a REIT and will continue with a more conservative strategy around the sale of investment assets until such time as the legislation is substantially enacted.

#### 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 13, 2009. 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 13, 2009. 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 Distributable Income 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

### Critical Accounting Policies

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. Boardwalk REIT’s accounting policies are described in Note 2 to the audited consolidated financial statements for the years ended December 31, 2010 and 2009. Any changes, or new additions, to these policies can be found in Note 3 to the audited consolidated financial statements for the years ended December 31, 2010 and 2009. These statements were prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”) and with the recommendations of the 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 Canadian generally accepted accounting principles. 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.

On January 1, 2009, the Trust adopted one new accounting standard issued by the CICA.

During 2010, no new Canadian GAAP standards were adopted by the Trust.

### SECTION 3064 – GOODWILL AND INTANGIBLE ASSETS

Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs, establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. Section 1000 – Financial Statement Concepts, was also amended to provide consistency with this new standard. There was no material impact on the consolidated financial statements upon adoption of Section 3064 by the Trust.

**EIC – 173**

The Trust also adopted EIC 173 titled, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” issued by the CICA on January 20, 2009. EIC – 173 states that an entity’s own credit risk and the credit risk of the counter party should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. EIC – 173 had no impact on the financial statements of the Trust.

**SECTION 3862 – FINANCIAL INSTRUMENTS – DISCLOSURES**

In June 2009, the CICA amended Section 3862, titled “Financial Instruments – Disclosures” to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. These disclosures are effective for the Trust’s December 31, 2009 annual consolidated financial statements. These amendments did not have a significant impact on the Trust’s results of operations or financial position.

In 2007, Boardwalk REIT adopted the effective interest rate method for calculating the amortized cost of its financial liabilities and of allocating the financing charges, including transaction costs, over the relevant reporting periods. Any adjustment to the Trust’s financial statements, as a result of adopting Section 3855 in 2007, is recognized by restating the balance of opening Unitholders’ equity. Comparative periods are not permitted to be restated. For the current and prior periods, all unamortized transaction costs (previously designated as deferred financing costs and mark-to-market adjustment of debt) are now netted against the respective financial liability. The table below outlines the transitional effect of adopting the new accounting standards on financial instruments:

<i>(\$000's)</i>	Dec. 31, 2010	Dec. 31, 2009
Mortgages Payable		
Principal outstanding	\$ 2,244,759	\$ 2,234,213
Unamortized deferred financing costs	(91,775)	(88,940)
Unamortized mark-to-market adjustment	222	365
	<b>\$ 2,153,206</b>	<b>\$ 2,145,638</b>
Debentures		
Principal outstanding	\$ 112,405	\$ 112,405
Unamortized deferred financing costs	(194)	(571)
	<b>\$ 112,211</b>	<b>\$ 111,834</b>

**AMORTIZATION OF BUILDING ASSET**

We are required to assess the useful economic lives of our income-producing properties for purposes of determining the amount of building amortization to record on a quarterly and annual basis.

**IMPAIRMENT OF LONG-LIVED ASSETS**

We continually evaluate the recoverability of the net carrying amount of our income-producing properties and properties under development. The CICA accounting standard for impairment of long-lived assets is prospective in application and requires us to record an impairment loss when the carrying amount of these real estate investments exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. Our cash flow estimates are based upon historical results adjusted to reflect our best estimate of future market and operating conditions and our estimated holding periods. The net book value of impaired assets is reduced to fair market value. Our estimates of fair market value represent our best estimate based upon industry trends and reference to market rates and transactions. Commencing January 1, 2004, any impairment that is recognized should be measured as the amount by which the carrying amount of the asset exceeds its fair value. Prior to January 1, 2004, we measured any impairment of our real estate investments as the amount by which the asset’s carrying value exceeded the undiscounted future cash flow from the use and eventual disposal of the asset. We have determined that the impact of this new impairment standard did not have a material impact on our financial position or results of operations. In making this determination, our estimates of future cash flow and the effects of other factors could vary and result in a significantly different assessment of impairment.

**ACCOUNTING FOR OPERATING LEASES**

In accordance with CICA Handbook EIC-140, “Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination”, an enterprise that acquires real estate, such as an office building, retail centre, or apartment complex in either an asset acquisition or business combination, should allocate a portion of the purchase price to in-place operating leases

that the enterprise acquires in connection with the real estate property. For the year ended December 31, 2010, there was no allocation to in-place leases (December 31, 2009 – \$nil). The costs of the in-place operating leases are amortized over a period of twelve-months.

#### CAPITALIZED EXPENDITURES

In conformity with accounting principles generally accepted in Canada, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

#### STANDARDIZED WAGE COSTS

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

#### ALLOCATION OF PURCHASE PRICE OF REVENUE PRODUCING PROPERTIES

With all new property acquisitions, the Trust is required to make estimates as to the allocation of the recorded purchase price to both tangible and intangible assets, as was noted above in accounting for operating leases. Such allocation requires management to make estimates and assumptions regarding the depreciated replacement cost of the building and existing improvements, market values for new land, market rental rates, the length of time it would take to achieve the occupancy level of the acquired property, had it been acquired vacant and leased up by the Trust, the cost of executing comparable leases to those acquired with the property, and the probability of renewing existing tenancies at their expiry, as well as the cost of doing so as compared to installing a new tenant.

#### EXCHANGEABLE SECURITIES ISSUED BY SUBSIDIARIES OF INCOME TRUSTS (EIC-151)

In accordance with CICA Handbook EIC-151, “Exchangeable Securities Issued by Subsidiaries of Income Trusts”, issued in January of 2005 effective for all financial statements filed subsequent to issuance, an income trust that has subsidiaries that issue exchangeable securities must evaluate the appropriate disclosure and measurement of these exchangeable securities. EIC-151 outlines three possible solutions. The first is that exchangeable securities have all the characteristics of debt and should be reported accordingly, the second is that the securities should be considered as minority interest and treated as a separate category neither of which is equity or debt, and the final solution is that the securities should be classified as equity. We have reviewed in detail the available information on EIC-151 and have determined that, in the case of Boardwalk, the exchangeable “B Units” meet all the characteristics of being classified as equity and have been reported as such. It should be noted here, and will be discussed in more detail later in this document, that these same B Units that are classified as equity under current Canadian GAAP will be reclassified as a liability effective January 1, 2011 as an analysis of these B Units under IFRS rules deems them to be a liability.

### Future Changes in Critical Accounting Policies

Boardwalk REIT monitors new CICA accounting pronouncements to assess the applicability and impact, if any, these new pronouncements may have on the consolidated financial statements and note disclosures. During 2008, the CICA issued the following new accounting standard that is effective for the Trust’s fiscal year commencing January 1, 2011:

#### International Financial Reporting Standards (“IFRS”)

International Financial Reporting Standards (“IFRS”) – On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed a changeover date of January 1, 2011 as the date in which all publicly accountable enterprises (“PAEs”) will be required to adopt IFRS in the preparation of their financial disclosure. At that date, all PAEs, including Boardwalk REIT, will be required to report all interim and annual financial statement information in accordance with IFRS. The impact of the adoption of IFRS on the consolidated financial statements of the Trust is significant and, as such, the Trust has developed and is in the final stages of completion of its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. Boardwalk REIT has substantially completed its process of evaluating the potential impact of IFRS on its consolidated financial statements.

The impact of the adoption of IFRS on the consolidated financial statements of Boardwalk REIT will be significant and, as such, the Trust has developed and substantially completed its convergence plan in order to transition its financial statement reporting, presentation and disclosure under IFRS to meet the January 1, 2011 deadline.

Boardwalk has implemented a top down approach to this plan, which has included the support of key executives within the organization who have overseen the process for transition to IFRS, its developments and implementation. A timeline outlining Boardwalk's transition to IFRS was developed and presented to the Board of Trustees (the "Board") to keep them informed of the progress and the significance of the convergence project. To date, Boardwalk has been able to adhere to the deadlines included in its plan and as such will meet all financial reporting requirements (including the requirement for 2010 comparative information).

Currently, an analysis of the impact of all standards has been assessed. Recommendations on policy choices have been presented to the Board of Trustees and, where applicable, these recommendations have received approval. As a result, action plans have been created and are in the final stages of implementation for these policy choices. These plans detail what is required to implement each standard, as well as information and related systems requirements to gather and track data for the extensive accounting and disclosure requirements under the transition to IFRS, and on a continual basis once the adoption of these new standards has been completed. In addition, Boardwalk REIT has completed an assessment to what impact, if any, the policy choices has on the financial statements of the Trust.

Where significant impacts of the transition have previously been identified, work is near completion for solutions, which required a significant amount of time to resolve. These issues included, but were not limited to, the identification of Information Technology ("IT") initiatives, which have now been developed, tested and implemented and amendments to the trust Indentures of Boardwalk REIT and components of debt covenants, as required prior to the adoption of IFRS on January 1, 2011.

All IFRS standards are applied at the transactional level and, as a result, the Trust has been required to maintain two sets of accounting records for the year 2010 (one applying current Canadian GAAP and the second applying IFRS). Maintaining these two sets of records during 2010 has allowed the organization to have the appropriate accounting information for the required disclosure in 2010 and ensure the appropriate comparative information is available for 2011. As a result, a new in-house general ledger was developed and was dual-run with the previously used general ledger system in fiscal 2009. In 2010, this new general ledger system was fully implemented and provides the tool necessary to report under IFRS beginning January 1, 2011, and allows for comparative information for 2010 under IFRS, as well as, providing the financial information required for public reporting under Canadian GAAP for 2010.

Boardwalk continues to assess the effects of the transition to IFRS on the Trust's financial reporting and disclosure requirements. The process will be an on-going one as new standards and recommendations are issued by the International Accounting Standards Board ("IASB") and the AcSB.

The Canadian Securities Administrators issued Staff Notice 52-321, "Early Adoption of International Financial Reporting Standards", which provides issuers with the option to early adopt IFRS effective January 1, 2009. The Trust has not early adopted IFRS.

## ACCOUNTING POLICIES AND IMPLEMENTATION DECISIONS

Based on the Trust's transition plan, the following standards have been identified as those, which have the most significant impact on the Trust upon implementation to IFRS. Recommendations, where applicable, have been presented to the Board and approval related to these policy choices has been received.

### INVESTMENT PROPERTY- IAS 40

In accordance with IAS 40 - Investment Property, all property held to earn rent or for capital appreciation is considered 'Investment Properties' under this Standard. An entity has a choice of recording these Investment Properties on the balance sheet using either a fair value or the cost model approach. Each of these options will have various implications on the financial statements of the Trust.

Under the fair value model, Investment Properties (identified on the Trust's financial statements as Revenue Producing Properties ("RPPs")) would be presented at fair value as determined by a valuation of each of the revenue producing properties held by Boardwalk REIT. Each property must be reassessed at each financial reporting period, with gains or losses in the fair value being recognized in the statement of profit or loss.

Under the fair value model, deferred costs, intangible assets and liabilities related to Investment Properties are not presented separately as their values are incorporated within the values of the property's fair value.

Under the cost model, these same properties would be recorded at their cost (as defined in the standard) less accumulated amortization. The second approach more closely resembles current Canadian GAAP; however, some differences still exist. For example

under IFRS when the cost model is chosen to value Investment Properties on the financial statements, the fair value of these properties must still be disclosed in the notes to the financial statements.

While an entity has the ability to choose either of the two approaches above, the Standard outlines that an entity may convert from the cost model to the fair value model at a later date, however rarely, if ever, could an entity convert from the fair value model to the cost model as the cost model would not provide more relevant information than the fair value model.

Under IFRS 1 – First time adoption of IFRS, the Trust may choose to adopt either valuation model for its Investment Properties prospectively. In addition, the Trust may also elect (under IFRS 1) to use the fair value as the deemed cost of these assets upon initial implementation of IFRS regardless of whether it chooses the fair value or cost method in accordance with IAS 40. At conversion, the resulting adjustments of this election are recorded directly to retained earnings.

The Board of Trustees of Boardwalk REIT has elected to use the fair value model to report the asset values of all of its Investment Properties in accordance with IAS 40. Under the fair value model, the Trust is required to apply the fair value approach to all of its Investment Properties. This policy change is adopted on a prospective basis beginning on January 1, 2011, with comparatives as at January 1, 2010. With the election of the fair value method to value Investment Property, the Trust will be required to determine the fair value of its investment properties at each reporting date. The initial fair value assessment of the Trust's Investment Properties has been completed by a third-party, independent appraiser. In subsequent reporting periods, changes in the fair value of its Investment Properties will be recognized in the profit and loss in the period in which they arise. Current discussions about valuation methodology and frequency have concluded that, on a much more limited basis, the Trust will enlist the services of a third party, independent appraiser to assist in the ongoing determination of the reported fair value of the Trust's Investment Properties. In addition, the IASB has a work plan and released an exposure draft on fair value measurement, which the Trust will take into consideration when developing a valuation approach.

The Trust's opening balance sheet, as at January 1, 2010, will reflect a one-time fair value adjustment of substantially all of Boardwalk REIT's RPPs to fair value as at that date. This will result in a carrying value to its Investment Properties of approximately \$4.1 billion, which is approximately \$1.9 billion higher than the depreciated cost of \$2.2 billion reported under current Canadian GAAP. Total assets are expected to increase \$2.0 billion, from \$2.4 billion to \$4.4 billion.

The fair value of all of Boardwalk's Investment Properties was derived by a third-party, independent appraiser. The fair value determined under IFRS incorporates allowances for vacancy, inflation, management fees and budgeted property capital expenditures, but does not include future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from these future expenditures. Independently analyzed market based valuation inputs were utilized in the development of stabilized net operating income ("NOI") of the Investment Properties. The fair value was determined by applying a Capitalization Rate ("Cap Rate") to stabilized NOI. The Capitalization Rates were arrived at through an independent analysis of market data of recent transactions within the marketplace. Where an existing property has excess density or is located on a ground lease agreement, the Capitalization Rate was adjusted to appropriately reflect the inherent value of the surplus density or ground lease agreement.

As a result of the expected \$1.9 billion increase to the carrying value of Boardwalk's Investment Properties, the debt to gross book value calculation as of January 1, 2010, for the purpose of the borrowing restriction under its Declaration of Trust and as a part of its unsecured debt trust indenture is expected to decrease by approximately 9% based on IFRS carrying values compared to the stated leverage ratio of 61% based on current Canadian GAAP historical cost as at January 1, 2010. Other significant impacts as a result of the Trust's election to use a fair value versus cost methodology to value its Investment Properties is the elimination of depreciation related to such properties and the addition of fair value adjustments as a result of fluctuations in the fair value being recorded on the income statement.

#### Valuation Process of Investment Properties

Boardwalk REIT utilized an external valuation company 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 balance sheet. 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 has resulted in an overall weighted average Capitalization Rate for the portfolio of approximately 6.64%. Boardwalk REIT's properties were grouped by geographic location.

The table below provides further details of the range of Capitalization Rates for each geographical area as at January 1, 2010:

Freehold	Range	
City / Town		
Calgary	6.00%	6.75%
Edmonton	6.25%	7.00%
Gatineau	6.25%	6.25%
Grande Prairie	8.00%	8.50%
Kitchener	6.75%	6.75%
London	6.75%	7.00%
Montreal	6.25%	7.50%
Other Alberta	6.25%	8.00%
Quebec	6.25%	7.50%
Regina	6.75%	7.00%
Saskatoon	6.75%	7.00%
Vancouver	5.25%	7.25%
Victoria	5.50%	5.50%
Windsor	7.25%	7.75%
	5.25%	8.50%
Land Lease	6.18%	11.66%

#### PROPERTY, PLANT AND EQUIPMENT – IAS 16

Under IAS 16, Property, Plant and Equipment (“PP&E”) is defined as a tangible asset held for use in the production or supply of goods and services or for administrative purposes and is expected to be used in more than one period. For Boardwalk REIT, the most significant impact of this section appears to be twofold. First, it will change the classification of properties in our portfolio, which do not meet the definition of an Investment Property under IAS 40, and therefore will be recorded as PP&E on the balance sheet. This includes properties such as our head office building and warehouse facilities. The second significant impact of this IFRS section on the Trust is that it may exclude what is currently considered PP&E under current Canadian GAAP and include it as part of Investment Property under IAS 40. The difference resulting from both these impacts could significantly impact the amount of PP&E the Trust carries on its Balance Sheet in comparison to what the Trust currently classifies as PP&E under current Canadian GAAP.

Under IAS 16, PP&E is measured at its cost upon initial recognition, which is consistent with current Canadian GAAP. However, under IFRS, the Trust has the ability to choose one of two alternatives for the measurement of each class of PP&E after initial recognition.

The first alternative under this Standard is measurement using the cost model. This measures and carries each item or class of PP&E on the balance sheet at cost less accumulated depreciation and any impairment losses recognized.

If the cost method is chosen to value Investment Property under IAS 40, the cost method must also be applied to PP&E under this standard as well.

The second measurement alternative available is the revaluation model. In accordance with this alternative, an item of PP&E whose fair value can be measured reliably may be carried on the balance sheet at a revalued amount. This revalued amount represents the fair value of a class of PP&E less any subsequent accumulated depreciation and subsequent impairment loss. Under this alternative, revaluations need to be made for each class of PP&E with sufficient regularity to ensure the carrying amount does not differ materially from its fair value at the end of each reporting period.

If an asset’s carrying amount is increased as a result of revaluation, the increase shall be recognized in Other Comprehensive Income and accumulated in equity under the heading of Revaluation Surplus. However, the increase shall be recognized in profit or loss to the extent it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset’s carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in Other Comprehensive Income to the extent of any credit balance existing in the Revaluation Surplus in respect of that asset. The decrease recognized in Other Comprehensive Income reduces the amount accumulated in equity under the heading of Revaluation Surplus.

If the fair value method has been chosen under IAS 40, the Trust has the ability to apply a different measurement alternative to each asset or class of PP&E that it has identified.

Consistent with current Canadian GAAP, under IAS 16, the depreciation of an asset shall be allocated on a systematic basis over the useful life of an asset and shall be reviewed at least annually.

IFRS 1 – First Time Adoption of International Reporting Standards allows the option to prospectively apply this Standard upon initial recognition of IFRS and allows the Trust to elect to use fair values as the “deemed cost” of PP&E upon initial implementation of IFRS. Any adjustments, which result from this election (under IFRS 1), are recorded directly to retained earnings.

In connection with the implementation of IFRS, Boardwalk REIT has identified assets, which are not considered part of the fair value of Investment Property, and are, therefore, recorded separately as property, plant and equipment on the Trust’s balance sheet. Boardwalk REIT has elected to use the cost model to report the asset values of its PP&E as part of its transition to IFRS. As a result, Boardwalk REIT will continue to depreciate its PP&E upon transition to IFRS on a systematic basis over the useful life. This policy change is adopted on a prospective basis beginning on January 1, 2011, with comparatives as at January 1, 2010. In subsequent reporting periods, depreciation of PP&E will be recognized in the profit and loss in the period in which they arise.

The Trust’s opening balance sheet will reflect a one-time reclassification of substantially all items not meeting the criteria of Boardwalk REIT’s Investment Properties. This will result in a net book value of PP&E of approximately \$16.5 million as at January 1, 2010, which is approximately the same as reported under current Canadian GAAP.

#### IAS 2 – INVENTORIES

With the adoption of IFRS, the Trust will separately present ‘Inventory’ from ‘Other Assets’ on a prospective basis. Inventory consists of parts and supplies such as baseboards, carpet, linoleum and other items routinely used in the maintenance of its Investment Properties. These items are kept on hand so that they are readily available for use. Inventory is measured at the lower of cost or net realizable value. In subsequent reporting periods, when items of Inventory are used, they are expensed as part of maintenance expense or capitalized to the appropriate asset 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 has determined that the balance of Inventory at January 1, 2010, is approximately \$2.9 million, which is approximately the same as reported under current Canadian GAAP.

#### Other Assets

With the adoption of IFRS, certain balances will be reclassified to Inventory and PP&E from Other Assets. The Trust has determined that the balance of Other Assets at January 1, 2010, will decrease by approximately \$10.7 million under IFRS as a result of certain reclassifications.

#### IFRS 3 – BUSINESS COMBINATIONS

The definition of a business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. The Standard goes on to define a “business” 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 benefits.

In accordance with the above definitions, the Trust may be required to account for property acquisitions as a “Business Combination” under IFRS 3, which differs from the current practice of recording building purchases as an asset acquisition under current Canadian GAAP.

Under IFRS 3, business combinations identified shall be accounted for using the acquisition method, which requires that an acquirer be identified, and a specific acquisition date determined. In addition, all identifiable assets and liabilities assumed as well as any non-controlling interest in the acquiree are recognized and measured and any goodwill or gains from a bargain purchase are also recognized and measured at fair value including contingent liabilities when these contingent considerations are part of the consideration being transferred.

Acquisition related costs incurred to effect a business combination shall be expensed in the period the costs are incurred under IFRS 3, which differs from the Trust’s current treatment of acquisition-related costs, which is capitalized and amortized with the cost of the building(s).

Under IFRS 1 – First Time Adoption of IFRS, an entity has the option to either retroactively apply IFRS 3 – Business Combinations to all business combinations or may elect to apply the standard prospectively only to those acquisitions which meet the expanded definition of a business combination after the date of transition.

In connection with the implementation of IFRS, Boardwalk REIT has elected to apply IAS 3 – Business Combinations prospectively only to those acquisitions which meet the expanded definition of a business combination after the date of transition. This policy change is adopted on a prospective basis beginning on January 1, 2011, with comparatives as at January 1, 2010.

Implementation of this standard will have no impact on the Trust's opening balance sheet as there have been no asset acquisitions, which would qualify as business combinations in accordance with IFRS 3 after July 1, 2009.

Upon transition to IFRS, all asset acquisitions, which meet the definition of a business combination in accordance with IFRS 3, will be recorded using the acquisition method outlined in this standard and all acquisition costs directly related to the acquisition will be expensed in the income statement.

### IAS 36 – IMPAIRMENT OF ASSETS

As outlined in IAS 36 – Impairment of Assets, an entity shall assess at the end of each reporting period whether there is any indication that an asset carried on the balance sheet may be impaired. If such an indication exists, the entity shall estimate the recoverable amount of the asset in accordance with this standard.

The recoverable amount of an asset is defined as the higher of its: (a) fair value less cost to sell, and (b) its value in use. Value in use is further defined as the present value of future cash flows (i.e. discounted) expected to be derived from an asset.

This differs from current Canadian GAAP, which uses non-discounted cash flows and fair value to test for the impairment of assets. As a result of this difference, impairment write-downs may be more likely under IFRS than are currently identified and recorded under current Canadian GAAP.

If the recoverable amount of an asset is less than its carrying value, the entity shall record an impairment loss so that the value of the asset on the balance sheet reflects its recoverable amount.

Impairment losses identified shall be recognized immediately in the profit and loss statement unless the asset is carried at a revalued amount in accordance with another standard. However, in allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of its: (a) fair value less cost to sell, (b) its value in use, or (c) zero.

After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the revised carrying amount of the asset less its residual value on a systematic basis over the remaining useful life of the asset.

Once an impairment loss has been recognized, an entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased. If such an indication exists, an entity shall estimate the recoverable amount of that asset. If the recoverable amount determined is higher than the carrying value of the asset on the balance sheet after the previous recognition of an impairment loss, the entity may reverse the impairment loss previously recognized in prior periods.

The reversal of the impairment loss shall be immediately recognized in the profit and loss statement; however, any reversal of the impairment loss shall not exceed the carrying amount (net of amortization) that would have been determined had no impairment loss been recognized for the asset in prior years.

An impairment loss recognized for goodwill shall not be reversed in subsequent periods.

While the Trust is required to adopt this standard on a retroactive basis, as there is no specific exemption under IFRS 1 to allow the standard to be adopted prospectively, this standard will have no impact to the Trust's financial statement upon transition to IFRS. IAS 36 allows for certain exceptions from application of this standard. These exceptions include Inventory and Investment Property that is measured at fair value in accordance with IAS 40. For the Trust's short-term assets, which include other prepaid assets, mortgages and accounts receivable, tenant security deposits and cash and equivalents, the carrying value of these assets approximates their fair value; therefore, no impairment of these assets would exist. With respect to PP&E, the Trust must apply this standard to items of PP&E it has recorded at cost on its balance sheet. If an indication of impairment exists for PP&E, the recoverable amount of the asset needs to be determined. However, since these assets themselves do not generate independent cash flows, they are allocated to cash generating units, which for Boardwalk REIT are considered individual Investment Properties, measured

on the balance sheet at fair value under IAS 40. These cash generating units carried at fair value at each balance sheet date would never have an impairment loss as they are recorded at their fair value at each balance sheet date. Therefore, no impairment losses for these cash generating units or the PP&E allocated to them would exist. In addition, Boardwalk REIT has no goodwill recorded on its balance sheet, which would be subject to impairment testing under IAS 36.

#### IAS 32 – FINANCIAL INSTRUMENTS: PRESENTATION, IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT, IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES AND IFRS 9 – FINANCIAL INSTRUMENTS (REPLACEMENT OF IAS 39)

The objective of these Standards is to establish principles for recognizing, measuring and presenting financial instruments as assets, liabilities or equity and for offsetting financial assets and financial liabilities.

In accordance with these Standards, the issuer of a financial instrument shall classify the instrument or its component parts upon initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument within this section. A financial instrument is defined in IAS 32 as any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument of another entity.

In light of the definitions outlined in this section, Boardwalk REIT must assess all contractual obligations, which exist for the Trust and evaluate the terms of these contracts. This evaluation is necessary to assess whether or not any of the existing contracts give rise to a financial instrument as defined by this section.

The Trust has completed a review of the contracts related to its Trust Units, the Special Voting Units issued to holders of LP Class B Units as well as the Trust's deferred unit compensation plan. Currently, under Canadian GAAP, all of these units are considered equity; however, the treatment of these units differs upon transition to IFRS. Boardwalk REIT has amended its Declaration of Trust (DOT) as approved by the Unitholders at the Annual General Meeting in May of 2009. Based on the amendments made at this time, Boardwalk REIT expects that its Trust Units will remain as equity when IFRS standards are adopted. However, the LP Class B Units, as well as the deferred unit compensation plan, meet the definition of a financial liability under IFRS and, as a result, will be reclassified as financial liabilities carried at fair value on the balance sheet under IFRS. The impact of the reclassification of these units as liabilities at January 1, 2010, is an increase to the Trust's liabilities of \$170.6 million and a corresponding decrease to Unitholders' Equity. After the initial adoption of IFRS standards, these financial liabilities will be recorded at their fair value at each balance sheet date and the corresponding fair value fluctuations recorded on the income statement. Distributions paid to Class B LP Unitholders will be recorded as finance charges on the income statement in accordance with IAS 32. Deferred units issued under the Trust's deferred unit plan will initially be recorded as compensation costs when issued and subsequent fair value fluctuations will be recorded as financing charges on the income statement.

Finally, these Standards define the criteria necessary to apply hedge accounting. As the criteria differ slightly from current Canadian GAAP, Boardwalk REIT has evaluated its hedging activities to ensure that hedge accounting can still be applied under IFRS. Based on this review, the Trust has concluded that its hedging activities continue to meet the criteria under IFRS to apply hedge accounting to its cash flow hedges currently in place. There will be no impact to how the Trust's hedges are accounted for upon transition to IFRS.

In the fall of 2009, the IASB issued IFRS 9 – Financial Instruments, which changes the recognition and measurement of financial assets from the discussion above. Under this new standard, all financial assets are accounted for either at their fair value through profit or loss or at amortized cost. As all of Boardwalk REIT's financial assets are either carried at fair value or amortized cost, this change is not expected to impact the Trust. IAS 9 is effective for annual periods beginning on or after January 1, 2013.

#### IAS 12 – INCOME TAXES

The objective of this standard is to prescribe the accounting treatment for income taxes and how to account for the current and future tax consequences of the future recovery or settlement of the carrying amount of assets or liabilities that: (a) are recognized in an entity's balance sheet, and (b) are consequences of transactions and other events of the current period which are recognized in an entity's financial statements.

The Standard prescribes that an entity should account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore where transactions and other events are recognized in the profit or loss, the recognition of deferred tax assets or liabilities, which arise from those transactions, should also be recorded

in the profit or loss. For transactions which are recognized outside of the profit or loss statement (either in other comprehensive income or directly in equity), any related tax effects should be recognized outside of the profit or loss statement.

As a result of the accounting policy decisions made under IAS 40 – Investment Property to adopt the fair value model at January 1, 2011, for all of its Investment Properties (with comparatives for 2010), the Trust has determined that the impact to its future income tax liability will increase by approximately \$383.3 million, net of reclassifying \$0.7 million as deferred tax assets. The increase is primarily due to the increased carrying value of its Investment Properties from net book value to fair value and to changes in future effective tax rates applicable to business income based on the method of realization of such taxes, that being the sale of its properties rather than through the ownership and operations of these properties.

Substantially all of the Trust's deferred income tax liability relates to the ambiguity of whether the Trust will meet the definition and criteria of a 'real estate investment trust' for income tax purposes. As detailed previously, on December 16, 2010, the Department of Finance proposed amendments to clarify the definition and criteria of a real estate investment trust, which is exempt from income taxation stipulated by the Specified Investment Flow-Through Legislation ("SIFT Legislation"). If these proposed amendments are substantively enacted in 2011, the ambiguity of whether Boardwalk REIT will qualify as a real estate investment trust for Canadian income tax purposes will be substantially eliminated.

In 2009, the IASB issued an exposure draft outlining proposed changes to IAS 12 – Income Taxes. Included in these changes is the proposed utilization of a probability weighted average for measuring potential tax liabilities. This proposal received significant objection from the general public and, as such, is not expected to be finalized in its current form.

#### IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

This Standard specifies that an entity shall present current and non-current assets and liabilities as separate classifications on the balance sheet, except where presentation based on liquidity provides information that is reliable and more relevant.

Boardwalk REIT currently presents its balance sheet based using the liquidity method under current Canadian GAAP. The Trust has evaluated each of these presentation approaches and believes the continued use of a liquidity-based presentation provides more relevant information to the users of the Trust's financial statements. As a result of this, the Trust will continue to present its balance sheet using a liquidity approach with no distinction between current and non-current assets and liabilities upon transition to IFRS.

#### IFRS 1 – FIRST TIME ADOPTION OF IFRS

IFRS 1 provides the framework for the first time adoption of IFRS and outlines that, in general, an entity shall apply the principals under IFRS retrospectively. The standard specifies that the adjustments, which arise on the convergence of IFRS standards from current Canadian GAAP, should be directly recognized in retained earnings.

Certain optional and mandatory exemptions and exceptions for the application of IFRS standards exist and are outlined within this Standard.

For those IFRS Standards which the Trust has initially assessed to have a significant impact, a discussion of the applicable IFRS 1 exemptions and options available have been discussed in the appropriate section above.

Boardwalk REIT continues to assess the implications of IFRS 1 and the convergence of IFRS on its financial statements.

#### IMPACT OF IFRS ON RESULTS OF OPERATIONS

The following paragraphs highlight the significant recurring differences between current Canadian GAAP and IFRS that will affect the net income of the Trust upon its adoption of IFRS standards. This discussion has been prepared on a basis consistent with all known IFRS to Canadian GAAP differences using the accounting policies expected to be applied by Boardwalk REIT in its first annual financial statements prepared in accordance with IFRS, using the standards anticipated to be in effect at that time. The Trust's IFRS accounting policies and the impacts anticipated upon transition may be subject to change as a result of the continued assessment of the current standards, new IFRS standards being issued or changes to current standards made prior to Boardwalk REIT's implementation of IFRS standards.

##### Fair value changes

IFRS permits the measurement of Investment Property using the fair value model under IAS 40 – Investment Property, which requires a gain or loss arising from a change in the fair value of Investment Property in the period to be recognized in income

after its initial transition date of January 1, 2011; prior to January 1, 2011, such fair value adjustment will be recorded in retained earnings in accordance with IFRS 1. Boardwalk REIT has elected to use the fair value model under IAS 40. The Trust's net income may be greater or less than as determined under current Canadian GAAP as a result of the fluctuations of the fair value of its Investment Properties at each balance sheet date. The Trust is currently the frequency and sample size of rotational valuations by a third-party, independent appraiser to support the fair value measurement of its Investment Properties at each reporting period. In addition, the IASB has a work plan and released an exposure draft on fair value measurement, which the Trust will take into consideration when developing its revaluation approach.

#### **Financial liabilities**

Upon initial adoption of IFRS, the Trust has reclassified the LP Class B Units and the deferred unit compensation plan from equity under current Canadian GAAP to financial liabilities under IFRS. These liabilities will be recorded at their fair value at each balance sheet date with the fluctuations related to fair value changes recorded on the income statement after the initial transition date of January 1, 2011. The initial grant of deferred units will be recorded as compensation costs while distributions paid on the LP Class B Units and fair value adjustments on both the LP Class B Units and deferred units will be recorded as financing charges on the income statement.

#### **Depreciation and amortization expense**

Under the fair value model, depreciation of Investment Properties is not recorded as these properties are recorded at their corresponding fair value at each balance sheet date. The Trust has elected to use the cost model for all of its property, plant and equipment under IFRS and, therefore, will continue to record depreciation for these items.

#### **Revenue recognition**

IFRS requires rental revenue to be determined on a straight-line basis, considering all rentals from the inception of a lease. This is consistent with the current revenue recognition, where the Trust accounts for leases with its tenants as operating leases over the life of the lease. The Trust foresees no material difference between current Canadian GAAP and IFRS on rental revenue.

#### **Leases**

The Trust is a lessor of residential rental property and is considered a lessee related to certain ground lease and warehouse lease contracts. Under current IFRS standards, all leases entered into by the Trust are considered operating leases under IFRS, consistent with current Canadian GAAP and, as a result, there has been no impact to the Trust upon adoption of IFRS standards related to these leases. In August 2010, the IASB, in association with the FASB, published an exposure draft on leases. Proposed changes include all assets and liabilities arising under lease contracts be recognized in the statement of financial position. The Trust continues to monitor the progress of these proposed changes; however, the exposure draft would not impact the Trust as it exempts the recognition of operating leases in the statement of financial position associated with Investment Properties measured using the fair value model with is consistent with Boardwalk policy.

#### **Income taxes**

As a result of the accounting policy decisions made under IAS 40 – Investment Property to adopt the fair value model at January 1, 2011, (with comparatives for 2010) for substantially all of its revenue-producing properties, the Trust has, on the first-time adoption to IFRS, an adjustment of approximately \$383 million in deferred tax liabilities. This adjustment is related to the deferred tax liability, which arises as a result of the differences between the net book value and the fair value of its Investment Properties as well as changes in future effective tax rates, and the fact that SIFT Legislation as at December 31, 2010 still contains ambiguity on whether the Trust will be exempted from income taxation. Proposed amendments do clarify that the Trust will be a 'real estate investment trust' for income tax purposes; however, these proposed changes have not been substantively enacted as at December 31, 2010.

The following table shows other IFRS standards that are applicable to the Trust, but the impact to the Trust's financial statement in accordance with IFRS will not be significant.

Standard	Title	Explanation	Impact to Boardwalk REIT
IFRS 2	Share based Payment	IFRS 2 is applicable to share-based compensation plans (or in Boardwalk REIT's case, its deferred unit-based compensation plan). Currently, Boardwalk REIT accounts for deferred unit-based compensation as equity, but this Standard will require the deferred unit-based compensation to be classified as a liability since the deferred units do not meet the criteria of an equity instrument. Instead, the deferred units are considered a puttable instrument financial liability (IAS 32) because there is a contractual obligation for Boardwalk REIT to deliver cash or another financial asset. The unit-based compensation must be measured at fair value of goods and services received and any changes in fair value on remeasurement are recognized in the profit or loss at the end of each reporting period (IFRS 2(30)). In addition, more extensive note disclosure is required than that under current Canadian GAAP.	Deferred unit compensation plan classified as a financial liability and fair value remeasurements at the end of each reporting period are reported in the income statement. Impact has been discussed above in section related to IAS 7, IAS 32 and IAS 39.
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	A discontinued operation is limited to those operations that are a separate major line of business or geographical area. Because discontinued operations under current Canadian GAAP also include operations that are not a separate major line of business or geographical area (i.e. may only be a portion of a separate, major line of business (e.g. a single project)), reporting of discontinued operations would be uncommon under IFRS.	Boardwalk REIT will only have discontinued operations if it sells a whole geographic location or segment line.
IFRS 8	Operating Segments	Boardwalk REIT's current segmented reporting is consistent with the Standard; however, the disclosure requirements are more extensive than that under current Canadian GAAP.	Limited changes to segmented reporting to what is currently being reported under current Canadian GAAP. No significant impact for Boardwalk REIT.
IAS 7	Statement of Cash Flows	There are no significant differences between this Standard and current Canadian GAAP. It should be noted that IFRS encourages the direct method for the operating section; however, most Canadian companies apply the indirect method under current Canadian GAAP (which is still allowed under IFRS).	Boardwalk REIT will continue to present its cash flow statement using the indirect method. No significant impact for Boardwalk REIT.
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	This section prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure changes in accounting policies, changes in accounting estimates and corrections of errors. It is applicable to Boardwalk REIT in the future should there be changes to policies, estimates or corrections. Current Canadian GAAP has converged with this standard over time and the impact on Boardwalk REIT will be minimal, but still needs to be reviewed annually in case of changes, estimates and errors. The biggest implication of IAS 8 to the Trust is upon adoption of the fair value model for its Investment Properties – this does not result in a change in the estimate of the useful life but rather is a change in the initial recognition value as permitted by IAS 40.	No significant change for Boardwalk REIT.

Standard	Title	Explanation	Impact to Boardwalk REIT
IAS 10	Events After the Reporting Period	This standard applies to accounting for, and disclosure of, events after the reporting period and also requires a date of authorization for the issuance of the statements. This standard is applicable to Boardwalk REIT because it regularly has events (adjusting or non-adjusting events) after the reporting period ends. Under current Canadian GAAP, events are considered up to the date of completion, but under IFRS events are considered up to date the financial statements are authorized for issue. Boardwalk REIT's statements are considered authorized once the Board of Trustees approves them and may not be the same date as completion. Also of difference is, under IFRS, the date and by whom those statements were authorized must be disclosed. In light of any new information after the reporting period, the entity must also disclose conditions that existed at that time.	No significant change for Boardwalk REIT.
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Boardwalk REIT receives government grants or government assistance in the form of subsidized rent; therefore, this Standard is applicable. Since the requirements of IAS 20 are similar in almost all respects to CICA 3800, there is no impact to Boardwalk REIT on transition to IFRS. We are now in the process of determining the reporting impact under IFRS.	No significant change for Boardwalk REIT.
IAS 23	Borrowing Costs	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Consistent with current Canadian GAAP, the Trust can only capitalize borrowing costs related the purchase of a building until substantially all of the activities necessary to prepare the building for its intended use have been completed, after which borrowing costs are expensed.	No significant change for Boardwalk REIT.
IAS 24	Related Party Disclosure	This standard draws attention to the possibility that financial information may be affected by a related party. It is very different from current Canadian GAAP; however, the impact is very minimal because it would only affect Boardwalk REIT in its disclosure of key management personnel compensation.	No significant change for Boardwalk REIT.
IAS 33	Earnings per Share	This standard applies to calculating and presenting Earnings Per Share ("EPS") information. This is applicable to the Trust because IAS applies to all entities that are publicly traded. Of significance is potential ordinary shares do not include the LP Class B Units in the basic EPS calculation (in contrast to current Canadian GAAP), but are included in the diluted EPS calculation (which is consistent with current Canadian GAAP).	Will result in the exclusion of the B Units in the determination of Earnings per Share.
IAS 34	Interim Financial Reporting	This standard does not represent a significant change for Boardwalk REIT in terms of interim financial statements; however, significant disclosure requirements will occur on transition to IFRS. These differences will be addressed as part of the Trust's mock up IFRS financial statements.	No significant change for Boardwalk REIT.
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	This standard differs from current Canadian GAAP in that, only assets and liabilities that meet the conceptual definition of an asset or liability at the date of the financial statements should be recognized. Provisions are recognized whereas contingencies are not. This could apply to Boardwalk REIT during the course of legal lawsuits. Areas where provisions arise for the Trust are legal lawsuits, insurance claims as well as constructive obligations in accordance with IFRS. While the existence of some provisions, which meet the definition under IFRS, exist for the Trust, management has determined that these amounts are not material. In addition, to address the constructive obligation, which arises related to the payment of distributions to Trust Unitholders and LP Class B Unitholders, the Trust has revised its DOT to reflect that the amount of distributions the Trust distributes is at the sole discretion of the Board of Trustees; therefore, no constructive obligation exists related to the payment of distributions.	No significant change for Boardwalk REIT.

All other IFRS standards, IFRIC and SIC's have been evaluated. The Trust has determined that these remaining standards do not represent a material impact to the Trust's financial statements and have not been disclosed as a result of this.

#### INFORMATION TECHNOLOGY ("IT") AND DATA SYSTEMS

With the conversion to IFRS, a significant focus has been on information technology and data systems. All changes resulting from the conversion to IFRS shall occur on a transactional level, meaning systems have been redesigned to ensure transactions will be accounted for correctly under IFRS. In addition, IFRS results in significant changes to accounting policies and disclosure requirements and, therefore, new data needs to be captured which was not previously required under current Canadian GAAP (for example, the fair value of Investment Properties).

Currently, the majority of Boardwalk REIT's software applications are designed and developed in house, meaning any identified changes can be completed by Boardwalk REIT's IT department. However, as day-to-day operations must be maintained during the conversion, sufficient time and resources has been provided to the IT department to accommodate the changes required for IFRS while also ensuring that those individuals impacted by the system changes are given adequate training on the revised system.

Two significant IT initiatives were undertaken as a result of the 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 required under current Canadian GAAP as well their 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. To date, this initiative has been completed, tested and has been implemented to ensure the appropriate information is available as Boardwalk REIT transitions to IFRS.

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 will effectively need to maintain two sets of financial records. The first set relates to financial accounting/reporting under current Canadian GAAP. As a public entity, the Trust will be required to report its public financial information under current Canadian GAAP until December 31, 2010. The second set relates to financial accounting/reporting information under IFRS. While the requirement to adopt IFRS does not occur until January 1, 2011, a year of comparative information will also be required. As a result, Boardwalk REIT is required to maintain and eventually provide financial information under IFRS beginning January 1, 2010. As at December 31, 2010, the new general ledger has been designed, tested and was utilized in fiscal 2010, allowing for two sets of financial records in 2010.

As the assessment and impact of IFRS standards are completed, other minor modifications to the Trust's current accounting systems have been required; however, the above two systems are the most significant IT requirements identified and the development, testing and implementation of both systems has been completed. As with any other system development or conversion, any 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 and will be tested to reflect changes which arise as a result of Boardwalk's convergence to IFRS. Where material changes have been identified, these changes have been mapped and testing completed to ensure that no material deficiencies exist as a result of the Trust's transition to these new accounting standards.

##### Financial Reporting Expertise

As previously discussed, in order to complete the conversion to IFRS, Boardwalk REIT assembled an IFRS project team that has been involved in the conversion from inception until completion. The IFRS team is comprised largely of senior accounting staff, all of whom have experience in public reporting, and representatives from Boardwalk REIT's IT department. A project manager has been identified to oversee the project and to monitor milestones identified. Both senior management and the Board of Trustees have been kept informed of the expected changes, as a result of the conversion to IFRS, in order to ensure that operational factors, internal control over financial reporting and disclosure controls are considered throughout the IFRS conversion.

All financial members of the IFRS team have completed IFRS training hosted by both the Canadian Institute of Chartered Accountants and REALpac. The training session provided by REALpac was specific to the real estate industry and focused on outlining the key differences between current Canadian GAAP and IFRS for real estate entities. It is important to note that the transition to IFRS is a moving target, meaning IFRS will change between now and after the transition date. As such, the IFRS team

must continuously adapt to ensure that the most current standard is being reviewed and considered as part of our IFRS conversion. Throughout the conversion process, the project team relied 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.

Throughout Boardwalk REIT's transition to IFRS, the Board of Trustees, primarily through the Audit and Risk Management Committee, has been involved, ensuring that the financial expertise of the Board members is utilized to its fullest. As previously discussed, there are many policy choices to be made within IFRS and the Board of Trustees is responsible for approving all of the IFRS accounting policies being adopted by the Trust, along with monitoring the project status of Boardwalk REIT's convergence plan.

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

### BUSINESS ACTIVITIES

As the adoption of IFRS will result in changes to Boardwalk's financial results, it will impact 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. Currently, hedge accounting is applied to Boardwalk's interest rate swaps based on the matching of critical terms. In order to ensure that hedge accounting can be applied 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 continue to be applied under IFRS.

### PERFORMANCE MEASURES

Currently, Boardwalk REIT assesses and measures operating results based on FFO, DI and AFFO. DI will be discontinued as a performance measurement after the 2010 fiscal year. These performance measures may require some adjustments in order to provide meaningful information on performance for investors and stakeholders. Standard choices, such as fair value fluctuations in Investment Properties, the recognition of the LP Class B Units as financial liabilities and their corresponding distributions being recorded as financing charges which will flow through the income statement, will need to be included as adjustments in calculating FFO, DI and AFFO to maintain comparability and relevancy of the measurements from period to period. Net Operating Income is a key performance measure of Boardwalk REIT's operational results and is not expected to be significantly impacted as a result of the adoption of IFRS. Finally, as we progress towards IFRS, new performance measures may be introduced which may be more relevant to Investors of Boardwalk REIT.

### DEBT COVENANTS

As outlined in NOTE 16 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. As discussed above, an accounting policy choice exists which would allow the Trust to record its Investment Properties at fair value. As a result of adopting the fair value model for its Investment Properties, the debenture trust indenture stipulates that the Debt-to-Gross Book Value percentage shall not exceed 60%, in contrast to the 70% Boardwalk REIT is required to meet under current Canadian GAAP. Boardwalk REIT's debenture trust indenture, as amended in a special meeting of debenture holders on July 30, 2008, also specifies that total indebtedness of the Trust will not exceed 60% of the GBV of all assets as defined in the trust indenture. The trust indenture specifies that the calculation of the components of Debt-to-Gross Book Value are determined based on amounts calculated in accordance with Canadian GAAP as at January 21, 2005. Since the LP Class B Units and the deferred unit compensation plan were not considered liabilities under Canadian GAAP at that time, the Trust believes at this time that these items, now classified as financial liabilities under IFRS, will not impact the Trusts' calculation of Debt-to-Gross Book Value for its debt covenants.

The debenture trust indenture, as amended, stipulates that Boardwalk must maintain an Earnings Before Income Taxes, Depreciation and Amortization ("EBITDA") to Consolidated Interest Expense of not less than 1.75 to 1. Boardwalk REIT 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 fair value adjustments of its financial liabilities and the distributions on

its LP Class B Units will affect the calculation of Interest Expense. After reviewing the EBITDA to Consolidated Interest Expense ratio after transitioning to IFRS, Boardwalk REIT has the Trust will continue to be on-side with this particular debt covenant.

The final covenant in the debenture trust indenture states that Boardwalk REIT will maintain an adjusted Unitholders' equity balance of at least \$300 million. Currently, Boardwalk REIT has significant room on this covenant and given expected changes to retained earnings (in 2010 for accounting adjustments to the opening balance sheet) and equity components for hedging activities, Boardwalk REIT will be in compliance.

In addition to the covenants mentioned above, the credit facility includes a covenant whereby Boardwalk REIT will maintain a Debt Service Coverage Ratio of at least 1.20. Similar to the EBITDA to Consolidated Interest Expense ratio previously discussed, the income statement adjustments due to changes in fair value shall not affect the calculation of EBITDA and, therefore, this covenant should not be materially impacted by the change to IFRS.

#### FFO

At this time, the Trust has concluded that the treatment of distributions as financing charges and the fair value adjustments of its LP Class B Units and deferred units under IFRS are not relevant in determining the Trust's normal recurring funds from operations (similar to the Trust's rationale for not Including gains on dispositions in FFO) and will, therefore, not be included in the FFO calculation.

#### 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 will not be materially affected on transition to IFRS.

#### EXTERNAL COMMUNICATIONS

Boardwalk REIT continues to update its Management's Discussion and Analysis document in accordance with CSA Notice 52-320 throughout the IFRS transition project. Upon transition to IFRS, all public disclosure documentation will be 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 2010, 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, 2010. 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, 2010, 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, 2010, 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 transitions to IFRS. Based on management's current assessment, these updates enhances its existing ICFR and does not materially affect or is reasonably likely to affect its ICFR in fiscal 2010 and 2011 due to Boardwalk REIT's adoption of IFRS. For fiscal year 2010, the Trust will be required to maintain financial information in accordance with two different accounting standards: one in accordance with current Canadian generally accepted accounting principles ("Canadian GAAP") and the other in accordance with IFRS. Accordingly, both the general ledger accounting system and asset tracking system module have been updated to accommodate two sets of books. Internal controls exist to ensure the updates to the general ledger accounting system and the asset tracking system module are operating as intended prior to the new changes 'going live'. These controls are similar to controls previously designed and in effect when Boardwalk REIT upgrades any of its software applications.

New processes, 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 are being 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 have been identified and documented within the Trust's current processes. Key controls related to these processes have been identified and will be tested in 2011. The Trust has not identified any material deficiencies related to its internal controls for the transition to IFRS standards.

## FINANCIAL OUTLOOK FOR 2011

At the end of the third quarter of 2010, the Trust announced its financial outlook for the upcoming 2011 year. The following table highlights the key financial objectives for the 2011 fiscal year as well as our performance for the 2010 year.

	2011 Objectives	2010 Actual
FFO Rental Operations Per Trust Unit	\$2.35 to \$2.55	\$2.47
New Unit Acquisitions	None	None
Stabilized Building NOI Performance	-3.0% to 1.0%	-1.2%

In deriving these forecasts, we have adjusted for the treatment of the LP B Units as debt (versus equity) and their related treatment of the distributions paid. In addition we are assuming no additional sales 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.

In addition to the above financial outlook for 2011, the Trust has assumed the following capital will be invested back into its existing portfolio for the upcoming year.

Capital Budget <i>in \$000's, except for per suite amounts</i>	Twelve Months			
	2011 Approved	Per Suite	2010 Actual	Per Suite
	\$ 79,600	\$ 2,231	\$ 71,619	\$ 1,999
Annual Maintenance Capital Expenditures	\$ 16,100	\$ 450	\$ 16,119	\$ 450
Stabilizing & Value Enhancing Capital	\$ 63,500	\$ 1,781	\$ 55,500	\$ 1,549
	\$ 79,600	\$ 2,231	\$ 71,619	\$ 1,999

In total, we believe we will invest \$79.6 million (or \$2,231 per apartment unit) in 2011 as compared to \$71.6 million (or \$1,999 per apartment unit) actually spent in 2010. The budgeted amount for 2011 is consistent with the amount budgeted for in 2010; however, our actual expenditures in 2010 were below the budgeted amount as a result of rationalizing our capital expenditures given the slower-than-expected recovery in the economy.

## 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, 2010 and 2009, 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, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007	Dec. 31, 2006
Total revenue <sup>(1)</sup>	416,110	416,815	419,799	375,012	319,440
Net earnings (loss)	71,729	62,067	45,685	(59,326)	25,389
Funds from operations	129,929	133,094	129,918	116,461	91,356
Net earnings (loss) per unit					
– Basic	1.36	1.17	0.84	(1.05)	0.46
– Diluted	1.36	1.17	0.84	(1.05)	0.46
Funds from operations per unit					
– Basic	2.47	2.51	2.39	2.07	1.64
– Diluted	2.47	2.51	2.39	2.07	1.64
Mortgages and debentures	2,265,417	2,287,967	2,165,066	1,888,783	1,499,026
Total assets	2,326,802	2,378,278	2,358,924	2,195,888	1,870,460
Number of apartment units	35,277	36,419	36,785	36,487	34,207
Rentable square feet (000's)	29,936	30,757	31,094	30,852	28,756

(1) Total revenue for fiscal year ended December 31, 2008 and prior have not been restated for 2010 discontinued operations. Total revenue for fiscal year ended December 31, 2007 and prior have not been restated for 2009 discontinued operations.

QUARTERLY COMPARATIVE <i>Cdn\$ Thousands, except per unit amounts</i>	Three Months Ended							
	Dec 31, 2010	Sept 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009	Jun 30, 2009	Mar 31, 2009
Total revenue	105,060	103,772	103,836	103,442	104,350	103,875	104,069	104,521
Net earnings (loss) before Other comprehensive Income	23,313	14,309	23,540	10,565	14,879	14,484	15,035	17,669
Funds from operations	32,733	33,608	34,579	29,009	30,829	34,960	36,849	30,456
Net earnings (loss) per unit								
– Basic	0.44	0.27	0.45	0.20	0.28	0.27	0.28	0.33
– Diluted	0.44	0.27	0.45	0.20	0.28	0.27	0.28	0.33
Funds from operations per unit								
– Basic	0.62	0.64	0.66	0.55	0.58	0.66	0.70	0.57
– Diluted	0.62	0.64	0.66	0.55	0.58	0.66	0.70	0.57

#### 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 17, 2011

(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 Canadian generally accepted accounting principles 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 Kalias  
Chief Executive Officer

*(signed)*

Roberto A. Geremia  
President

*(signed)*

William Wong  
Chief Financial Officer

February 17, 2011

## 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 balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings and comprehensive income, unitholders' equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 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, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(signed)*

Deloitte & Touche LLP  
Chartered Accountants

Calgary, Alberta  
February 17, 2011

## CONSOLIDATED BALANCE SHEETS

(Cdn\$ Thousands)

As at	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
Revenue producing properties (NOTE 4)	\$ 2,069,292	\$ 2,084,382
Other assets (NOTE 7)	14,393	13,908
Mortgages and accounts receivable (NOTE 6)	3,044	3,049
Segregated tenants' security deposits	11,987	12,917
Cash and cash equivalents	228,086	190,325
Discontinued operations (NOTES 4 and 5)	–	73,697
	<b>\$ 2,326,802</b>	<b>\$ 2,378,278</b>
<b>LIABILITIES</b>		
Mortgages payable (NOTE 8)	\$ 2,153,206	\$ 2,106,852
Debentures (NOTE 9)	112,211	111,834
Accounts payable and accrued liabilities	55,648	54,627
Refundable tenants' security deposits and other	15,556	16,263
Discontinued operations (NOTE 5)	–	38,786
	<b>2,336,621</b>	<b>2,328,362</b>
Future income taxes (NOTE 14)	99,197	94,956
	<b>2,435,818</b>	<b>2,423,318</b>
<b>UNITHOLDERS' EQUITY (DEFICIT)</b>		
Unitholders' equity (deficit)	(109,016)	(45,040)
	<b>\$ 2,326,802</b>	<b>\$ 2,378,278</b>

Commitments and contingencies (NOTE 19)

Guarantees (NOTE 20)

See accompanying notes to the consolidated financial statements

On behalf of the Trust:

(signed)

Sam Kalias  
Trustee

(signed)

Gary Goodman  
Trustee

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Cdn\$ Thousands, EXCEPT NUMBER OF UNITS AND PER UNIT amounts)

	Year ended December 31, 2010	Year ended December 31, 2009
<b>REVENUE</b>		
Rental revenue	\$ 416,110	\$ 416,815
<b>EXPENSES</b>		
Rental expenses:		
Operating expenses	75,378	73,229
Utilities	41,489	42,596
Utility rebate and rebate adjustments (NOTE 19)	-	(374)
Property taxes	36,078	35,438
	152,945	150,889
Administration	25,796	26,711
Financing	103,290	105,793
Amortization of deferred financing costs	6,923	6,022
Amortization of capital assets	86,669	84,642
Amortization of intangibles	-	671
	375,623	374,728
<b>Earnings from continuing operations before the following</b>	<b>40,487</b>	<b>42,087</b>
Other income (NOTE 13)	-	408
<b>Earnings from continuing operations before income taxes</b>	<b>40,487</b>	<b>42,495</b>
Current income taxes	-	3
Future income taxes (recovery) (NOTE 14)	4,241	(5,646)
<b>Earnings from continuing operations</b>	<b>36,246</b>	<b>48,138</b>
Earnings from discontinued operations, net of tax (NOTE 5)	35,483	13,929
<b>Net earnings</b>	<b>71,729</b>	<b>62,067</b>
Other comprehensive income (NOTE 17)	23	38
<b>Comprehensive income</b>	<b>\$ 71,752</b>	<b>\$ 62,105</b>
<b>Basic earnings per unit (NOTE 12)</b>		
- from continuing operations	\$ 0.69	\$ 0.91
- from discontinued operations	0.67	0.26
<b>Basic earnings per unit</b>	<b>\$ 1.36</b>	<b>\$ 1.17</b>
<b>Diluted earnings per unit (NOTE 12)</b>		
- from continuing operations	\$ 0.69	\$ 0.91
- from discontinued operations	0.67	0.26
<b>Diluted earnings per unit</b>	<b>\$ 1.36</b>	<b>\$ 1.17</b>
Weighted average number of units – fully diluted (NOTE 12)	52,620,204	52,961,329

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY (DEFICIT)

(Cdn\$ Thousands, EXCEPT NUMBER OF UNITS)

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Trust units (NOTE 11)</b>		
Balance, beginning of year	\$ 236,385	\$ 256,773
Deferred unit plan (NOTE 10)	411	389
Units issued for vested deferred units (NOTE 10)	1,873	1,979
Units purchased and cancelled (NOTE 11)	(17,024)	(22,756)
Balance, end of year	\$ 221,645	\$ 236,385
<b>Cumulative earnings</b>		
Balance, beginning of year	\$ 203,343	\$ 141,276
Net earnings	71,729	62,067
Balance, end of year	\$ 275,072	\$ 203,343
<b>Cumulative distributions to unitholders</b>		
Balance, beginning of year	\$ (484,544)	\$ (389,294)
Regular distributions declared to unitholders (NOTE 12)	(94,705)	(95,250)
Special distribution declared to unitholders (NOTE 12)	(26,283)	-
Balance, end of year	\$ (605,532)	\$ (484,544)
<b>Deficit</b>		
	\$ (330,460)	\$ (281,201)
<b>Accumulated other comprehensive income (loss)</b>		
Balance, beginning of year	\$ (224)	\$ (262)
Other comprehensive income (NOTE 17)	23	38
Balance, end of year	\$ (201)	\$ (224)
<b>Total unitholders' equity (deficit)</b>	<b>\$ (109,016)</b>	<b>\$ (45,040)</b>
<b>Units issued and outstanding (NOTE 11)</b>	<b>52,366,133</b>	<b>52,744,467</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Cdn\$ Thousands)

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Operating activities</b>		
Net earnings	\$ 71,729	\$ 62,067
(Earnings) from discontinued operations, net of tax	(35,483)	(13,929)
Future income taxes (recovery)	4,241	(5,646)
Amortization of deferred financing costs	6,923	6,022
Amortization of capital assets	86,669	84,642
Amortization of intangibles	-	671
Other income (NOTE 13)	-	(408)
	<b>134,079</b>	<b>133,419</b>
Cash from discontinued operations	2,839	5,835
Net change in operating working capital (see below)	2,383	2,605
	<b>139,301</b>	<b>141,859</b>
<b>Financing activities</b>		
Distributions paid to unitholders	(121,045)	(95,362)
Unit repurchase program (NOTE 11)	(17,024)	(22,756)
Financing of revenue producing properties	107,124	307,791
Repayment and maturity of debt on revenue producing properties	(96,578)	(202,434)
Repurchase of debentures (NOTE 9)	-	(7,187)
Deferred financing costs incurred	(10,337)	(22,894)
Bond forward settlement, net of amortization (NOTE 17)	23	38
	<b>(137,837)</b>	<b>(42,804)</b>
<b>Investing activities</b>		
Purchases of revenue producing properties (NOTE 4)	-	(217)
Improvements to revenue producing properties	(71,619)	(70,447)
Net cash proceeds from sale of properties (NOTE 4)	109,186	40,035
Additions to corporate technology assets	(1,270)	(1,335)
	<b>36,297</b>	<b>(31,964)</b>
<b>Net increase in cash and cash equivalents</b>	<b>37,761</b>	<b>67,091</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>190,325</b>	<b>123,234</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 228,086</b>	<b>\$ 190,325</b>
<b>Supplementary cash flow information:</b>		
Taxes paid	\$ -	\$ 3
Interest paid	\$ 104,176	\$ 108,363
<b>Net change in operating working capital:</b>		
Net change in mortgages and accounts receivable	\$ 5	\$ 3,673
Net change in other assets	1,134	100
Net change in tenants' security deposits	223	151
Net change in accounts payable and accrued liabilities	1,021	(1,319)
	<b>\$ 2,383</b>	<b>\$ 2,605</b>

See accompanying notes to the consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

### 1. ORGANIZATION OF TRUST

Boardwalk Real Estate Investment Trust (“Boardwalk REIT” or the “Trust”) is an unincorporated, open-ended real estate investment trust created pursuant to the Declaration of Trust (“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 and May 18, 2010, 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”), which was acquired on May 3, 2004.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of presentation

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

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) requires management to make estimates and assumptions (NOTE 2(j)) that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

#### (b) Principles of consolidation

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

#### (c) Revenue recognition

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

#### (d) Revenue producing properties

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

Revenue producing properties and related intangible assets are reviewed periodically for impairment. An impairment loss will be recognized in the period when the carrying amount of the revenue producing properties exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the properties plus their residual value. If it is determined that an impairment exists, the carrying value of the revenue producing properties and related intangible assets will be reduced to their estimated fair value.

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

**(e) Amortization of capital assets**

Revenue producing properties, except land, are amortized over the estimated useful lives of the assets. Building assets, the largest component of revenue producing properties, are amortized using the straight-line method over periods ranging from 40 to 50 years. Non-building and other depreciable assets are amortized using the declining-balance method at rates ranging from 8% to 35% per annum.

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

**(f) Amortization of intangibles**

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

**(g) Deferred financing costs**

Deferred financing costs are costs related to Boardwalk REIT's debt financing activities, and include fees for legal, mortgage brokerage, underwriting, commitment and standby, appraisals, land title registration and insurance premiums paid to Canada Mortgage and Housing Corporation ("CMHC"). Insurance premiums paid to CMHC to obtain insurance through the National Housing Act ("NHA") are amortized over the insured amortization periods of the individual mortgage loans using the effective interest rate method. Transaction costs, other than CMHC insurance premiums, are amortized over the financing term of the mortgage loans, using the effective interest rate method as well. The effective interest rate method calculates the effective interest rate of the mortgage loans by adjusting the stated interest rate to reflect the CMHC premiums and transaction costs paid. Upon the refinancing of a mortgage, any unamortized insurance premium and transaction costs associated with the previous mortgage are written off to income. Upon renewing existing mortgages at term maturity, all remaining transaction costs are written off with the exception of the costs associated with the CMHC insurance premium paid since this insurance continues for the full amortization period of the mortgage.

A revenue producing property may be leveraged up at term maturity of the existing mortgage by adding a NHA-insured pari passu mortgage. A pari passu mortgage ranks in the same priority as the first mortgage against the collateralized revenue producing property. The CMHC insurance premium of the existing mortgage will continue to be amortized for the remaining amortization (insured) period of the mortgage in conjunction with the amortization of new CMHC insurance premiums associated with the pari passu mortgage.

All unamortized deferred financing costs are netted against the financial liabilities on the balance sheet.

**(h) Deferred unit plan**

The deferred unit plan is described in NOTE 10. Deferred units granted to trustees and executives in respect of their trustee fees or a portion of executive bonuses, respectively, are considered to be in respect of past services and are recognized in compensation expense upon grant. Deferred units granted relating to amounts matched by the Trust are considered to be in respect of future services and are recognized in compensation expense on a straight-line basis over the vesting period. Compensation cost is measured based on the market price of the Trust's units on the date of grant of the deferred units. The unvested deferred units (and vested deferred units that have not been exchanged for Trust Units) earn additional deferred units for the distributions that would otherwise have been paid on the deferred units had they instead been issued as Trust Units on the date of grant (or the date they were exchangeable for Trust Units). Deferred units that have vested, but for which the corresponding Trust Units have not been issued and where the ultimate issuance of such Trust Units is simply a matter of the passage of time, are considered to be outstanding units from the date of vesting for diluted earnings per unit calculations.

**(i) Risk management and fair value****Risk management**

Material financial risks that the Trust is exposed to include: the fluctuation in interest rates, the credit quality of its tenants, liquidity of its assets to pay obligations and the fluctuation in utility rates. A detailed discussion of these risks and how they are managed by the Trust is included in NOTE 16.

**Fair Value**

In accordance with the disclosure requirements of the CICA Handbook, Boardwalk REIT is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset, and this is included in NOTE 16.

**(j) Use of estimates**

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

- (i) economic useful life of buildings and non-building assets for purposes of calculating amortization, as disclosed in NOTE 2 (e);
- (ii) forecast of economic indicators in order to measure fair values of buildings for purposes of determining net recoverable amount under Canadian generally accepted accounting principles, as discussed in NOTE 2 (d);
- (iii) amount of capitalized on-site wages which relate to project improvements, as discussed in NOTE 4;
- (iv) amount of utility accrual for charges related to the current or prior year;
- (v) amount of the temporary differences between the carrying value of the Trust's assets versus the tax basis of those assets and the rates at which the differences will be realized, as discussed in NOTE 14; and
- (vi) the compensation costs relating to the deferred unit plan, as discussed in NOTE 10.

Actual results may differ from these estimates.

#### **(k) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with an original maturity of three months or less.

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

A long-lived asset is classified as an asset held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. For unsolicited interest in a long-lived asset, the asset is classified as held for sale only if all the conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and the sale is probable and expected to be completed shortly after the end of the current period.

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

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

The Trust may redevelop a long-lived asset, for example as condominium units for sale; the Trust will reclassify the long-lived asset as an asset held for sale and follow the accounting policy outlined above.

#### **(m) Financial Instruments – Recognition and Measurement**

All financial instruments (i.e. financial assets, financial liabilities and non-financial derivatives) are required to be measured at fair value on initial recognition, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial assets and financial liabilities classified as held-for-trading are required to be measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization. All transaction costs relating to the financial liability are netted against the liability. Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income ("OCI") (see NOTE 2(o)). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost. Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are required to be recognized in net earnings, except for derivatives that are designated as a cash flow hedge, in which case the fair value change for the effective portion of such hedge relationship is required to be recognized in OCI. CICA Handbook section 3855 – Financial Instruments – Recognition and Measurement permits us to designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. The standard specifically excludes Section 3065 – Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications of the standard included the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Please see NOTE 16 for details on Boardwalk REIT's financial instruments.

**(n) Hedging relationships**

CICA Handbook Section 3865 – Hedges specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net earnings. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective as defined by the standard (“effective”), will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion as defined by the standard (“ineffective”) will be recognized in net earnings. The amounts recognized in OCI will be reclassified to net earnings in those periods in which net earnings is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion will be recognized in net earnings. Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to January 1, 2008 but qualify for hedge accounting under CICA Handbook Section 3865 will be recognized in the carrying amount of the hedged item and amortized to net earnings over the remaining term of the hedged item for fair value hedges, and for cash flow hedges will be recognized in OCI and reclassified to net earnings in the same period during which the hedged item affects net earnings. However, for discontinued hedging relationships that do not qualify for hedge accounting under CICA Handbook Section 3865, the deferred gains and losses was recognized in the opening balance of retained earnings at January 1, 2008.

Boardwalk REIT appropriately documents and monitors to ensure that there is reasonable assurance, both at inception and throughout the term of the hedge, that the hedging relationship will be effective. Relationships that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of earnings and comprehensive income. Hedge accounting was applied to a bond forward contract (see NOTE 9), which was completed on January 21, 2005 by the Trust, to mitigate future cash interest payments associated with the unsecured debentures. Hedge accounting was also applied to the transactions described in NOTE 17.

**(o) Comprehensive income**

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

**(p) Disclosure of guarantees**

In accordance with the disclosure requirements of the CICA Handbook, Boardwalk REIT is required to disclose significant details of guarantees that have been given, regardless of whether it will have to make payments under the guarantees (see NOTE 20).

**(q) Comparative figures**

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

### 3. ACCOUNTING CHANGES

On January 1, 2009, the Trust adopted one new accounting standard issued by the CICA.

**Section 3064 – Goodwill and Intangible Assets**

Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs, establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. Section 1000 – Financial Statement Concepts, was also amended to provide consistency with this new standard. There was no material impact on the consolidated financial statements upon adoption of Section 3064 by the Trust.

**EIC – 173**

The Trust also adopted EIC 173 titled, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” issued by the CICA on January 20, 2009. EIC – 173 states that an entity's own credit risk and the credit risk of the

counter party should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. EIC – 173 had no impact on the financial statements of the Trust.

#### Section 3862 – Financial Instruments - Disclosures

In June 2009, the CICA amended Section 3862, titled “Financial Instruments – Disclosures” to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. These disclosures are effective for the Trust’s December 31, 2009 annual consolidated financial statements. These amendments did not have a significant impact on the Trust’s results of operations or financial position.

#### Future Changes in Significant Accounting Policies

Boardwalk REIT monitors new CICA accounting pronouncements to assess the applicability and impact, if any, these new pronouncements may have on the consolidated financial statements and note disclosures. During 2008, the CICA issued the following new accounting standard that is effective for the Trust’s fiscal year commencing January 1, 2011:

International Financial Reporting Standards (“IFRS”) – On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed a changeover date of January 1, 2011 as the date in which all publicly accountable enterprises (“PAEs”) will be required to adopt IFRS in the preparation of their financial disclosure. At that date, all PAEs, including Boardwalk REIT, will be required to report all interim and annual financial statement information, including comparative information for the prior period, in accordance with IFRS. The impact of the adoption of IFRS on the consolidated financial statements of the Trust will be significant and, as such, the Trust has developed a convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. Boardwalk REIT continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be an on-going one as new standards and recommendations are issued by the International Accounting Standards Board and AcSB.

## 4. REVENUE PRODUCING PROPERTIES

As at	December 31, 2010	December 31, 2009
Land	\$ 210,106	\$ 220,292
Building and non-building assets	2,606,006	2,615,400
Total revenue producing properties	2,816,112	2,835,692
Less: accumulated amortization	(746,820)	(677,613)
	\$ 2,069,292	\$ 2,158,079
Continuing operations	\$ 2,069,292	\$ 2,084,382
Discontinued operations (NOTE 5)	–	73,697
	\$ 2,069,292	\$ 2,158,079

The REIT undertakes capital upgrades by using internal resources to the extent possible. Such work is specifically identified and an estimated cost relating to this is added to the cost of the property. Included in revenue producing properties are capitalized wages of \$19.5 million for the year ended December 31, 2010 (December 31, 2009 – \$14.5 million) relating to capital upgrades.

#### Acquisitions

	Year ended December 31, 2010	Year ended December 31, 2009
Cash paid	\$ –	\$ 217
Debt assumed	–	–
Total purchase price	–	217
Fair value adjustments to debt	–	–
Book value	\$ –	\$ 217
Allocation of book value to revenue producing properties	\$ –	\$ 217
Allocation of book value to other assets (NOTE 2 (d))	–	–
	\$ –	\$ 217
Multi-family units acquired	–	1

## Dispositions

	Year ended December 31, 2010	Year ended December 31, 2009
Cash received	\$ 111,258	\$ 40,072
Cost of dispositions	(2,072)	(37)
Net cash proceeds	109,186	40,035
Net book value	(74,960)	(28,421)
Gain on dispositions	\$ 34,226	\$ 11,614
Multi-family units sold	1,142	368

## Dispositions for 2010

Property Name	Location	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>	Grande Prairie, Alberta	Alberta	31
			1,142

<sup>1</sup> 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.

## Dispositions for 2009

Property Name	Location	Segment	Number of Units
Gateway Place	Surrey, B.C.	British Columbia	133
Cedar Court Gardens	Calgary, Alberta	Alberta	65
Domaine du Rocher	Levis, Quebec	Quebec	64
Le Laurier	Quebec City, Quebec	Quebec	105
Century Tower (condo development and sale) <sup>2</sup>	Calgary, Alberta	Alberta	1
			368

<sup>2</sup> Included in dispositions for the year ended December 31, 2009 was the sale and closing of 1 unit in a 90-unit property located in Calgary, Alberta that was developed into condominium units for sale. Under the percentage of completion method, sales of \$0.5 million for the year ended December 31, 2009 were recorded against cost of sales of \$0.6 million.

## 5. DISCONTINUED OPERATIONS

Dispositions for the years ended December 31, 2010 and 2009 are summarized in NOTE 4 above.

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

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Revenue</b>		
Rental revenue	\$ 6,074	\$ 14,235
<b>Expenses</b>		
Revenue producing properties:		
Operating expenses	1,244	2,791
Utilities	733	1,685
Utilities rebate	-	(4)
Property taxes	451	1,190
Administration	-	24
Financing	807	2,714
Amortization of deferred financing costs	66	138
Amortization of capital assets	1,516	3,382
	<b>4,817</b>	<b>11,920</b>
	<b>1,257</b>	<b>2,315</b>
Gain on dispositions	<b>34,226</b>	<b>11,614</b>
<b>Earnings from discontinued operations</b>	<b>\$ 35,483</b>	<b>\$ 13,929</b>

As at	December 31, 2010	December 31, 2009
<b>Discontinued Assets</b>		
Properties held for redevelopment and sale	\$ -	\$ 73,697
<b>Discontinued Liabilities</b>		
Mortgages payable	\$ -	\$ 38,786

## 6. MORTGAGES AND ACCOUNTS RECEIVABLE

The mortgages and accounts receivable comprise an aggregate amount of \$3.0 million at December 31, 2010 (December 31, 2009 - \$3.0 million) consisting mainly of mortgage holdbacks, refundable mortgage fees and amounts owed to Boardwalk REIT by customers and revenue-sharing business partners.

As at	December 31, 2010	December 31, 2009
Accounts receivable	\$ 2,546	\$ 2,056
Mortgage holdbacks and refundable mortgage fees	498	993
	<b>\$ 3,044</b>	<b>\$ 3,049</b>

## 7. OTHER ASSETS

As at	December 31, 2010	December 31, 2009
Corporate technology assets	\$ 20,566	\$ 19,302
Less: accumulated amortization	(17,470)	(16,147)
	<b>3,096</b>	<b>3,155</b>
Head office building	4,452	4,406
Less: accumulated amortization	(1,681)	(1,482)
	<b>2,771</b>	<b>2,924</b>
Prepaid parts and supplies	3,017	2,899
Prepaid property taxes	618	739
Prepaid and other	4,891	4,191
	<b>\$ 14,393</b>	<b>\$ 13,908</b>

## 8. MORTGAGES PAYABLE

As at	December 31, 2010	December 31, 2009
<b>(a) Secured by revenue producing properties</b>		
Mortgages payable, net of unamortized deferred financing costs, bearing interest at rates ranging between 1.64% and 8.85% per annum with a weighted average rate of 4.20% per annum at December 31, 2010 (December 31, 2009 – 4.47%), payable in monthly principal and interest instalments totalling \$11.0 million for the year ended December 31, 2010 (December 31, 2009 – \$11.3 million), maturing from 2011 to 2021 and are secured by specific charges against specific properties. All interest rates are fixed for the term of the respective mortgage, except for mortgages on one property totalling \$8.4 million.	\$ 2,153,206	\$ 2,144,110
<b>(b) Secured by other assets</b>		
Mortgage payable, net of unamortized deferred financing costs, bearing interest at the rate of 7.92% per annum at December 31, 2009, payable in monthly principal and interest instalments totalling \$15 thousand for the year ended December 31, 2009, matured in September 2010 and was secured by a specific charge against the head office building located in Calgary Alberta. The interest rate was fixed for the term of the mortgage.	-	1,528
	<b>2,153,206</b>	<b>2,145,638</b>
Discontinued operations (NOTE 5)	-	(38,786)
	<b>\$ 2,153,206</b>	<b>\$ 2,106,852</b>

Estimated future principal payments required to meet mortgage obligations as at December 31, 2010 are as follows:

	Secured By Revenue Producing Properties
2011	\$ 290,122
2012	477,737
2013	302,765
2014	425,121
2015	410,135
Subsequent	338,879
	<b>2,244,759</b>
Unamortized deferred financing costs	(91,775)
Unamortized mark-to-market adjustment	222
	<b>\$ 2,153,206</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 favour of CMHC.

### (c) Revolving credit facilities

During the years ended December 31, 2010 and 2009, 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, 2010 (December 31, 2009 – \$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 two years later. Approximately \$197.1 million was available from this facility on December 31, 2010 (December 31, 2009 – \$198.2 million). There was no amount outstanding at December 31, 2010 (December 31, 2009 – \$nil) under this facility, except for Letters of Credit ("LCs") issued and outstanding. One LC was issued in favour of CMHC as noted above. The second LC in the amount of \$356 thousand was issued in favour of the City of London, Ontario. The remaining LCs were issued to the City of Windsor, Ontario totalling \$2.3 million (December 31, 2009 – \$1.2

million). The credit facility carried interest rates ranging from prime to prime plus 1.0% per annum and had no fixed terms of repayment.

These covenants are discussed in Note 16(d).

## 9. DEBENTURES

On January 21, 2005, Boardwalk REIT completed the issuance of unsecured debentures in a public offering in the aggregate amount of \$120 million. The debentures 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.

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 13).

The debenture holders, in a special meeting held July 30, 2008, approved an amendment to the Trust Indenture amending the definition of Gross Book Value (“GBV”) to increase the exchange value asset bump (see NOTE 15) to its existing GBV calculation by an additional \$410 million, resulting in a total asset bump of \$641 million. 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 covenants are discussed in NOTE 16(d).

## 10. DEFERRED UNIT PLAN

During 2006, the Trust implemented a deferred unit 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 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 (that is, 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, May 13, 2009, and May 18, 2010. The deferred units had a weighted average fair value of \$39.70 per unit at the grant date in 2010 (2009 – \$31.98). Total compensation costs of \$2.3 million were recognized (2009 – \$2.4 million) in income related to executive bonuses and trustee fees under the deferred unit plan.

The status of the outstanding deferred units is as follows:

Summary of Deferred Unit Plan	# of Units	
	Outstanding	# of Units Vested
<b>December 31, 2008</b>	184,865	–
Deferred units granted	62,822	54,317
Additional deferred units earned on units	11,633	3,121
Deferred units converted to Trust Units or cash	(57,438)	(57,438)
<b>December 31, 2009</b>	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)	–
<b>December 31, 2010</b>	<b>223,296</b>	<b>–</b>

## 11. UNITHOLDERS’ CAPITAL

The Plan of Arrangement (the “Arrangement”) to convert Boardwalk Equities Inc. from a share corporation to a real estate investment trust was completed on May 3, 2004. On conversion of Boardwalk Equities Inc. to a trust, Boardwalk Equities Inc. incurred \$10.3 million in restructuring costs. Under the Arrangement, the former shareholders of Boardwalk Equities Inc. received Boardwalk REIT Units or Class B Limited Partnership (“LP Class B”) Units of a controlled limited partnership of the Trust, Boardwalk REIT Limited Partnership.

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

Summary of Unitholders' Capital Contributions	Units	Amount
<b>December 31, 2008</b>	53,477,042	\$ 256,773
Deferred unit plan (NOTE 10)	-	389
Units issued for vested deferred units (NOTE 10)	57,425	1,979
Units purchased and cancelled	(790,000)	(22,756)
<b>December 31, 2009</b>	52,744,467	\$ 236,385
Deferred unit plan (NOTE 10)	-	411
Units issued for vested deferred units (NOTE 10)	45,066	1,873
Units purchased and cancelled	(423,400)	(17,024)
<b>December 31, 2010</b>	<b>52,366,133</b>	<b>\$ 221,645</b>

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.

During years ended December 31, 2010 and 2009, Boardwalk REIT purchased and cancelled the following Trust Units:

Bid Number	For the Year Ended December 31, 2010			For the Year Ended December 31, 2009		
	Number of Trust Units Purchased and Cancelled	Purchase Cost	Cost per Trust Unit	Number of Trust Units Purchased and Cancelled	Purchase Cost	Average Cost Per Trust Unit
1	-	-	-	-	-	-
2	-	-	-	790,000	\$ 22,756	\$ 28.81
3	208,400	\$ 8,221	\$ 39.45	-	-	-
4	215,000	\$ 8,803	\$ 40.95	-	-	-
	<b>423,400</b>	<b>\$ 17,024</b>	<b>\$ 40.21</b>	<b>790,000</b>	<b>\$ 22,756</b>	<b>\$ 28.81</b>

Since 2007, Boardwalk REIT purchased and cancelled Trust Units under the following Bids:

Bid Number	Approval Date	Termination Date	Maximum Trust Units Allowed to be Purchased and Cancelled	Cumulative Number of Trust Units Purchased and Cancelled	Cumulative Purchase Cost	Average Cost Per Trust Unit
1	August 10, 2007	August 17, 2008	4,267,048	2,522,447	\$ 103,865	\$ 41.18
2	August 18, 2008	August 19, 2009	4,040,192	1,436,000	42,880	\$ 29.86
3	August 24, 2009	August 23, 2010	3,932,211	208,400	8,221	\$ 39.45
4	August 20, 2010	August 23, 2011	3,918,286	215,000	8,803	\$ 40.95
				<b>4,381,847</b>	<b>\$ 163,769</b>	<b>\$ 37.37</b>

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

**(a) REIT Units**

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

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

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

**(b) Special Voting Units**

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

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

The breakdown of Trust Units of Boardwalk REIT by class is as follows:

	Units	Amount
Boardwalk REIT Units	47,891,133	
Special Voting Units issued to holders of LP Class B Units	4,475,000	
<b>Total Trust Units</b>	<b>52,366,133</b>	<b>\$ 221,645</b>

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

**Distributable Income Per Unit**

Boardwalk REIT makes distributions to Unitholders on a monthly basis on or about the 15th day of the following month. The reported distributable income is defined under the Trust’s Declaration of Trust (“DOT”). Under the DOT, as amended and restated, the monthly distributions are determined at the discretion of the Board of Trustees. It is the current policy of the Trust to distribute, at a minimum, its reported taxable income to Unitholders; however, the amount of this distribution is at the absolute discretion of the Board of Trustees, who are authorized to determine and declare a different amount. The reconciliation of distributable income and per unit information begins with total operating cash flows calculated in accordance with Canadian generally accepted accounting principles and is defined in the Declaration of Trust for Boardwalk REIT. However, distributable income and the per unit information are non-GAAP measures that do not have any standardized meaning prescribed by Canadian GAAP and, therefore, unlikely to be comparable to similar measures presented by other real estate companies and trusts.

	Year ended December 31, 2010	Year ended December 31, 2009
Total operating cash flows	\$ 139,301	\$ 141,859
Net change in operating working capital	(2,383)	(2,605)
Deduct:		
Deferred financing costs amortization post May 2, 2004	(5,814)	(3,837)
Amortization of net premium on long-term debt assumed after May 2, 2004	(104)	(109)
<b>Distributable income</b>	<b>\$ 131,000</b>	<b>\$ 135,308</b>
Regular distributions declared to unitholders	\$ 94,705	\$ 95,250
Distributable income withheld	\$ 36,295	\$ 40,058
	<b>\$ 131,000</b>	<b>\$ 135,308</b>
Weighted average units outstanding – basic and diluted	52,620,204	52,961,329
Distributable income earned per unit – basic and diluted	\$ 2.490	\$ 2.555
Regular distributions declared per unit – basic and diluted	\$ 1.800	\$ 1.800
Regular distributions declared as a % of distributable income	72.3%	70.4%

In addition to regular distributions declared per Trust Unit, the Trust also issued a special distribution of \$0.50 per outstanding Trust Unit. The special distribution record date was August 31, 2010, was paid on September 15, 2010 and totalled \$26.3 million.

#### Earnings Per Unit

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Numerator</b>		
Earnings from continuing operations	\$ 36,246	\$ 48,138
Earnings from discontinued operations	35,483	13,929
<b>Denominator</b>		
Denominator for basic and diluted earnings per unit – weighted average units	52,620,204	52,961,329
<b>Earnings per unit from continuing operations</b>		
Basic and diluted	\$ 0.69	\$ 0.91
<b>Earnings per unit from discontinued operations</b>		
Basic and diluted	\$ 0.67	\$ 0.26

### 13. OTHER INCOME

During the first quarter of 2009, the Trust purchased and cancelled \$7.6 million of unsecured debentures (see NOTE 9) at a discount to their face value. The cost paid by the Trust was \$7.2 million, of which \$55 thousand related to accrued interest. The remaining difference of \$408 thousand between the face value and the discounted purchase price has been included in other income.

### 14. INCOME TAXES

Boardwalk REIT is a “mutual fund trust” as defined under the Income Tax Act (Canada) and, accordingly, is not taxable on its income to the extent that its 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 *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 future income tax liability at June 30, 2007, which is adjusted quarterly if necessary, recognizing the probability that it would be subject to the tax prescribed by the SIFT rules on January 1, 2011. The Trust reported a future income tax liability at December 31, 2007 of \$99.9 million, which was revised upward by \$0.3 million to \$100.2 million at December 31, 2008.

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 was 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 immovable properties”. However, despite clarifying the definition of and criteria for being a REIT, further clarification was still required on the characteristics of gains and the recapture of capital cost allowance for income tax purposes on dispositions of real or immovable properties as it flows through the Trust’s organizational structure. As a result, the Trust continued to carry forward the previously recorded future income tax liability, which was revised downward by \$5.0 million to \$95.2 million as at December 31, 2009.

On December 16, 2010, the Government of Canada announced proposed amendments that further clarified the definition and criteria for being a REIT and released, for consultation, draft legislation. These changes 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.

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, 2010, these changes were not considered substantively enacted in accordance with Canadian GAAP. Consequently, Boardwalk REIT continued to carry forward the previously recorded future income tax liability, which was revised upward by \$4.8 million to \$100.0 million as at December

31, 2010 due to an increase in the timing differences between accounting and tax asset values. Whether or not these proposed changes become substantively enacted, it is the Trust's intention to qualify as a REIT for Canadian income tax purposes commencing January 1, 2011 and will reverse the future income tax liability related to the SIFT Legislation at that time.

	Year ended December 31, 2010	Year ended December 31, 2009
Continuing operations	\$ 4,241	\$ (5,646)
Total future income taxes (recovery)	\$ 4,241	\$ (5,646)

Future income taxes consist of the following:

	Year ended December 31, 2010	Year ended December 31, 2009
Tax expense (recovery) based on expected rate of 30% (2009 – 31%)	\$ (244)	\$ (244)
Adjustment to future income tax liability	4,485	(5,402)
Future income taxes (recovery)	\$ 4,241	\$ (5,646)

The future income tax liability is calculated as follows:

As at	December 31, 2010	December 31, 2009
Tax asset related to operating losses	\$ 765	\$ 594
Tax liability related to differences in tax and book basis	(99,962)	(95,550)
Future income tax liability	\$ (99,197)	\$ (94,956)

## 15. CAPITAL MANAGEMENT

The Trust defines capital resources as the aggregate of Unitholders' equity at market value, debt (both secured and unsecured), internally generated funds, amounts available under credit facilities, and cash on hand. The Trust's capital management framework is designed to maintain a level of capital that allows it to implement its business strategy while complying with investment and debt restrictions pursuant to Boardwalk 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 accumulated amortization of income properties as recorded by the Trust (and calculated in accordance with Canadian GAAP) and to this amount an additional amount of \$641 million (the "Bump") is added as previously approved by the Trust's Unitholders. As a matter of internal policy, the Trust has a target of total debt levels not to exceed 65% of GBV. The following table highlights Boardwalk REIT's existing leverage ratio in accordance with the DOT:

As at	December 31, 2010	December 31, 2009
Total assets	\$ 2,326,802	\$ 2,378,278
Accumulated amortization on building and non-building assets	746,820	677,613
Exchange value asset bump	641,460	641,460
	\$ 3,715,082	\$ 3,697,351
Mortgages payable	\$ 2,153,206	\$ 2,145,638
Unsecured debentures	112,211	111,834
	\$ 2,265,417	\$ 2,257,472
Adjusted Debt-to-GBV	61%	61%

With a DOT limit not to exceed 70% on Adjusted Debt-to-Gross Book Value, Boardwalk REIT has the ability to add additional debt of approximately \$335.1 million (December 31, 2009 – \$330.7 million) to its existing portfolio. Additionally, the Trust's DOT contains provisions that have the effect of limiting capital expended by the Trust.

As outlined in NOTE 16(d), Boardwalk REIT's debenture and committed revolving credit facility agreements contain financial covenants.

Boardwalk REIT's capital resources, comprised of cash on hand, long-term fixed rate debt (both secured and unsecured), Unitholders' capital and amounts available under its committed revolving credit facility, totalled \$2.6 billion as at December 31, 2010 (December 31, 2009 – \$2.6 billion). Available liquidity as at December 31, 2010 included cash on hand of \$228.1 million (December 31, 2009 – \$190.3 million) as well as an unused available committed revolving credit facility of \$197.1 million (December 31, 2009 – \$198.2 million). As at December 31, 2010 and 2009, the Trust was in compliance with all covenants in both its DOT and all existing debt facilities.

## 16. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

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

- (i) The carrying amounts of mortgages and accounts receivable, tenants' security deposits, cash and cash equivalents, and accounts payable and accrued liabilities approximate their fair values due to their short-term nature.
- (ii) The fair values of the Trust's mortgages payable and debentures are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Trust for similar financial instruments subject to similar risks and maturities. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The significant financial instruments of Boardwalk REIT and their carrying values as at December 31, 2010 and 2009 are as follows:

As at	December 31, 2010	December 31, 2009
Mortgages and accounts receivable		
Carrying value	\$ 3,044	\$ 3,049
Fair market value	\$ 3,044	\$ 3,049
Mortgages payable and debentures		
Carrying value	\$ 2,265,417	\$ 2,257,472
Fair market value	\$ 2,337,197	\$ 2,309,217

The fair value of the Trust's mortgages payable and debentures exceeded the recorded value by approximately \$71.8 million at December 31, 2010 (December 31, 2009 – \$51.7 million), 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, 2010 and 2009, 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 balance sheet is as follows:

As at December 31,	2010			2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets:						
Cash and cash equivalents	\$ 228,086	\$ –	\$ –	\$ 190,325	\$ –	\$ –

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.

At December 31, 2010 and 2009, the Trust had no embedded derivatives requiring separate recognition.

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

### Risk Management

#### a) Interest rate risk

The Trust is exposed to interest rate risk as a result of its mortgages payable, debentures and credit facilities; however, this risk is minimized through the Trust's current strategy of having the majority of its mortgage payable and debentures in fixed terms arrangements. As such, the Trust's 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, 2010 and 2009, the Trust had no amount outstanding on its committed revolving credit facility and, as such, of the Trust's total debt at December 31, 2010 and 2009, 99.6% was fixed-rate debt and 0.4% was floating-rate debt. For the years ended December 31, 2010 and 2009, all else being equal, the increase or decrease in net earnings for each 1% change in market interest rates would be approximately \$84 thousand and \$nil, respectively.

#### b) Credit risk

The Trust is exposed to credit risk as a result of its mortgages receivable and accounts receivable. This balance is comprised of mortgage holdbacks and refundable mortgage fees, funds held in solicitor's trust accounts, accounts receivable from significant customers and tenant receivables. As at December 31, 2010 and 2009, no balance relating to mortgage holdbacks, refundable mortgage fees or accounts receivable from significant customers was past due.

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

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 mortgages receivable and accounts receivable.

#### 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 (including potential asset sales), 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. Given the Trust's currently available liquid resources (from both financial assets and on-going operations) as compared to its contractual obligations, management assesses the Trust's liquidity risk to be low.

#### d) Debt covenants

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

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

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

The Trust's Unsecured Debenture agreement contains three financial covenants as follows:

- (i) The Trust will maintain a Consolidated EBITDA, as defined, to Consolidated Interest Expense ratio of not less than 1.75 to 1. As at December 31, 2010, this ratio was 2.32 to 1 (December 31, 2009 – 2.28 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 70%. As outlined in NOTE 15, as at December 31, 2010, this amount was 61% (December 31, 2009 – 61%) 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 was \$1.3 billion as at December 31, 2010 (December 31, 2009 – \$1.3 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 (borrowing value less prior encumbrances of approximately \$231.1 million (December 31, 2009 – \$206.0 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 million and an available limit of \$200 million as at December 31, 2010. The revolving facility requires monthly interest payments and is renewable annually 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 two years later.

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, 2010, this ratio was 1.89 (December 31, 2009 – 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, 2010, this ratio was 1.54 (December 31, 2009 – 1.51).
- (iii) Total indebtedness of the Trust will not exceed 70% of the GBV of all assets as defined in the DOT. As outlined in NOTE 15, as at December 31, 2010, this ratio was 61% (December 31, 2009 – 61%).

As at December 31, 2010 and 2009, 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 19, the Trust has commitments to certain utility contracts to reduce the risk of exposure to adverse changes in commodity prices.

**17. HEDGING TRANSACTIONS**

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 March 31, 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. 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, 2010, the unamortized balance is \$201 thousand (December 31, 2009 unamortized balance – \$224 thousand) as \$23 thousand was recognized in income under financing charges for the year ended December 31, 2010 (December 31, 2009 – \$38 thousand).

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 \$88.5 million (December 31, 2009 – \$91.5 million). Hedge accounting has been applied to these agreements in accordance with CICA Handbook section 3865.

The Trust has determined the interest rate swap agreement described above to be an effective cash flow hedge. The effectiveness of the hedging relationship will be reviewed on a quarterly basis and measured at fair value. The portion of the gain or loss on the swap transaction that is determined to be an effective hedge will be recognized in other comprehensive income (“OCI”). The ineffective portion of the hedging gain or loss on the swap transaction will be recognized immediately in net earnings. On recognition of the financial liability of the hedged item on the balance sheet, the associated gains or losses that were recognized in OCI will be reclassified into net earnings in the same period or periods during which the interest payments of the hedged item affected net earnings. However, if all or a portion of the net loss recognized in OCI will not be recovered in one or more future periods, the amount not expected to be recovered will be immediately reclassified into net earnings.

As at December 31, 2010, 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 earnings in the periods during which the interest payments on the hedged items were recognized.

**18. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2010 and 2009, there were no related party transactions.

**19. COMMITMENTS AND CONTINGENCIES**

The Alberta government implemented natural gas rebate program ended March 31, 2009. The rebate program became active when the natural gas consumer price charged by two of the three major gas companies in Alberta exceeded \$5.50/GJ for any individual winter usage month. For January through March 2009, Boardwalk REIT was eligible for rebates totalling approximately \$0.4 million.

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 contract was for the period from November 1, 2008 to October 31, 2009 and provided the commodity at a price of \$8.28/GJ. At maturity, the Trust negotiated a new physical supply agreement for Saskatchewan, which covered the period from November 1, 2009 to October 31, 2010 and 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 provide 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 contract covered between 85% and 95% of the Trust's natural gas requirements for these provinces. The physical supply agreement for Ontario and Quebec covered the period from November 1, 2008 to October 31, 2009 and provided the commodity at a price of \$7.68/GJ. An additional supply contract covering the period from November 1, 2009 to October 31, 2010 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 additional 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 is scheduled to mature on January 23, 2012. Given the current pricing in the unsecured market, it is our intention upon maturity to repay this outstanding liability through a combination of existing cash on hand, our committed revolving credit facility and new secured NHA mortgages on existing assets, which currently would carry interest rates substantially below the face rate on the unsecured debenture of 5.61%. As the maturity of this debenture continues to be well out into the future, that is, January 23, 2012, the passage of time brings the increased risk of interest rates increasing in the interim. On the specific, newly-secured NHA mortgages, the Trust has forward-committed approximately \$107.0 million of new secured NHA-secured mortgages with an average term of 6.5 years and an average forward-locked interest rate of approximately 3.99% to address this known upcoming repayment. The Trust is in the final process of forward-locking one remaining mortgage of a total of seventeen mortgages to complete the targeted debt financing amount of \$107.0 million. The balance of the unsecured debenture repayment of approximately \$5.4 million will come from the Trust's cash reserves. Based on current pricing, we are anticipating substantial interest savings once completed.

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.

## 20. GUARANTEES

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

In connection with the sales of properties, a mortgage assumed by the purchaser may have an indirect guarantee provided to the lender until the mortgage is refinanced by the purchaser. In the event of default by the purchaser, the seller would be liable for the outstanding mortgage balance. Boardwalk REIT's maximum exposure at December 31, 2010 is approximately \$2.9 million (December 31, 2009 – \$3.1 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, 2010 and 2009, no amounts have been recorded in the consolidated financial statements with respect to the above noted indirect guarantees.

## 21. SEGMENTED INFORMATION

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

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Alberta</b>		
Revenue	\$ 244,336	\$ 252,002
Expenses		
Operating	43,223	42,901
Utilities	22,597	22,377
Utility rebate	-	(374)
Property taxes	19,068	19,198
	<b>84,888</b>	<b>84,102</b>
Net operating income	\$ 159,448	\$ 167,900
<b>Saskatchewan</b>		
Revenue	\$ 55,573	\$ 52,139
Expenses		
Operating	7,795	7,679
Utilities	4,691	5,346
Property taxes	3,840	3,773
	<b>16,326</b>	<b>16,798</b>
Net operating income	\$ 39,247	\$ 35,341
<b>Ontario</b>		
Revenue	\$ 38,569	\$ 37,950
Expenses		
Operating	6,873	6,873
Utilities	6,850	6,620
Property taxes	6,027	5,536
	<b>19,750</b>	<b>19,029</b>
Net operating income	\$ 18,819	\$ 18,921
<b>Quebec</b>		
Revenue	\$ 67,707	\$ 65,646
Expenses		
Operating	15,330	13,641
Utilities	6,386	7,457
Property taxes	6,719	6,472
	<b>28,435</b>	<b>27,570</b>
Net operating income	\$ 39,272	\$ 38,076
<b>British Columbia</b>		
Revenue	\$ 7,897	\$ 7,739
Expenses		
Operating	949	917
Utilities	756	807
Property taxes	424	459
	<b>2,129</b>	<b>2,183</b>
Net operating income	\$ 5,768	\$ 5,556
<b>Total</b>		
Net operating income	\$ 262,554	\$ 265,794
Unallocated revenue*	2,028	1,339
Unallocated expenses**	(192,853)	(205,066)
Net earnings	\$ 71,729	\$ 62,067

As at	December 31, 2010	December 31, 2009
<b>Alberta</b>		
Identifiable assets		
Revenue producing properties	\$ 1,261,957	\$ 1,277,539
Mortgages and accounts receivable	1,257	1,166
Tenants' security deposits	8,806	9,499
	\$ 1,272,020	\$ 1,288,204
<b>Saskatchewan</b>		
Identifiable assets		
Revenue producing properties	\$ 162,724	\$ 163,424
Mortgages and accounts receivable	565	557
Tenants' security deposits	2,856	2,824
	\$ 166,145	\$ 166,805
<b>Ontario</b>		
Identifiable assets		
Revenue producing properties	\$ 203,579	\$ 202,320
Mortgages and accounts receivable	111	191
	\$ 203,690	\$ 202,511
<b>Québec</b>		
Identifiable assets		
Revenue producing properties	\$ 372,971	\$ 373,521
Mortgages and accounts receivable	419	341
	\$ 373,390	\$ 373,862
<b>British Columbia</b>		
Identifiable assets		
Revenue producing properties	\$ 62,011	\$ 62,220
Mortgages and accounts receivable	10	12
Tenants' security deposits	325	316
	\$ 62,346	\$ 62,548
<b>Total assets</b>		
Identifiable assets	\$ 2,077,591	\$ 2,093,930
Unallocated assets***	249,211	284,348
	\$ 2,326,802	\$ 2,378,278

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

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

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