Q2 2015

www.BoardwalkREIT.com

# A DISCIPLINED APPROACH

BOARDWALK REAL ESTATE INVESTMENT TRUST

## CORPORATE PROFILE

Boardwalk REIT strives to be Canada's friendliest landlord and currently owns and operates more than 220 communities with over 34,000 residential units totaling approximately 29 million net rentable square feet. Boardwalk's principal objectives are to provide its Residents with the best quality communities and superior customer service, while providing Unitholders with sustainable monthly cash distributions, and increase the value of its trust units through selective acquisitions, dispositions, development, and effective management of its residential multi-family communities. Boardwalk REIT is vertically integrated and is Canada's leading owner/operator of multi-family communities with over 1,500 Associates bringing Residents home to properties located in Alberta, Saskatchewan, Ontario, and Quebec.

BOARDWALK RENTAL COMMUNITIES

## LETTER TO UNITHOLDERS – Q2 2015

We are pleased to report on a solid second quarter of 2015 for Boardwalk Real Estate Investment Trust ("Boardwalk", "Boardwalk REIT", or the "Trust"). Funds from Operations (FFO) for the quarter totaled $48.9 million, or $0.94 per Trust Unit on a diluted basis, an increase of approximately 7.8% and 9.3%, respectively, over the same quarter last year.

For the six month period ended June 30, 2015, Funds from Operation totaled $93.0 million, or $1.79 per Trust Unit on a diluted basis, an increase of approximately 9.0% and 9.8%, respectively, versus the same period in 2014.

Adjusted Funds from Operations (AFFO) per Trust Unit increased 8.9% to $0.86 for the current quarter versus $0.79 for the same three-month period in 2014, and $1.62 per Trust Unit for the six month period ended June 30, 2015, an increase of 10.2% from the period a year ago.

The increase in reported FFO was attributed to organic revenue growth driven primarily by higher market and in-place rents coupled with stable occupancy levels in Alberta and Ontario, resulting in a 2.4% increase in total rental revenue for the second quarter and a 2.7% increase for the first six months of 2015 versus the same periods in 2014. The increase was tempered by higher vacancy in the Trust's Fort McMurray and Saskatchewan markets in the first six months of 2015. Net Operating Income increased 3.1% and 4.5% for the three and six month periods ended June 30, 2015 driven by higher rental revenue and in part, lower utilities expense relative to the same period a year ago. The low interest rate environment continues to benefit the Trust as lower overall financing costs in the renewal of its existing CMHC Insured Mortgages continues to reduce the Trust's interest expense.

FFO and AFFO are widely accepted supplemental measures of the performance of a Canadian Real Estate entity; however, they are not measures defined by International Financial Reporting Standards (IFRS). The reconciliation of FFO and other financial performance measures can be found in the Management Discussion and Analysis (MD&A) for the second quarter ended June 30, 2015, under the section titled, "Performance Measures".

## HIGHLIGHTS OF THE TRUST'S SECOND QUARTER 2014 FINANCIAL RESULTS

| *$ millions, except per unit amounts* | **Three Months Jun 2015** | Three Months Jun 2014 | % Change | **Six Months Jun 2015** | Six Months Jun 2014 | % Change |
|---|---|---|---|---|---|---|
| Total Rental Revenue | **$ 120.7** | $ 118.0 | 2.4% | **$ 240.8** | $ 234.5 | 2.7% |
| Net Operating Income (NOI) | **$ 76.8** | $ 74.5 | 3.1% | **$ 148.9** | $ 142.6 | 4.5% |
| Profit from Continuing Operations | **$ 34.6** | $ 85.3 | -59.5% | **$ 106.0** | $ 194.7 | -45.6% |
| Funds From Operations (FFO) | **$ 48.9** | $ 45.3 | 7.8% | **$ 93.0** | $ 85.3 | 9.0% |
| Adjusted Funds From Operations (AFFO) | **$ 44.5** | $ 41.2 | 8.2% | **$ 84.4** | $ 77.0 | 9.6% |
| FFO Per Unit | **$ 0.94** | $ 0.86 | 9.3% | **$ 1.79** | $ 1.63 | 9.8% |
| AFFO Per Unit | **$ 0.86** | $ 0.79 | 8.9% | **$ 1.62** | $ 1.47 | 10.2% |
| Distributions Declared (Trust Units & LP B Units) | **$ 26.5** | $ 26.7 | -0.7% | **$ 53.1** | $ 53.2 | -0.3% |
| Distributions Declared Per Unit (Trust Units & LP B Units) (2015 – $2.04 Per Unit – 2014 – $2.04 per Unit on an annualized basis) | **$ 0.510** | $ 0.510 | 0.0% | **$ 1.020** | $ 1.015 | 0.5% |
| Excess of AFFO over Distributions Per Unit | **$ 0.350** | $ 0.280 | 25.0% | **$ 0.600** | $ 0.455 | 31.9% |
| Regular Payout as a % FFO | **54.3%** | 58.9% | | **57.0%** | 62.3% | |
| Regular Payout as a % AFFO | **59.6%** | 64.9% | | **62.9%** | 69.1% | |
| Excess of AFFO as a % of AFFO | **40.4%** | 35.1% | | **37.1%** | 30.9% | |
| Interest Coverage Ratio (Rolling 4 quarters) | **3.55** | 3.25 | | **3.55** | 3.25 | |
| Operating Margin | **63.6%** | 63.2% | | **61.8%** | 60.8% | |

The Fair Value under IFRS for the Trust's portfolio increased relative to the end of 2014, mainly a result of increases in market rents and a decrease in cap rates in the Trust's Ontario and Quebec City markets, though tempered by a decrease to cash per Trust Unit. Below is a summary of the Trust's per unit Net Asset Value with further discussion located in the 2015 Second Quarter MD&A.

## HIGHLIGHTS OF THE TRUST'S FAIR VALUE OF INVESTMENT PROPERTIES

| | **Jun 30, 2015** | Dec 31, 2014 |
|---|---|---|
| IFRS Asset Value Per Diluted Unit (Trust & LP B) | **$ 111.80** | $ 111.13 |
| Debt Outstanding per Diluted Unit | **$ (43.67)** | $ (43.15) |
| Net Asset Value (NAV) Per Diluted Unit (Trust & LP B) | **$ 68.13** | $ 67.98 |
| Cash Per Diluted Unit (Trust & LP B) | **$ 1.66** | $ 2.68 |
| Total Per Diluted Unit (Trust & LP B) | **$ 69.79** | $ 70.66 |

Same-Property Weighted Average Capitalization Rate: 5.44% at Jun 30, 2015 and 5.46% at Dec 31, 2014. Computation excludes Assets Classified as Held for Sale.

*For further detail, please refer to page 33 of the MD&A.*

Boardwalk's strategy of managing revenue while lowering turnover and other operating costs remains key to optimizing Net Operating Income (NOI). One component of Boardwalk's NOI Strategy is its rental revenue strategy, which involves the continuous active management of three key variables: occupancy levels, market rents, and suite-specific incentives. This strategy has allowed the Trust to report an increase in both average and occupied rents versus the same period a year ago while also maintaining high occupancy levels. Average monthly rents increased to $1,150 in June of 2015 from $1,135 in June of 2014, and average occupied rents for the period also increased to $1,183 versus $1,153 for the same period last year. Average market rents have increased to $1,193, up from $1,183 in June of 2014, however was lower than the beginning of the year as market rents have decreased in Fort McMurray and other select areas where market vacancy levels have increased. In the second quarter of 2015, overall occupancy for Boardwalk's portfolio was 97.44%, a slight decrease compared to the previous quarter, and lower than the same period last year driven primarily by an increase in vacancy levels in the Fort McMurray and Saskatchewan regions.

On a same-property basis, the Trust's NOI increased 2.8% for the second quarter versus the same period in 2014, driven by a 2.4% increase to revenues, and a 1.6% increase in operating expenses. For the six month period ended June 30, 2015, same property revenue increased 2.8%, while operating costs increased 1.1%, resulting in a same property NOI increase of 3.8%.

In addition to the continued increase in average occupied rents the Trust has been able to achieve to date, there remains a mark-to-market opportunity for the Trust. Continued focus on product quality and customer service remains key to Boardwalk's NOI Optimization strategy and further sustainable improvement of financial performance.

The Trust's self-imposed rent control and rental increase forgiveness program for financially challenged Resident Members, which eliminates or reduces rental increases where appropriate, continues to build goodwill. Historically, by providing sustainable rental increases to our Resident Members, the Trust has experienced lower turnover, reduced operating expenses and higher occupancy levels, all of which have resulted in higher revenues and a positive benefit to all of the Trust's Stakeholders.

*For further detail, please refer to page 17 of the MD&A.*

## SAME PROPERTY PORTFOLIO HIGHLIGHTS FOR THE SECOND QUARTER OF 2015

| | **Jun 2015** | Dec 2014 | Jun 2014 |
|---|---|---|---|
| Average Occupancy (Period Average)[1] | **97.44%** | 98.02% | 98.54% |
| Average Monthly Rent (Period Ended)[1] | **$ 1,150** | $ 1,144 | $ 1,135 |
| Average Market Rent (Period Ended)[1] | **$ 1,193** | $ 1,202 | $ 1,183 |
| Average Occupied Rent (Period Ended)[1] | **$ 1,183** | $ 1,170 | $ 1,153 |
| Loss-to-Lease (Period Ended) ($ millions)[1] | **$ 4.1** | $ 12.9 | $ 12.0 |
| Loss-to-Lease Per Trust Unit (Period Ended)[1] | **$ 0.08** | $ 0.25 | $ 0.23 |

| **Same Property Results** | % Change Year-Over-Year 3 Months Jun 2015 | % Change Year-Over-Year 6 Months Jun 2015 |
|---|---|---|
| Rental Revenue | 2.4% | 2.8% |
| Operating Costs | 1.6% | 1.1% |
| Net Operating Income (NOI) | 2.8% | 3.8% |

(1) Excludes 109-unit Spruce Ridge Gardens Development completed November 2013

On a sequential basis, stabilized revenues for the second quarter of 2015 increased 0.6% when compared to the previous quarter, mainly the result of higher in place rents in the Trust's Alberta and Saskatchewan markets, however an increase in vacancy in Fort McMurray and Grande Prairie tempered revenue versus the last quarter. The Trust's core Alberta markets posted positive sequential revenue growth this quarter with continued sequential gains in Calgary and Edmonton. Continued high occupancy, coupled with increasing occupied rents, reflects positively on the Trust's vertically integrated operating and NOI optimization strategies.

*For further detail, please refer to page 23 of the MD&A.*

| Stabilized Revenue Growth | # of Units | Q2 2015 vs Q1 2015 | Q1 2015 vs Q4 2014 | Q4 2014 vs Q3 2014 | Q3 2014 vs Q2 2014 |
|---|---|---|---|---|---|
| Calgary | 5,310 | 0.9% | 0.9% | 1.0% | 1.4% |
| Edmonton | 12,397 | 0.7% | 0.7% | 1.4% | 1.7% |
| Fort McMurray | 352 | -10.0% | -3.1% | -1.8% | -4.4% |
| Grande Prairie | 645 | -0.6% | 1.4% | 1.8% | 1.2% |
| Red Deer | 939 | 0.8% | 1.5% | -0.1% | 2.3% |
| Ontario | 4,265 | 0.4% | 0.5% | 0.8% | -0.2% |
| Quebec | 6,000 | 0.2% | -1.0% | 0.2% | 0.1% |
| Saskatchewan | 4,610 | 1.5% | -1.7% | 0.3% | -0.3% |
| | 34,518 | 0.6% | 0.1% | 0.8% | 0.9% |

## ECONOMIC MARKET FUNDAMENTALS

| **Market Fundamentals** | Alberta | | Saskatchewan | | Ontario | | Quebec | |
|---|---|---|---|---|---|---|---|---|
| | **Jun-15** | Jun-14 | **Jun-15** | Jun-14 | **Jun-15** | Jun-14 | **Jun-15** | Jun-14 |
| Unemployment Rate | **5.7%** | 4.9% | **4.7%** | 3.9% | **6.5%** | 7.5% | **8.0%** | 8.1% |
| | **Q1 2015** | Q1 2014 | **Q1 2015** | Q1 2014 | **Q1 2015** | Q1 2014 | **Q1 2015** | Q1 2014 |
| Net Interprovincial Migration | **6,732** | 9,581 | **-914** | 794 | **-3,443** | -4,654 | **-2,605** | -2,558 |
| Net International Migration | **991** | 9,745 | **1,414** | 2,880 | **13,339** | 22,332 | **6,315** | 10,102 |
| Total Net Migration | **7,723** | 19,326 | **500** | 3,674 | **9,896** | 17,678 | **3,710** | 7,544 |
| | **May 2014 to May 2015** | May 2013 to May 2014 | **May 2014 to May 2015** | May 2013 to May 2014 | **May 2014 to May 2015** | May 2013 to May 2014 | **May 2014 to May 2015** | May 2013 to May 2014 |
| **Average Weekly Wages Growth** | **0.2%** | 3.1% | **1.8%** | 2.9% | **1.8%** | 2.1% | **0.4%** | 2.4% |

Source: Statistics Canada, Unemployment Rate: Labour Force Survey, Migration: Quarterly Demographic Estimate, Wage Growth: Payroll, Earnings

### Western Canada

*Alberta:*

As a result of lower oil prices, Alberta's forecasted real GDP is expected to decrease from 3.8% in 2014, to 0.5% in 2015. However, CMHC is forecasting improving oil prices in 2016 which is expected to result in an increase to GDP growth of 1.8%. The decline in oil prices has moderated Alberta's economic growth; however CMHC notes that the current economic downturn in the province is not expected to be as severe as the last recession in 2009. CMHC predicts that the decrease in capital investment in the oil and gas industry, will lead to a decrease in employment growth in Alberta from 2.4% in 2014 to 0.3% in 2015, before increasing to 1.1% in 2016.

Alberta had a net migration of 66,784 in 2014, however, the improving economic performance of other provinces coupled with a decline in temporary foreign workers has CMHC projected net migration over the forecasted period at 48,000 in 2015 and 44,500 in 2016.

*Saskatchewan:*

Despite a recent increase in uranium prices, as well as strong agricultural exports, the declining oil price environment has increased the downside risk to economic growth in Saskatchewan. This in addition to the bottoming of other key commodities pricing, such as potash, has CMHC reporting a revised real GDP forecast of 1.4% in 2015 and 1.9% in 2016. This moderating economy is expected to slow employment growth to 0.6% in 2015, before rebounding to 1.4% in 2016, according to CMHC. However, Saskatchewan continues to have the lowest forecasted provincial unemployment rate in Canada at 4.6% in 2015 and an estimated 4.5% in 2016.

Similar to Alberta, the slowing of the economy in Saskatchewan is expected to decrease net migration. CMHC reports that the province had 11,603 migrants in 2014, and this number is expected to decrease to 10,200 in 2015 and 10,000 in 2016, with the largest gains continuing to come from international migration.

### Eastern Canada

*Ontario:*

Ontario's GDP growth is expected to exceed the national average at 2.3% in 2015 and 2.4% in 2016. According to CMHC, this growth can be attributed to trade and investment growth, as non-energy exports have gained momentum over the year. These exports are expected to be supported by a low Canadian dollar and improving growth in the US. Stemming from the improving economy, CMHC expects employment growth of 1.3% and 1.7% in 2015 and 2016, respectively. Despite the increase, CMHC notes that the pace of growth is lower than historical averages as a result of businesses relying on capital spending to boost efficiency and productivity.

The combination of the strengthening economy in Ontario and the weakening economy in the western provinces is expected to result in increased net migration to the province. CMHC is forecasting 89,600 and 97,200 migrants in 2015 and 2016, respectively.

*Quebec:*

Over the forecast period, CMHC expects the Quebec economy to be supported by consumer spending and net exports, as private investment and public expenditure will be limited by the decline of the Canadian dollar. According to CMHC, this is estimated to result in real GDP growth between 1.7% and 2.1% in 2015, and 1.8% and 2.2% in 2016. CMHC expects the growing economy to begin to have an effect on employment towards the end of 2015 and is predicting employment growth within the range of 0.6% and 1.2% in 2015, and 1.0% and 1.4% in 2016.

Similar to Ontario, the employment recovery in Quebec, accompanied by the weakening economy in western provinces, has CMHC expecting net migration increases to the province. CMHC is forecasting 41,000 to 43,000 migrants in 2015 and 44,000 to 46,000 migrants in 2016.

## MLS HOUSING PRICES

| **Alberta** | Calgary CMA | | Edmonton CMA | |
|---|---|---|---|---|
| | **Jun-15** | Jun-14 | **Jun-15** | Jun-14 |
| Average Single Family | **$ 554,087** | $ 566,233 | **$ 444,862** | $ 435,534 |
| Average Condo | **$ 322,251** | $ 351,770 | **$ 255,662** | $ 254,182 |
| **Saskatchewan** | Saskatoon CMA | | Regina CMA | |
| | **Jun-15** | Jun-14 | **Jun-15** | Jun-14 |
| Average Overall | **$ 365,440** | $ 361,770 | **$ 316,559** | $ 325,401 |
| **Ontario** | London CMA | | | |
| | **Jun-15** | Jun-14 | | |
| Average Overall | **$ 268,564** | $ 263,462 | | |
| **Quebec** | Montreal CMA | | | |
| | **Jun-15** | Jun-14 | | |
| Average Overall* | **$ 343,390** | $ 333,899 | | |

Internally generated, NA = Data not available, * Internally calculated based on volume of sales and total sales as provided by the Greater Montreal Real Estate Board. Source: Association of Regina REALTORS®, Calgary Real Estate Board, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Edmonton Real Estate Board, Greater Montreal Real Estate Board, London and St. Thomas Association of REALTORS®, Saskatoon Region Association of REALTORS®, Windsor-Essex County Real Estate Board.

**Single Family Housing Starts**

| | 2012 | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|
| Alberta | 17,493 | 18,431 | 19,563 | 17,800 | 17,400 |
| Saskatchewan | 5,171 | 4,184 | 3,807 | 3,300 | 3,400 |
| Ontario | 25,567 | 23,270 | 23,691 | 21,800 | 20,300 |
| Quebec | 16,059 | 13,144 | 11,227 | 11,400 | 13,300 |

**Multi Family Housing Starts**

| | 2012 | 2013 | 2014 | 2015F | 2016F |
|---|---|---|---|---|---|
| Alberta | 15,903 | 17,580 | 21,027 | 17,200 | 14,400 |
| Saskatchewan | 4,797 | 4,106 | 4,450 | 3,200 | 3,100 |
| Ontario | 51,175 | 37,815 | 35,443 | 39,900 | 40,200 |
| Quebec | 31,308 | 24,614 | 27,583 | 24,500 | 27,500 |

Source: CMHC - Housing Market Outlook

## Western Canada

*Alberta:*

After increasing by 6.1% in 2014, with the combination of elevated supply levels of single-detached homes, as well as a slowdown of employment growth, CMHC expects single-detached starts to moderate to a range of 16,400 and 18,500 units in 2015, and 15,700 and 18,300 units in 2016. Similarly, a decrease in demand and an increase in competition from the resale market are expected to significantly slow down the number of multi-family starts. CMHC is forecasting that multi-family starts will decrease considerably from 21,027 in 2014 to a range of 15,500 and 18,000 units in 2015, and 12,000 and 15,000 units in 2016.

*Saskatchewan:*

Similar to Alberta, the slowing of employment growth and a decrease in migration will moderate housing demand in Saskatchewan over the forecast period. With an elevated inventory of single-detached homes, CMHC estimates starts to moderate to a range of 3,040 and 3,430 units in 2015, and 3,060 and 3,570 units in 2016. Similarly, multiple starts are also expected to moderate to range between 2,900 and 3,300 units in 2015, and 2,800 and 3,300 units in 2016.

## Eastern Canada

*Ontario:*

The combination of a rising price gap between single family and condominiums and fewer sites available for new home construction are expected to limit the number of single-detached starts in Ontario. CMHC is forecasting that starts will moderate to a range of 20,100 to 22,700 units in 2015, and 18,300 to 21,300 units in 2016. Alternatively, CMHC is forecasting growth in multi-family starts, ranging from 36,700 to 41,500 units in 2015 and 36,200 to 42,200 units in 2016. CMHC notes that this is the first time in three years where multi-unit construction has grown and is a result of the continued rise in prices for single-detached homes and increased demand for rental accommodation.

*Quebec:*

CMHC forecasts that the demand for single-detached homes over the forecast period will be influenced by employment growth in the province and the tightening of the resale market. These factors have CMHC forecasting single-detached starts at a range of 10,500 to 11,900 units in 2015, and 12,000 to 14,000 in 2016. Alternatively, after seeing an increase in multi-family starts in 2014, starts are expected to moderate over the forecast period. CMHC is predicting multi-family start levels to range between 22,500 and 25,500 in 2015, and 24,800 and 28,900 in 2016.

## ACQUISITIONS, DISPOSITIONS AND DEVELOPMENT

The demand for Multi-Family Investment Properties in Canada continues to be strong. As a result, capitalization rates continue to remain low and high prices for Multi-Family assets continue to be the trend. The Trust continues to bid on higher quality assets; however, no significant apartment acquisitions have been completed to date as the actual transaction prices on these assets would not prove to be in the best interest of the Trust on a risk-adjusted basis.

In the first six months of 2015, the Trust completed the purchase of an office/warehouse building in Verdun, Quebec, near the Trust's Nun's Island buildings for $3.1 million. The Nun's Island office/warehouse purchase was completed in January of 2015. In April of 2015, the Trust purchased one unit in Edmonton, Alberta in the property known as Morningside Estates for $130 thousand. The Trust now owns 223 of 224 units at this property. On June 1, 2015, the Trust sold a standalone 22 unit building in its Boardwalk Estates portfolio in Regina, Saskatchewan for $825 thousand. Due to foundation deterioration, this building was designated as unavailable for rental in the third quarter of 2014.

Subsequent to the end of the second quarter of 2015, the Trust announced that it had entered into an unconditional agreement to sell its Windsor Portfolio to a private REIT. The details of this transaction are highlighted below:

| Building Name | City | # Units | Type | Sale Price | $/unit | $/sq ft | Current Debt | Cap Rate | Closing Date |
|---|---|---|---|---|---|---|---|---|---|
| **Sold** | | | | | | | | | |
| Windsor Portfolio | Windsor, Tecumseh | 1685 | High Rise, Low Rise, Townhouses | $136,200,000 | $80,800 | $106 | $20,500,000(2) | 5.43%(1) | Sep 10, 2015 |

(1) Based on 2014 NOI.

(2) Properties to be delivered free and clear of mortgage encumbrances on closing, balance is as of September, 2015.

The Trust estimates that the taxable income and non-taxable portion of capital gains as a result of the Windsor portfolio disposition to be in the range of $0.90 to $1.00 per Trust Unit. This taxable income and non-taxable portion of capital gains may be distributed to Unitholders and, if so, must be declared before December 31st to ensure that the Trust has distributed all of its taxable income in any given year. Any special distribution as a result of the Windsor portfolio sale will be announced prior to the end of 2015.

The Trust is continuing the process of reviewing the potential sale of select non-core properties with the intent of high-grading its portfolio by re-deploying the equity from these assets towards value enhancing transactions for the Trust's Stakeholders, including acquisitions, development, capital improvements, the repurchase and cancellation of Trust Units, and return of equity to Unitholders. In June, 2015, the Trust received regulatory approval to renew its Normal Course Issuer Bid allowing the Trust to purchase and cancel up to 3,855,766 Trust Units, representing 10% of its public float at the time.

In 2014, the Trust sold its British Columbia Portfolio and an additional non-core asset in Edmonton, AB for a total sale price of $154 million. In 2014, the Trust purchased and cancelled 472,100 Trust Units at an average price of $67.01 per Trust Unit. Between 2007 and 2012, the Trust exercised a similar strategy of high-grading its portfolio through the sale of 1,578 Apartment Units, comprised of non-core assets, for total gross proceeds of $171.9 million. The Trust re-deployed this equity into the purchase and cancellation of Trust Units under similar Normal Course Issuer Bids, and, re-purchased and cancelled 4,542,747 Trust Units, representing a total investment of $170.5 million, or an average cost of $37.53 per Trust Unit.

In October of 2014, the Trust executed a fixed price construction contract, and commenced construction of the first phase of its Pines of Normanview Development on excess land the Trust owns in Regina, Saskatchewan. The first phase consists of a four storey, 79 unit, wood frame, elevatored building with underground parking. The Trust estimates the project will be completed in Q1 2016, with a total cost of approximately $14.1 million, or $178,000 per door, resulting in an estimated capitalization rate of 6.0% to 6.5%, excluding land value.

The Trust continues to explore other viable development opportunities for multi-family apartment buildings on excess land the Trust currently owns in Alberta and Saskatchewan. The increased demand for multi-family investment properties, which has resulted in continued low capitalization rates, presents a unique opportunity for the Trust to explore the viability of multi-family rental property development in order to improve the Trust's portfolio and enhance value for Unitholders.

*For further detail, please refer to page 33 of the MD&A.*

## LIQUIDITY AND CONTINUED FINANCIAL STRENGTH

Including the Trust's undrawn line of credit, the Trust currently has approximately $368 million of available liquidity with debt (net of cash) to reported investment properties value of approximately 38%. The Trust's interest coverage ratio, excluding gain or loss on sale of assets, for the most recent completed four quarters ended June 30, 2015, increased to 3.55 times, from 3.25 times for the same period a year ago.

The Trust continues to explore all options in deploying capital, including the Trust's normal course issuer bid, value added capital expenditures, development of new assets on existing excess land, and other value adding transactions to maximize Unitholder Value.

**2015 – Q2**

*In $000's*

| | |
|---|---|
| Cash Position – Jun 2015 | $ 87,000 |
| Subsequent Committed Financing | $ 85,000 |
| Line of Credit (1) | $ 196,000 |
| Total Available Liquidity | $ 368,000 |
| Liquidity as a % of Total Debt | 16% |
| Debt (net of cash) as a % of reported asset value | 38% |

(1) The Trust's Undrawn Credit Facility has a Credit Limit of $200mm. The balance reflects the available balance net of outstanding Letters of Credit.

*For further detail, please refer to pages 35 of the MD&A.*

## INVESTING IN OUR PROPERTIES

Continued internalization of more maintenance and value-added capital expenditures has further enhanced curb appeal and the quality of our property portfolio. The Trust believes the quality of Boardwalk's communities continues to drive long-term revenue growth and stability. The Trust continues to invest in its properties and expects to invest over $98 million during the 2015 fiscal year to further enhance the curb appeal and quality of the Trust's assets. In addition, the Trust has budgeted approximately $12.2 million to continue the development of its Pines of Normanview project and to explore other development opportunities on excess land the Trust currently owns. For the first six months of 2015, Boardwalk invested approximately $44.3 million in the form of project enhancements, equipment purchases, including upgrades to existing suites, common areas, mechanical systems, building exteriors ($36.1 million), development ($4.9 million), and the acquisition of the Nun's Island office and warehouse and one additional unit in Morningside Estates ($3.3 million).

Boardwalk's vertically integrated structure allows many repair and maintenance functions, including landscaping, to be internalized. A continued focus on completing more of these functions in-house has resulted in improved quality, productivity, effectiveness of resources, and overall execution of the Trust's capital improvement program, leading to sustainable value for our Resident Members and long-term growth for Unitholders.

*For further detail, please refer to page 30 of the MD&A.*

## MORTGAGE FINANCING

Interest rates continue to remain low and have benefitted the Trust's mortgage program as the Trust has continued to renew existing CMHC Insured mortgages at interest rates well below the maturing rates. As of June 30, 2015, the Trust's total mortgage principal outstanding totaled $2.27 billion at a weighted average interest rate of 3.16%, compared to $2.27 billion at a weighted average interest rate of 3.45% reported for June 30, 2014.

Over 99% of the Trust's mortgages are CMHC Insured, providing the benefit of lower interest rates and limiting the renewal risk of these mortgage loans for the entire amortization period, which can be up to 40 years. The Trust's total debt had an average term to maturity of approximately 4 years, with a remaining amortization of 30 years. The Trust's debt (net of cash) to reported asset value ratio was approximately 38% as of June 30, 2015.

To date, the Trust has renewed or forward locked the interest rates on 73% of its 2015 mortgage maturities and have been renewed with a weighted average interest rate of 2.31%, while extending the average term to 8 years. These mortgage renewals represent an estimated $5.1 million in annualized interest savings. In addition, the Trust has upfinanced or committed to upfinance $137.7 million in 2015.

The Trust continues to undertake a balanced strategy to its mortgage program. Current 5 and 10-year CMHC Mortgage Rates are estimated to be 1.70% and 2.40%, respectively. The Trust reviews each mortgage individually; however, the Trust presently has a bias towards renewing its maturing mortgages for longer terms (7 to 10 years).

*For further detail, please refer to page 35 of the MD&A.*

## 2015 FINANCIAL GUIDANCE

As is customary on a quarterly basis, the Trust reviews its key assumptions used in deriving its public financial guidance. Based on this review, and with consideration to the sale of the Trust's Windsor Portfolio scheduled to close in September of 2015 and the revision of guidance completed in the first quarter due to the lower than expected interest rate environment seen in the first half of 2015, the Trust is revising the top end of its 2015 FFO and AFFO guidance. The following table high-lights the original and current financial objectives for the 2015 fiscal year.

| Description | 2015 – Q2 Revised Financial Guidance | 2015 – Q1 Revised Financial Guidance | 2015 – Original Financial Guidance |
|---|---|---|---|
| Investment Properties | No new apartment acquisitions, dispositions or developments | No new apartment acquisitions, dispositions or developments | No new apartment acquisitions, dispositions or developments |
| Stabilized Building NOI Growth | 1% to 4% | 1% to 4% | 1% to 4% |
| FFO Per Trust Unit | $3.48 to $3.62 | $3.48 to $3.65 | $3.40 to $3.60 |
| AFFO per Trust Unit – based on $500/yr/apt | $3.15 to $3.29 | $3.15 to $3.32 | $3.07 to $3.27 |

In addition to the above financial guidance for 2015, the Trust provides guidance relating to its capital expenditure program, and is confirmed as follows:

| Capital Budget *(in thousands $ except per Unit amounts)* | 2015 Budget | Per Unit | 2015 6 Month Actual | Per Unit |
|---|---|---|---|---|
| Maintenance Capital – $500/Apartment Unit/Year | $ 17,326 | $ 500 | $ 8,656 | $ 250 |
| Stabilizing & Value Added Capital incl. Property Plant and Equipment | $ 81,511 | $ 2,354 | $ 27,479 | $ 794 |
| **Total Operational Capital** | **$ 98,837** | **$ 2,854** | **$ 36,135** | **$ 1,044** |
| Total Operational Capital | $ 98,837 | | $ 36,135 | |
| Acquisitions and Development | $ 12,158 | | $ 8,194 | |
| **Total Capital Investment** | **$ 110,995** | | **$ 44,329** | |

Management will continue to update the Financial Guidance on a quarterly basis. The reader is cautioned this information is forward-looking and actual results may vary materially from those reported.

*For further detail, please refer to page 38 of the MD&A.*

## Q2 2015 REGULAR DISTRIBUTIONS

Boardwalk's Board of Trustees has approved the Trust's next three months of regular distribution of $0.17 per Trust Unit per month, or $2.04 per Trust Unit on an annualized basis.

| Month | Per Unit | Annualized | Record Date | Distribution Date |
|---|---|---|---|---|
| Aug-15 | $0.170 | $2.04 | 31-Aug-15 | 15-Sep-15 |
| Sep-15 | $0.170 | $2.04 | 30-Sep-15 | 15-Oct-15 |
| Oct-15 | $0.170 | $2.04 | 30-Oct-15 | 16-Nov-15 |

The Board of Trustees will continue to review the distributions made on the Trust Units on a quarterly basis.

## IN CONCLUSION

Rental housing continues to be one of the most affordable housing options in Canada. Boardwalk's continued focus on providing the best value in housing through the best quality communities and superior customer service has led to positive results despite volatility as a result of lower resource prices. Our team continues to contribute to delivering service and value for our Resident Members, and is a key component of the Trust's Net Operating Income Optimization strategy and will continue to drive Boardwalk's long-term growth and sustainability. Our focus continues to be on fostering long lasting relationships with our Resident Members and Stakeholders alike. Thank you to our Team of over 1,500 Associates for their dedicated commitment and service to our Resident Members and communities.

Thank you to our Board of Trustees for their indispensable guidance and continued focus on governance.

Thank you to our Unitholders, our operational partners, the financial community, and CMHC for their continued support of the Trust.

And, as always, I would like to thank our Resident Members for calling Boardwalk home.

Sincerely,

*(signed)*

Sam Kolias,
Chairman and CEO

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months Ended June 30, 2015 and 2014 (Unaudited)

## 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, its consolidated financial position, and results of operations for the three and six months ended June 30, 2015 and 2014. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and as required by all Publicly Accountable Enterprises to be adopted effective January 1, 2011. This MD&A is current as of August 13, 2015 unless otherwise stated, and should be read in conjunction with Boardwalk's audited annual consolidated financial statements for the years ended December 31, 2014 and 2013, which have been prepared in accordance with IFRS, together with the MD&A related thereto, copies of which have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR web site at www.sedar.com. 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, intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. All forward-looking statements in this MD&A are qualified by these cautionary statements.*

*These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on Boardwalk's current estimates and assumptions, which are subject to risks and uncertainties, including those described in Boardwalk REIT's 2014 Annual Information Form ("AIF") under the heading "Challenges and Risks", 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 rental rate concessions, occupancy levels, access to debt and equity capital, changes to Canada Mortgage and Housing Corporation riles regarding mortgage insurance, interest rates, joint ventures/partnerships, the relative illiquidity of real property, unexpected costs or liabilities related to acquisitions, construction, environmental matters, uninsured perils, legal matters, reliance on key personnel, Unitholder liability, income taxes, and changes to income tax rules that impair 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, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs), the future growth program to enable the Trust to refinance debts as they mature, the availability of purchase opportunities for growth in Canada, and the impact of accounting principles adopted by the Trust effective January 1, 2011 under IFRS. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance 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 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 taxable income each year is paid, or made payable to, its Unitholders. Boardwalk qualified for the REIT Exemption and will continue to qualify for the REIT Exemption provided all of its taxable income continue to be distributed to its Unitholders. Further discussion of this is contained in this MD&A.*

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

# EXECUTIVE SUMMARY

## 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 various dates between May 3, 2004 and May 14, 2015 (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 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 investment properties and the acquisition and development of additional, accretive properties. At the end of June 30, 2015, Boardwalk REIT owned and operated in excess of 220 properties, comprised of approximately 35,000 residential units and totaling approximately 29 million net rentable square feet. At the end of Q2 2015, Boardwalk REIT's property portfolio was concentrated in the provinces of Alberta, Saskatchewan, Ontario and Quebec. As a result of the disposition in Q2 2014 of all of the Trust's real estate assets in British Columbia, earnings from these assets were reclassified as discontinued operations for the prior period comparative earnings.

At June 30, 2015, the fair value of Boardwalk's Investment Property assets (excluding assets classified as held for sale) was approximately $5.7 billion, which generated a profit of $45.4 million and $86.2 million, for the second quarter and first six months of 2015 (before fair value gains and income tax (expense) recovery). During the second quarter and first six months of 2015, the Trust earned $48.9 million and $93.0 million, respectively, of Funds From Operations (FFO), or $0.94 and $1.79 per Trust Unit on a diluted basis. Adjusted Funds From Operations (AFFO) for the second quarter and first six months of 2015 were $44.5 million and $84.4 million, respectively, or $0.86 and $1.62 per Trust Unit on a diluted basis.

## MD&A OVERVIEW

This MD&A focuses on key areas from the condensed 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 Boardwalk REIT's 2014 Annual Report, the audited consolidated financial statements for the years ended December 31, 2014 and 2013 and the Annual Information Form ("AIF") dated February 19, 2015, 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 first half of 2015 has shown a continued stable demand for rental apartments across its major markets. Occupancy levels continue to remain high. Although we have seen some weakness in this area over the past few months, it has decreased with suite-specific incentives increasing, resulting in a moderating of the rental rate growth. Lower resource prices, however, if sustained over the longer period, may result in a significant slowing of Alberta's and Saskatchewan's economic growth. This potential slowing in Western Canada's economic growth rate will filter through to weaker employment prospects, a tempering of housing demands and a decline in net migration, and may have a longer-term impact on Boardwalk's rental and vacancy rates. To date in 2015, Boardwalk has experienced some softening in the western rental markets, particularly in Fort McMurray, Alberta and Saskatchewan, but has mitigated the decline with a strong focus on customer service and lease renewals. In contrast, non oil-producing provinces, like Ontario and Quebec, are expected to see GDP and employment growth as lower crude oil prices, a lower Canadian dollar and lower borrowing costs provide a lift to consumer spending and manufacturing and exporting activities, in the midst of rising U.S. demand.

While the apartment rental market still remains one of the most affordable housing options in Canada, Boardwalk continues to monitor the volatility of resource prices to see if changes will be needed to its rental revenue strategy, for example, by offering increased incentives on longer-term leases. Long-term Government of Canada benchmark yields remain low and stable, despite coming off historical lows seen in February of this year. However, uncertainty still remains regarding how interest rates will play out for the foreseeable future. On July 15, 2015, the Bank of Canada cut its interest rate by 25 basis points, further emphasizing the downside risk to 2015 economic growth brought on by the decline in oil prices.

Recent property transactions continue to demonstrate there is a demand to own apartment assets in major Canadian markets, to the extent that Capitalization Rates remain low and selling prices remain high for properties in this asset class. The Trust is continuously evaluating whether to sell non-core real estate assets and, on July 20, 2015, announced it has entered an unconditional agreement to sell its Windsor property portfolio to a private buyer for gross proceeds of $136.2 million. The sale is expected to close September 10, 2015. During the second quarter of last year, the Trust sold one project in Edmonton, Alberta, and all of its British Columbia assets to capitalize on the low capitalization rates. Although Boardwalk did not acquire any new apartment buildings in the first six months of 2015 or in fiscal 2014, we remain active in the bidding process; however, Boardwalk has not been able to conclude that acquiring these assets at the offered selling prices would be in the best interest of the Trust on a risk-adjusted basis. Boardwalk continues to maintain a healthy liquidity position, and has allocated a portion of this to new development opportunities. Boardwalk is still well positioned to take advantage of future acquisitions or value-added opportunities, if and when they arise.

The Canadian multi-family real estate sector continues to have access to a very low cost of debt through the use of Government of Canada-backed debt with the National Housing Act (“NHA”) program, which is administered by Canada Mortgage and Housing Corporation (“CMHC”). With the continued volatility and economic slow-down in various countries in Europe and Asia and the debt crisis in Greece, Canada continues to be a country of high regard and, as a result, is continuing to experience low interest rates in the bond markets. This has translated into historically low interest rates for those who choose to use the NHA vehicle.

Boardwalk REIT believes the fundamentals of its asset class, and, in particular, its specific assets, generally remain strong. This strength is mainly due to the affordability of renting versus the cost of owning a home. This fact has kept overall occupancy at reasonable levels and, when combined with the non-exposure to any one or small group of Customers or Resident Members, has kept revenue stable and risks low. In the debt capital market, the fact that over 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 better than the maturing interest rates. The Trust continues to be well positioned, with a regular distribution payout ratio of approximately 57.0% of FFO for the first six months ended June 30, 2015. This is well below the 62.3% for the six months ended June 30, 2014, an improvement that can be attributed to savings in utility costs compared to 2014 as well the ability to refinance maturing mortgages at significantly lower interest rates. The Trust continues to have access to low-rate Government of Canada-backed debt in the form of NHA insurance.

As the Trust moves forward, Boardwalk continues to look for ways to further enhance the returns provided to our stakeholders. The Trust continues to focus inward on our operations, continuously looking for ways to reduce costs while simultaneously focusing on our Resident Members. In addition, we continue to maintain a conservative balance sheet with a Debt-to-Enterprise Value at approximately 43%.

In these more challenging times, Boardwalk continues to focus on its Net Operating Income Strategy. However, given the backdrop of continuing low oil prices, Boardwalk is continuously monitoring the specific market conditions and adjusting accordingly.

## DECLARATION OF TRUST

The investment guidelines and operating policies 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 starting on page 36 of the AIF dated February 19, 2015 and titled, "Investment Guidelines and Operating Policies of Boardwalk REIT". Some of the main financial guidelines and operating policies set out in the DOT are as follows:

### Investment Guidelines

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

### Operating Policies

1. Interest Coverage Ratio of at least 1.5 to 1;
2. No guaranteeing of third-party debt unless related to direct or indirect ownership or acquisition of real property, including potential joint venture partner structures;
3. Third-party surveys of structural and environmental conditions are required prior to the acquisition of a multi-family asset; and,
4. Commitment to expending at least 8.5% of its gross consolidated annual rental revenues generated from properties that have been insured by CMHC on on-site maintenance compensation to Associates, repairs and maintenance, as well as capital upgrades.

### Distribution Policy

Boardwalk REIT may distribute to holders of REIT Units on or about each Distribution Date[1], 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, in their absolute discretion, determine another amount.

### Compliance with DOT

At June 30, 2015, the Trust was in material compliance with all investment guidelines and operating policies as stipulated in the DOT as amended. More details will be provided later in this document with respect to certain detailed calculations.

For the rolling twelve months ended June 30, 2015, Boardwalk REIT's overall interest coverage ratio of adjusted EBITDA (i.e. Earnings Before Interest, Taxes, Depreciation and Amortization) to interest expense, excluding distributions on LP Class B Units and fair value gains and losses, was 3.55 (March 31, 2015 – 3.46, December 31, 2014 – 3.37).

## NON-GAAP FINANCIAL MEASURES

Boardwalk REIT assesses and measures operating results based on performance measures referred to as Funds From Operations (FFO), and Adjusted Funds From Operations (AFFO). FFO is a widely accepted supplemental measure of the performance of a Canadian real estate entity; however, it is not a measure defined by IFRS. In recent periods, additional attention has been given to AFFO as a supplemental measurement. FFO and AFFO do not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other entities. The IFRS measurement most comparable to FFO and AFFO is Profit. We define FFO, after the adoption of IFRS, as income before fair value adjustments, distributions on the LP Class B Units, gains or losses on the sale of Investment Properties, depreciation, deferred income tax, and certain other non-cash adjustments, if any. The reconciliation from Profit under IFRS to FFO can be found below, under the section titled "Performance Measures". The reconciliation from FFO to

1 "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.

AFFO can be found in the section titled "Maintenance of Productive Capacity". FFO and AFFO, however, should not be construed as an alternative to profit determined in accordance with IFRS as indicators of Boardwalk REIT's performance. In addition, Boardwalk REIT's calculation methodology for FFO and AFFO may differ from that of other real estate companies and trusts.

A reconciliation of FFO to cash flow from operating activities as shown in the Trust's Condensed Consolidated Statements of Cash Flows is also provided below in the section titled, "Cash Flows from Operations".

## PERFORMANCE REVIEW

Boardwalk REIT generates revenues, cash flows, and earnings from two separate sources: rental operations and 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 we refer to as "Resident Members") who have varying lease terms ranging from month-to-month to twelve-month leases.

In the past, Boardwalk REIT has generated additional income from the 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 and/or development of new rental properties, to assist in its property value enhancement program, or for the acquisition of Boardwalk REIT's Trust Units in the public market. The Trust, however, will only proceed with the sale of Non-Core real estate properties if market conditions justify the dispositions. On July 20, 2015, the Trust announced it has entered into an unconditional agreement to sell its Windsor property portfolio to a private buyer for gross proceeds of $136.2 million. The sale is expected to close on September 10, 2015. During the second quarter of 2015, a stand-alone building containing 22 units was sold for approximately $0.8 million. The building, part of the Trust's Boardwalk Estates property in Regina, Saskatchewan, was previously designated in the third quarter of 2014 as unavailable for rental due to foundation deterioration. During the second quarter of 2014, a property in Edmonton, Alberta, and all of Boardwalk's British Columbia real estate assets were sold for gross proceeds of $153.5 million.

### Performance Measures

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 Board of Trustees, in its absolute discretion, determines a different amount. Currently, the Trust is distributing $2.04 per outstanding Trust and LP Class B Unit on an annualized basis (or $0.17 per Trust and LP B Unit on a monthly basis). The Trust also declared a special distribution of $1.40 per Unit to all Unitholders of record as at December 31, 2014. This special distribution was in addition to the regular normal distribution (described above) that the Trust declares and pays on a monthly basis. The total dollar amount of this one-time special distribution was approximately $72.8 million and was paid on January 15, 2015 in conjunction with the regular monthly distribution to Unitholders of record as at December 31, 2014. Additional information related to this special distribution is discussed below.

For the three and six months ended June 30, 2015, the Trust declared regular distributions of $26.5 million and $53.1 million (inclusive of distributions paid to the LP Class B Unitholders), representing approximately 54.3% and 57.0% of FFO. The reader should note the overall operating performance of the first and fourth quarters tend to generate the highest payout ratio, mainly due to the high seasonality in operating expenses. In particular, these quarters tend to be the highest demand periods for natural gas, a major operational cost for the Trust. The reader should not simply annualize these quarterly 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 it should withhold a portion of the available cash flow to assist with the execution of its business strategy. On an overall basis, the Trust aims to maintain a conservative payout ratio and reviews this with its Board of Trustees on a quarterly basis.

Over the past few years, AFFO has begun to surface as an additional performance measurement. AFFO is determined by taking the amounts reported as FFO and deducting what is commonly referred to as 'Maintenance Capital Expenditures'. Maintenance Capital

Expenditures are referred to as expenditures that, by standard accounting definitions, are accounted for as capital in that the expenditure itself has a useful life in excess of the current financial year and also adds or maintains the value of the related asset. A more detailed discussion of this topic will be provided in the 'Maintenance of Productive Capacity' section later in this document.

### Windsor Portfolio Classified as Held for Sale

As noted, on July 20, 2015, the Trust announced it has entered into an unconditional agreement to sell its Windsor portfolio to a private buyer for $136.2 million. The sale is expected to close on September 10, 2015 and generate significant taxable income. The Trust has estimated the taxable income and non-taxable portion of capital gains from this transaction to be in the range of $0.90 to $1.00 per Unit. The Trust will continue to monitor its income tax position throughout the remainder of the year and the Board will determine in the fourth quarter a more specific amount of any Special Distribution. During 2014, the Trust sold a selective number of non-core properties. The net proceeds of the sale of certain non-core properties have partially 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, the sale of these non-core assets resulted in a similarly large taxable income to the Trust for the 2014 fiscal year. The size of this taxable income, when combined with the fiscal 2014 income generated from continued operations, would have resulted in a significant increase in the Trust's reported taxable income and, as a result, a Special Distribution in the amount of $1.40 per outstanding Trust and LP Class B Unit for Unitholders of record as of December 31, 2014 was declared. The payable date on the Special Distribution was January 15, 2015 to Unitholders of record as of December 31, 2014. The funds required for this distribution came directly from the net proceeds on the sale of non-core properties in 2014.

Unlike many REIT's 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.

### FFO Reconciliation from 2014 to 2015

The following table shows a reconciliation of changes in FFO from June 30, 2014 to June 30, 2015. It should be noted that FFO, as disclosed in the table below, reflects FFO derived from the Trust's condensed consolidated financial statements prepared in accordance with IFRS. As previously noted, we define the calculation of FFO as net income determined under IFRS before fair value adjustments, distributions on the LP Class B Units, gains (losses) on the sale of Investment Properties, depreciation, deferred income taxes, and certain other non-cash items. A more detailed disclosure of the calculation of FFO will be provided later in this report.

| **FFO Reconciliation** | 3 Months | 6 Months |
|---|---|---|
| FFO Opening – Jun 30, 2014 | $ 0.86 | $ 1.63 |
| NOI from Stabilized Properties | 0.05 | 0.12 |
| NOI from Unstabilized Properties | – | 0.01 |
| FFO Loss from Sold Properties | (0.01) | (0.03) |
| Financing Costs (1) | 0.05 | 0.08 |
| Administration and other | (0.01) | (0.02) |
| **FFO Closing – Jun 30, 2015** | **$ 0.94** | **$ 1.79** |

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

### Liquidity

The access to liquidity is an important element of the Trust as it allows the Trust to implement its overall strategy. The current low interest rate environment has allowed Boardwalk to renew its existing maturing mortgages at more favourable interest rates than the maturing interest rates. In addition, Boardwalk has been able to access additional capital from its properties through the continued use of the current NHA insurance program, which is being offered at attractive rates. Further interest savings, however, will become more limited when interest rates start to reverse their declining trend seen over the past several years.

The Trust's cash position was $86.5 million at June 30, 2015, compared to $139.6 million reported on December 31, 2014. However, it should be noted that the cash position for December 31, 2014 is before the previously noted Special Distribution declared to its Trust and LP Class B Unitholders in the amount of $72.8 million, or $1.40 per outstanding unit, on record as at December 31, 2014. This Special Distribution was paid on January 15, 2015.

### FFO Reconciliations

In the following table, Boardwalk REIT provides a reconciliation of FFO (a non-IFRS measure) to profit for the period, its closely related financial statement measurement for the three and six months ended June 30, 2015 and June 30, 2014. Adjustments are explained in the notes below, as appropriate.

| **FFO Reconciliation**<br>*In $000's, except per unit amounts* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Profit for the period | **$ 34,593** | $ 85,334 | | **$ 106,017** | $ 194,716 | |
| Adjustments | | | | | | |
| Profit (loss) from discontinued operations, net of tax (1) | **–** | (1,478) | | **–** | 11,519 | |
| Loss on Sale of assets | **4** | 4,335 | | **4** | 4,335 | |
| Fair value losses (gains) (2) | **10,906** | (46,346) | | **(19,950)** | (131,952) | |
| Add back distributions to LP Class B Units recorded as financing charges (3) | **2,282** | 2,282 | | **4,565** | 4,542 | |
| Deferred income tax expense (recovery) | **(125)** | 71 | | **96** | 21 | |
| Depreciation expense on PP&E | **1,197** | 1,115 | | **2,307** | 2,147 | |
| Funds from operations | **$ 48,857** | $ 45,313 | 7.8% | **$ 93,039** | $ 85,328 | 9.0% |
| Funds from operations – per unit | **$ 0.94** | $ 0.86 | 9.3% | **$ 1.79** | $ 1.63 | 9.8% |

(1) The Trust disposed of all its British Columbia real estate assets. As British Columbia represents an identifiable geographic segment under IFRS, this disposition has been classified as a discontinued operation. The earnings from discontinued operations prior to its sale, but not the gain or loss on disposition, are included in determining FFO.

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

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

Overall, Boardwalk REIT earned FFO of $48.9 million and $93.0 million for the three and six months ended June 30, 2015, respectively, compared to $45.3 million and $85.3 million for the same periods in 2014. FFO on a per unit fully diluted basis for the current quarter ended June 30, 2015 increased approximately 9.3%, compared to the same period in 2014, from $0.86 to $0.94. The increase was primarily driven by higher rental revenue while maintaining high occupancy levels, lower utility costs and lower financing costs.

### New Property Acquisitions and Dispositions

For 2014 and the first six months of 2015, there were no new significant apartment acquisitions.

During the second quarter of 2014, Boardwalk sold a 102-unit project in Edmonton, Alberta, and all of its British Columbia real estate assets consisting of 633 apartment units. The sale of the Edmonton project closed May 5, 2014, at a selling price of $13.5 million before selling costs. There was no secured mortgage encumbrance on the Edmonton property. The sale of the British Columbia real estate assets closed May 29, 2014, at a selling price of $140 million before selling costs and a holdback of $1.5 million to upgrade a fire hydrant waterline as required by the fire department of the City of Victoria. The purchaser of the British Columbia real estate assets assumed the secured mortgages on these assets, with the Trust remaining as guarantor on one of the three mortgages until term maturity, or when this mortgage is refinanced, whichever occurs sooner.

The Trust purchased one unit in Edmonton, Alberta, in the property known as Morningside Estates for a purchase price of $175 thousand on May 15, 2014. On April 15, 2015, the Trust purchased one more unit in this property for $130 thousand. The Trust now owns 223 of the 224 units in the property.

During the first quarter of 2015, the Trust purchased an office building in Verdun, Quebec, which has now been included under the Nun's Island property for a purchase price of $3.1 million. The purchase closed on January 19, 2015.

The Trust sold a stand-alone building that was a part of the Boardwalk Estates portfolio in Regina, Saskatchewan. The building contained 22 units and was designated as unavailable for rental in the third quarter of 2014 due to foundation deterioration. The building was sold for a sale price of $825 thousand on June 1, 2015.

On July 20, 2015, the Trust announced it has entered into an unconditional agreement to sell its Windsor portfolio to a private buyer for $136.2 million and the sale is expected to close on September 10, 2015.

### Development

In October 2014, the Trust commenced the first phase of construction for a 79-unit building on excess land on our property known as 'Pines of Normanview' in Regina, Saskatchewan. The Trust executed a fixed-price construction contract with an estimated cost to complete of approximately $14.1 million, or $178,000 per door. The four-story, wood frame building will consist of 13 one-bedroom and 66 two-bedroom units. Stabilized capitalization rate is estimated to be between 6.0% and 6.5%, excluding any value attributable to the land. The Trust internally estimated the value of the land to be approximately $1.0 million, or $12,000 per door. The building is estimated to be completed in the first quarter of 2016.

We continue to explore other development opportunities in Regina, Calgary, and Edmonton. Each of these opportunities will be evaluated separately to determine the viability of these projects.

## REVIEW OF RENTAL OPERATIONS

Boardwalk REIT's Net Operating Income Strategy includes a rental revenue strategy that focuses on enhancing overall rental revenues through the balance between market rents, rental incentives, turnovers, and occupancy losses. The application of this rental revenue 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.

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ 120,747** | $ 117,954 | 2.4% | **$ 240,782** | $ 234,507 | 2.7% |
| Expenses | | | | | | |
| Operating expenses | **23,573** | 23,395 | 0.8% | **46,620** | 46,477 | 0.3% |
| Utilities | **10,229** | 10,307 | (0.8)% | **25,040** | 26,115 | (4.1)% |
| Property taxes | **10,115** | 9,755 | 3.7% | **20,208** | 19,348 | 4.4% |
| | **$ 43,917** | $ 43,457 | 1.1% | **$ 91,868** | $ 91,940 | (0.1)% |
| Net operating income | **$ 76,830** | $ 74,497 | 3.1% | **$ 148,914** | $ 142,567 | 4.5% |
| Operating margins | **63.6%** | 63.2% | | **61.8%** | 60.8% | |
| Number of suites at June 30 | **34,627** | 34,652 | | **34,627** | 34,652 | |

Overall, Boardwalk REIT's rental operations reported higher results with total rental revenue increasing 2.4% and 2.7% for the three and six months ended June 30, 2015, respectively, as compared to the prior year periods. The increase in rental revenue was primarily the result of higher rental revenue in Alberta and Ontario while maintaining high occupancy levels compared to the same period in 2014.

Total rental expenses increased 1.1% for the three months ended June 30, 2015 and decreased 0.1% for the six months then ended compared to the same periods in the prior year. These changes were mainly due to lower utilities, particularly natural gas expense, which was slightly offset by increases in property taxes.

Utility costs decreased by 0.8% and 4.1% for the three and six months ended June 30, 2015, respectively, due primarily to a decrease in natural gas expense. For the first half of 2015, many regions of Canada experienced milder weather than the exceptionally cold winter for the same period in the previous year, resulting in a decrease in gas and electricity consumption compared to the prior year. To mitigate the effects of higher natural gas prices, as experienced in 2014, the Trust has put in place fixed price physical commodity contracts to partially or fully hedge its exposure to fluctuating natural gas prices. Further details regarding the hedges on natural gas, as well as electricity prices in Alberta, can be found in NOTE 14 to the condensed consolidated financial statements.

The reported increase in property taxes is mainly attributed to higher overall property tax assessments. 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 and adjustments; however, due to the uncertainty of the amount and timing of the refunds and adjustments, these amounts are only reported when they are received.

Overall, the operating margin for the year increased slightly from the same period in 2014, from 63.2% to 63.6% for the three months ended June 30, 2015, and increased from 60.8% to 61.8% for the six months ended June 30, 2015.

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

## SEGMENTED OPERATIONAL REVIEW

### Alberta Rental Operations

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ 76,685** | $ 73,974 | 3.7% | **$ 153,017** | $ 146,835 | 4.2% |
| Expenses | | | | | | |
| Operating expenses | **13,259** | 12,978 | 2.2% | **26,989** | 26,467 | 2.0% |
| Utilities | **5,690** | 5,706 | (0.3)% | **12,930** | 14,346 | (9.9)% |
| Property taxes | **5,758** | 5,452 | 5.6% | **11,509** | 10,839 | 6.2% |
| | **$ 24,707** | $ 24,136 | 2.4% | **$ 51,428** | $ 51,652 | (0.4)% |
| Net operating income | **$ 51,978** | $ 49,838 | 4.3% | **$ 101,589** | $ 95,183 | 6.7% |
| Operating margins | **67.8%** | 67.4% | | **66.4%** | 64.8% | |
| Number of suites at June 30 | **19,752** | 19,751 | | **19,752** | 19,751 | |

Alberta is Boardwalk's largest operating segment, representing approximately 67.7% and 68.2% of total reported net operating income for the three and six months ended June 30, 2015. Also, Alberta represents 57.0% of the Trust's total apartment units. Boardwalk REIT's Alberta operations for the three and six months ended June 30, 2015, reported a 3.7% and 4.2% increase, respectively, in total rental revenue when compared to the same periods reported in 2014. The reported rental revenue change is due primarily to higher in-place occupied rents while maintaining high overall occupancy levels. Total rental expenses have increased 2.4% for the three months ended June 30, 2015 compared to the prior year mainly due to the increase in property taxes. For the six months ended June 30, 2015, total rental expenses decreased by 0.4% compared to the prior year due to a large decrease in utilities, which was partially offset by increases in property taxes.

Operating expenses increased 2.2% and 2.0% for the three and six months ended June 30, 2015, respectively, from the prior year due to higher salaries and wages as well as increased advertising costs to maintain higher occupancy levels.

Reported utilities for the three and six months ended June 30, 2015 were down 0.3% and 9.9%, respectively, compared to the same periods in the prior year. The reported decrease is mainly the result of lower reported natural gas expense due to a decrease in both consumption and natural gas prices as a result of the milder winter in the first half of 2015. Currently, the Trust has two electricity contracts, one for Southern Alberta and the other for Northern Alberta, with two utility companies to supply the Trust with its electrical power needs commencing October 1, 2010 and ending September 30, 2017 (Southern Alberta) and September 30, 2015 (Northern Alberta). The blended rate of these electricity contracts is $0.06 per kilowatt hour ("kWh"). In June of 2014, the Trust entered into two fixed price natural gas contracts to hedge 50% of its Alberta natural gas usage. The contracts are effective beginning November 1, 2014 and end October 31, 2016 for 25% usage for the one, and October 31, 2017 for 25% usage for the other, at an average rate of approximately $4.24/GJ of natural gas consumption. For 2015, the Trust also entered into two shorter-term hedge contracts, the first for 25% of Alberta's natural gas usage effective January 1, 2015 to April 30, 2015 at a rate of $3.65/GJ of natural gas consumption, and the second for 25% of Alberta's natural gas usage effective November 1, 2015 to April 30, 2016 at a rate of $3.84/GJ of natural gas consumption.

Property taxes increased 5.6% and 6.2% for the three and six months ended June 30, 2015, respectively, compared to the prior year periods mainly as a result of higher property tax assessments for 2015.

Net operating income for Alberta increased $2.1 million, or 4.3%, in the current quarter compared to the prior year and increased $6.4 million, or 6.7% for the six months ended June 30, 2015. Alberta's operating margins for the three and six months ended June 30, 2015 increased to 67.8% and 66.4%, respectively, compared to 67.4% and 64.8% for the same periods in 2014, due primarily to lower utility costs and increased rental revenues.

### Saskatchewan Rental Operations

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ 15,571** | $ 15,602 | (0.2)% | **$ 30,906** | $ 31,038 | (0.4)% |
| Expenses | | | | | | |
| Operating expenses | **2,751** | 2,653 | 3.7% | **5,383** | 5,125 | 5.0% |
| Utilities | **1,691** | 1,296 | 30.5% | **3,857** | 2,983 | 29.3% |
| Property taxes | **1,072** | 1,069 | 0.3% | **2,150** | 2,115 | 1.7% |
| | **$ 5,514** | $ 5,018 | 9.9% | **$ 11,390** | $ 10,223 | 11.4% |
| Net operating income | **$ 10,057** | $ 10,584 | (5.0)% | **$ 19,516** | $ 20,815 | (6.2)% |
| Operating margins | **64.6%** | 67.8% | | **63.1%** | 67.1% | |
| Number of suites at June 30 | **4,610** | 4,636 | | **4,610** | 4,636 | |

For the three and six months ended June 30, 2015, Boardwalk's Saskatchewan total rental revenue decreased slightly by 0.2% and 0.4%, respectively, compared to the same periods in the prior year. The revenue decrease is the result of a decline in occupancy levels, along with an increase in suite-specific incentives, which was partially offset by higher rents achieved in both Regina and Saskatoon. Rental rates also increased as a result of Boardwalk being able to charge additional rent for cable service provided to its Resident Members. Rental expenses increased by 9.9% and 11.4% for the three and six months ended June 30, 2015, respectively, compared to 2014 primarily due to higher operating expenses and utilities.

Operating expenses increased mainly due to higher wages and salaries paid to maintenance and trades personnel.

Utility costs for the current year increased from the previous year due primarily to higher cable and internet costs during the current period. Cable and internet expense was higher as Boardwalk implemented a new bulk cable and internet bundled program in the second half of 2014. The program provides Resident Members a more cost-effective alternative to cable service compared to subscribing individually with cable service providers. Since the implementation in 2014, Boardwalk has seen continued increases in Resident Members signing up for this new program. Natural gas costs were also higher in the current quarter compared to the same period last year. The Trust had a fixed price natural gas supply contract for 100% of its Saskatchewan natural gas consumption, which covered the period from November 1, 2012 and ended October 31, 2014 and fixed the commodity at a price of $3.74/GJ. During the third quarter of 2014, the Trust renewed its fixed price natural gas hedge with two contracts to hedge 100% of its Saskatchewan natural gas usage. The contracts are effective beginning November 1, 2014, and end on October 31, 2015 for 50% usage for one, and October 31, 2017 for 50% usage for the other, at an average rate of approximately $4.52/GJ of natural gas consumption.

Property taxes increased by 0.3% and 1.7% for the three and six months ended June 30, 2015, due to higher property tax assessments, particularly in the city of Regina.

Reported operating margins for the three and six months ended June 30, 2015 declined to 64.6% and 63.1%, respectively, compared to 67.8% and 67.1% reported for the same periods in the prior year, due primarily to the cable and internet expense added in the current reporting periods.

### Ontario Rental Operations

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ 10,628** | $ 10,472 | 1.5% | **$ 21,211** | $ 20,834 | 1.8% |
| Expenses | | | | | | |
| Operating expenses | **1,885** | 1,766 | 6.7% | **3,798** | 3,567 | 6.5% |
| Utilities | **1,435** | 1,546 | (7.2)% | **3,950** | 4,179 | (5.5)% |
| Property taxes | **1,333** | 1,326 | 0.5% | **2,666** | 2,637 | 1.1% |
| | **$ 4,653** | $ 4,638 | 0.3% | **$ 10,414** | $ 10,383 | 0.3% |
| Net operating income | **$ 5,975** | $ 5,834 | 2.4% | **$ 10,797** | $ 10,451 | 3.3% |
| Operating margins | **56.2%** | 55.7% | | **50.9%** | 50.2% | |
| Number of suites at June 30 | **4,265** | 4,265 | | **4,265** | 4,265 | |

Boardwalk REIT's Ontario operations reported slight increases in total rental revenue of 1.5% and 1.8% for the three and six months ended June 30, 2015 compared to the same periods in the prior year, due to an increase in occupied rents while maintaining occupancy levels. Total rental expenses increased marginally by 0.3% for the current three and six months, primarily as a result of slight increases to repairs and maintenance as well as wages and salaries, which were offset by lower utilities costs during the first half of the year.

The reported decreases in utilities were the result of lower natural gas expense as a result of the milder weather experienced in the region in comparison to the first quarter in the prior year and lower commodity prices. During the third quarter of 2014, the Trust entered into a fixed price natural gas contract to hedge 50% of its Ontario and Quebec natural gas usage. The contract is effective beginning November 1, 2014, and ends on October 31, 2015, at an average rate of approximately $3.62/GJ of natural gas consumption.

Property taxes increased due to higher assessments in 2015 compared to 2014, particularly in the cities of London and Kitchener.

As a result of lower utility expenses, net operating income increased by 2.4% and 3.3% for the three and six months ended June 30, 2015, respectively, as compared to the same period in the prior year. Reported operating margins for the three and six months ended June 30, 2015 increased slightly to 56.2% and 50.9%, respectively, compared to 55.7% and 50.2% reported for the same periods in the prior year.

### Quebec Rental Operations

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ 17,800** | $ 17,848 | (0.3)% | **$ 35,546** | $ 35,647 | (0.3)% |
| Expenses | | | | | | |
| Operating expenses | **4,188** | 4,495 | (6.8)% | **8,257** | 8,464 | (2.4)% |
| Utilities | **1,369** | 1,594 | (14.1)% | **4,200** | 4,313 | (2.6)% |
| Property taxes | **1,924** | 1,867 | 3.1% | **3,834** | 3,687 | 4.0% |
| | **$ 7,481** | $ 7,956 | (6.0)% | **$ 16,291** | $ 16,464 | (1.1)% |
| Net operating income | **$ 10,319** | $ 9,892 | 4.3% | **$ 19,255** | $ 19,183 | 0.4% |
| Operating margins | **58.0%** | 55.4% | | **54.2%** | 53.8% | |
| Number of suites at June 30 | **6,000** | 6,000 | | **6,000** | 6,000 | |

Boardwalk REIT's Quebec operations reported a marginal total rental revenue decrease of 0.3% for the three and six months ended June 30, 2015, respectively, compared to the same periods in the prior year.

Total rental expenses for the year decreased by 6.0% and 1.1% for the three and six months ended June 30, 2015, respectively, when compared to 2014, mainly due to decreases in utilities and operating expenses.

Operating expenses decreased 6.8% and 2.4% for the three and six months ended June 30, 2015, respectively, when compared to 2014 due to decreases in wages and salaries as well as inspection and related repair and maintenance costs.

The reported 14.1% decrease in utilities for the quarter ended June 30, 2015 was largely due to a decrease in natural gas rates compared to the prior year. For the six months ended June 30, 2015, utilities were down 2.6% compared to the same period in 2014 as a result of higher first quarter natural gas expense compared to the first quarter of 2014. During the third quarter of 2014, the Trust entered into a fixed price natural gas contract to hedge 50% of its Ontario and Quebec natural gas usage. The contract is effective beginning November 1, 2014, and ends on October 31, 2015, at an average rate of approximately $3.62/GJ of natural gas consumption. The details of the natural gas contracts are reported in Note 14 of the Trust's condensed consolidated financial statements.

Property taxes for the year increased 3.1% and 4.0% for the three and six months ended June 30, 2015, respectively, when compared to the prior year due to higher property tax assessments.

As a result of lower utilities reported, net operating income increased 4.3% and 0.4% for the three and six months ended June 30, 2015 compared to the same periods in the prior year. Reported operating margins for the quarter ended June 30, 2015 increased to 58.0%, compared to 55.4% from the prior year quarter results, and increased to 54.2% from 53.8% for the six months period ended.

### British Columbia Rental Operations

| *In $000's, except number of suites* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Total rental revenue | **$ –** | $ 1,371 | (100.0)% | **$ –** | $ 3,497 | (100.0)% |
| Expenses | | | | | | |
| Operating expenses | **–** | 518 | (100.0)% | **–** | 810 | (100.0)% |
| Utilities | **–** | 136 | (100.0)% | **–** | 379 | (100.0)% |
| Property taxes | **–** | 100 | (100.0)% | **–** | 223 | (100.0)% |
| | **$ –** | $ 754 | (100.0)% | **$ –** | $ 1,412 | (100.0)% |
| Net operating income | **$ –** | $ 617 | (100.0)% | **$ –** | $ 2,085 | (100.0)% |
| Operating margins | **–%** | 45.0% | | **–%** | 59.6% | |
| Number of suites at June 30 | **–** | 633 | | **–** | 633 | |

Earnings during the second quarter and first six months of 2014 for Boardwalk's British Columbia property portfolio are presented as discontinued operations as the Trust sold and closed these non-core asset sales in the prior year.

## OPERATIONAL SENSITIVITIES

### Boardwalk's Net Operating Income Optimization Strategy

Boardwalk's current strategy is to focus on optimizing net operating income. This focus requires us to manage not only revenues but also related operating costs, and take both into consideration when determining a service and pricing model. Lowering overall turnover while maintaining reasonable increases in-lease rates while continuing to focus on a high quality level of service continue to be the model that has delivered the most stable and growing income source to date. This strategy is region specific and these variables are in constant flux.

In a more competitive market, the Trust locks in rentals on selective suites for future months, but does not collect revenues for certain months in the immediate future. This means the Trust may decide to rent a suite in December with the Customer not moving in until the following year. Although the suite is rented, it will not generate revenue until the Customer actually moves in, for example, in January, which corresponds to the next fiscal period. The percentages reported as occupancy levels (see table below) represent those occupied units 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 relevant indication of future potential revenue.

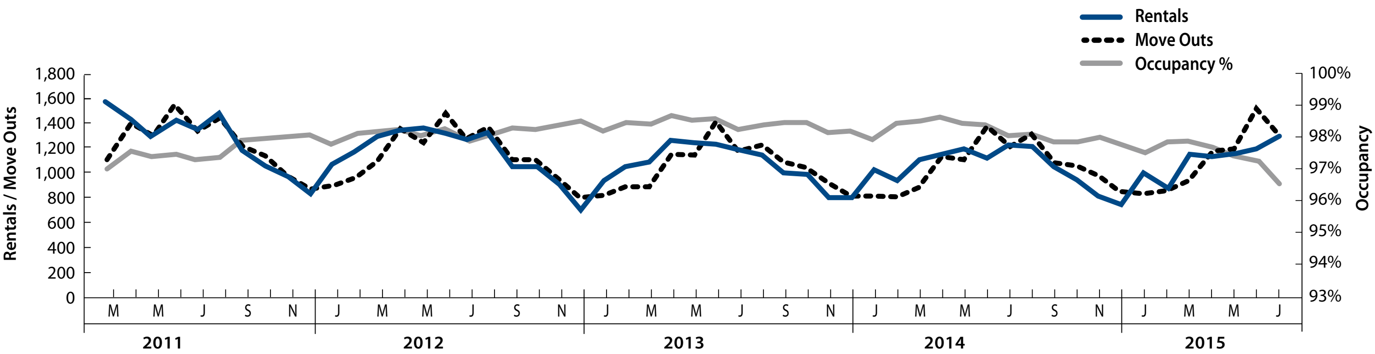
### Boardwalk REIT's Portfolio Occupancy

| City | **Q2 2015** | Q2 2014 |
|---|---|---|
| Calgary | **98.93%** | 99.38% |
| Edmonton | **97.64%** | 98.71% |
| Fort McMurray | **85.40%** | 95.49% |
| Grande Prairie | **96.49%** | 98.24% |
| Kitchener | **98.07%** | 98.89% |
| London | **97.99%** | 98.07% |
| Montreal | **96.58%** | 97.66% |
| Quebec City | **96.70%** | 96.61% |
| Red Deer | **98.64%** | 98.89% |
| Regina | **95.23%** | 97.55% |
| Saskatoon | **95.38%** | 98.03% |
| Vancouver (1) | **–%** | 98.94% |
| Victoria (1) | **–%** | 100.00% |
| Verdun | **98.21%** | 99.62% |
| Windsor | **98.24%** | 98.14% |
| Total | **97.44%** | 98.54% |

(1) BC Property Portfolio was sold on May 29, 2014

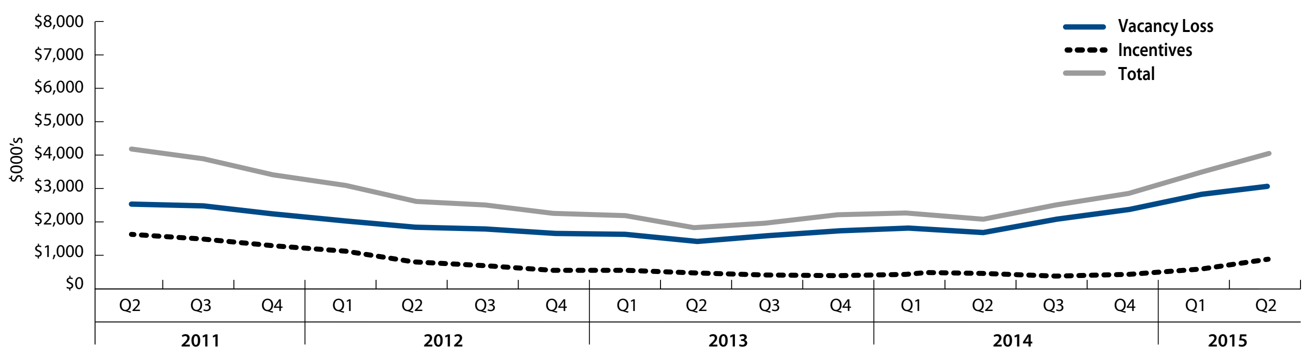
In the second quarter of 2015, the Trust reported a decrease of 110 basis points in its overall occupancy rate, decreasing from 98.54% in 2014 to 97.44%. A softening of the rental markets, primarily in Fort McMurray and Saskatchewan, contributed to the overall occupancy rate decrease. Boardwalk's overall rental revenue strategy focuses on the Trust balancing the key inputs, including occupancy levels and existing rental market rates. As a strategy, the Trust is constantly adjusting market rents based on property-specific demand and supply.

## Supply versus Demand & Impact on Reported Occupancy




The issue of demand and supply, as with any industry, is an important performance indicator for multi-family real estate. The above chart attempts to show the total move-outs (supply) compared to total move-ins (demand) and the resulting impact on reported occupancy relating to our portfolio. The cumulative impact of demand being greater than supply, or vice versa, is the primary driver in the reported occupancy rate. In recent years, Boardwalk focused on maintaining high occupancy levels by cautiously adjusting market rents upward only when warranted while optimizing turnover costs. The reader is cautioned that adjusting market rental rates is an ongoing process for the Trust and is consistent with its overall strategy of optimizing overall net operating income; 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. On a quarterly basis, the chart details rental incentives versus vacancy loss. The increase in Boardwalk's vacancy loss for the second quarter of 2015 is attributable to the softening rental markets, particularly in Fort McMurray and Saskatchewan. Boardwalk REIT will continue to manage its overall revenues through three key revenue variables, notably, market rents, occupancy levels, and suite-selective incentives. We continue to focus on maximizing overall revenues through the management of these key revenue variables.

## Occupancy Sensitivity

As with all real estate rental operators, Boardwalk REIT's financial performance is sensitive to occupancy rates. Based on the current reported market rents, a 1% annualized change in reported occupancy is estimated to impact overall rental revenue by approximately $4.9 million, or $0.09 per Trust Unit on a diluted basis.

## STABILIZED PROPERTY RESULTS

Boardwalk defines stabilized property as one that has been owned by the Trust for a period of 24 months or more from the reporting date. Boardwalk REIT's overall percentage of stabilized properties was 99.7% of its total rental unit portfolio as at June 30, 2015, or a total of 34,518 units. The tables below provide a regional breakdown on these properties for the three and six months ended June 30, 2015, as compared to the same periods in 2014.

| **Jun 30 2015 – 3 M** | # of Units | % Revenue Growth | % Operating Expense Growth | % Net Operating Income Growth | % of NOI |
|---|---|---|---|---|---|
| Calgary | 5,310 | 4.3% | 0.8% | 5.8% | 20.2% |
| Edmonton | 12,397 | 4.5% | 3.5% | 4.9% | 40.4% |
| Fort McMurray | 352 | (18.1)% | 2.6% | (25.7)% | 1.4% |
| Grande Prairie | 645 | 3.9% | 7.5% | 1.6% | 1.6% |
| Red Deer | 939 | 4.5% | (1.5)% | 7.9% | 2.6% |
| Ontario | 4,265 | 1.5% | 0.3% | 2.4% | 7.7% |
| Quebec | 6,000 | (0.6)% | (6.5)% | 4.2% | 13.2% |
| Saskatchewan | 4,610 | (0.2)% | 9.9% | (5.0)% | 12.9% |
| | 34,518 | 2.4% | 1.6% | 2.8% | 100.0% |

| **Jun 30 2015 – 6 M** | # of Units | % Revenue Growth | % Operating Expense Growth | % Net Operating Income Growth | % of NOI |
|---|---|---|---|---|---|
| Calgary | 5,310 | 4.8% | (1.9)% | 7.9% | 20.5% |
| Edmonton | 12,397 | 5.0% | 0.7% | 7.5% | 40.8% |
| Fort McMurray | 352 | (14.1)% | (0.3)% | (19.6)% | 1.6% |
| Grande Prairie | 645 | 4.9% | 0.8% | 7.6% | 1.7% |
| Red Deer | 939 | 5.0% | (0.3)% | 8.3% | 2.5% |
| Ontario | 4,265 | 1.8% | 0.3% | 3.3% | 7.1% |
| Quebec | 6,000 | (0.6)% | (1.5)% | 0.3% | 12.8% |
| Saskatchewan | 4,610 | (0.4)% | 11.4% | (6.2)% | 13.0% |
| | 34,518 | 2.8% | 1.1% | 3.8% | 100.0% |

Stabilized revenue increased by 2.4% and 2.8% for the three and six months ended June 30, 2015, respectively, compared to the same periods in the prior year. Operating expenses reported for the three and six months ended June 30, 2015 increased by 1.6% and 1.1%, respectively, compared to the same periods in 2014, resulting in a NOI increase of 2.8% and 3.8%, respectively. The increase in reported stabilized revenue was driven by higher in-place occupied rents largely in Alberta (except Fort McMurray). Operating expenses increased primarily as a result of increases in property taxes, partially offset by a savings in utilities (except for Saskatchewan, which includes new bulk cable and internet services for resident members).

| **Stabilized Revenue Growth** | # of Units | Q2 2015 vs. Q1 2015 | Q2 2015 vs. Q4 2014 | Q2 2015 vs. Q3 2014 | Q2 2015 vs. Q2 2014 |
|---|---|---|---|---|---|
| Calgary | 5,310 | 0.9% | 1.8% | 2.8% | 4.3% |
| Edmonton | 12,397 | 0.7% | 1.4% | 2.7% | 4.5% |
| Fort McMurray | 352 | (10.0)% | (12.8)% | (14.3)% | (18.1)% |
| Grande Prairie | 645 | (0.6)% | 0.8% | 2.6% | 3.9% |
| Red Deer | 939 | 0.8% | 2.4% | 2.2% | 4.5% |
| Ontario | 4,265 | 0.4% | 1.0% | 1.7% | 1.5% |
| Quebec | 6,000 | 0.2% | (0.8)% | (0.6)% | (0.6)% |
| Saskatchewan | 4,610 | 1.5% | (0.2)% | 0.1% | (0.2)% |
| | 34,518 | 0.6% | 0.7% | 1.5% | 2.4% |

On a sequential basis, stabilized revenues reported in the second quarter of 2015 increased slightly by 0.6% over Q1 2015, increased by 0.7% compared to Q4 2014, increased 1.5% compared to Q3 2014 and increased by 2.4% compared to Q2 2014. The Trust strives toward balancing the optimum level of rental incentives and occupancy rates in order to achieve its net operating income optimization strategy.

### Estimated Loss-to-Lease Calculation

Boardwalk REIT's estimated loss-to-lease, representing the difference between estimated market rents and actual occupied rents in June 2015, and adjusted for current occupancy levels, totaled approximately $4.1 million on an annualized basis, representing $0.08 per Unit (Trust & LP B Units). For the most part, Boardwalk REIT's rental lease agreements last no longer than twelve months. On physical turnover, the rental units are then re-leased directly at current market rent. If market rents are increasing and a Boardwalk Resident Member wishes to renew and he or she is able to demonstrate real financial hardship at the end of the lease agreement, the Trust's self-imposed rent control and Rental Increase Forgiveness program will reduce rental increases as appropriate, recognizing the long term benefits of such goodwill. By providing sustainable rental increases to our Resident Members, the Trust and all its Stakeholders have historically benefited from lower turnover, reduced expenses, and higher occupancy. The reader should note estimated loss-to-lease, measured at a point in time, is a non-GAAP measure, and that reported market rents can be very seasonal, and, as such, will vary from quarter to quarter. The significance of this change could materially affect Boardwalk REIT's "estimated loss-to-lease" amount. The importance of this estimate, however, is that it can be an indicator of future rental performance, assuming continuing economic conditions and trends. The reader should also note that it would take significant 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.

| Same Store | June 2015 Occupied Rent[(1)] | June 2015 Market Rent[(1)] | Mark to Market Per Month | Annualized Mark to Market Adjusted for Current Occupancy levels ($000's) | Weighted Average Apartment Units | % of Portfolio |
|---|---|---|---|---|---|---|
| Calgary | $ 1,389 | $ 1,443 | $ 54 | $ 3,487 | 5,419 | 16% |
| Edmonton | 1,293 | 1,289 | (4) | (652) | 12,397 | 36% |
| Fort McMurray | 1,785 | 1,557 | (228) | (968) | 352 | 1% |
| Grande Prairie | 1,069 | 1,135 | 66 | 506 | 645 | 2% |
| Red Deer | 1,065 | 1,082 | 17 | 189 | 939 | 3% |
| Alberta Portfolio | $ 1,310 | $ 1,321 | $ 11 | $ 2,562 | 19,752 | 58% |
| Saskatchewan[(2)] | $ 1,182 | $ 1,176 | $ (6) | $ (365) | 4,610 | 13% |
| Ontario | 844 | 864 | 20 | 1,047 | 4,265 | 12% |
| Quebec | 1,007 | 1,019 | 12 | 863 | 6,000 | 17% |
| Total Portfolio | $ 1,183 | $ 1,193 | $ 10 | $ 4,107 | 34,627 | 100% |

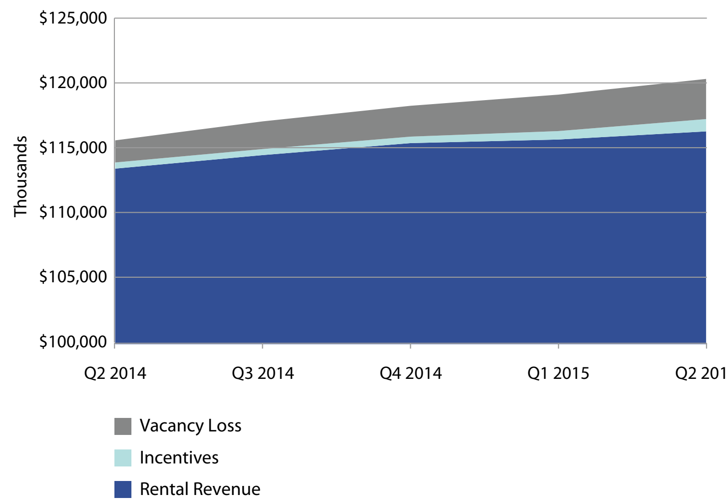
(1) Ancillary rental revenue is included in the calculation of market and occupied rent

(2) Saskatchewan market rent now includes an increase for cable and internet service

The amount reported as mark-to-market of $10 per month represents 0.8% of June 2015 occupied rent, an amount which is realistically attainable at lease maturity. The decrease in the loss-to-lease for our portfolio, from $10.4 million at March 2015 to $4.1 million at June 2015, was due primarily to declines in market rents in Calgary, Edmonton, and Fort McMurray as well as Saskatchewan, thus decreasing the spread between occupied and market rents. These declines in market rent are a reflection of the current economic downturn caused by the decrease in oil prices.

For the second quarter of 2015, the Trust was able to increase occupied rents on specific properties while still maintaining high occupancy levels. As with prior periods, Boardwalk REIT continues to focus on the optimization of all rental revenue, with attention to appropriate levels of market rents and certain occupancy level targets, as well as suite-selective incentives, when warranted.

As was previously mentioned, given a softening of the rental markets and the impact uncertainty resulting from lower oil prices, Boardwalk's continued focus is on maintaining high occupancy levels in the short term by offering various suite-specific incentives in exchange for longer-term leases.




### 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 the second quarter and the first six months of 2015 decreased from the same periods in the prior year from $21.6 million and $43.4 million, respectively, to $20.3 million and $41.1 million, due to the Trust being able to renew maturing mortgages at interest rates substantially below the noted maturing rates during the period. At June 30, 2015, the reported weighted average interest rate of 3.16% was down from the weighted average interest rate of 3.30% at March 31, 2015, 3.34% at December 31, 2014 and the 3.45% at June 30, 2014. Boardwalk REIT has continued to take advantage of historically low interest rates to refinance and renew certain mortgages, resulting in a lower overall weighted average interest rate. The average term to maturity of the Trust's mortgage portfolio is approximately 4.3 years. Given the continued low interest rates forecasted for 2015, this average term is expected to increase in subsequent periods as the Trust continues to renew maturing mortgages for significantly longer terms, ranging from 5 to 10 years with an emphasis in the longer end of this range.

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

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

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

Management cannot over-emphasize the importance of this Government-backed mortgage insurance program administered by Canada Mortgage and Housing Corporation. In the past, despite 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 June 30, 2015, approximately 99% of Boardwalk REIT's mortgages were backed by this NHA insurance, with a weighted average amortization period of approximately 30 years.

As was previously noted, the adoption of IFRS has also had an impact on the amount of financing costs reported on the Trust's Condensed Consolidated Statement of Comprehensive Income. As a result of the Trust's LP Class B Units being classified as financial liabilities in accordance with IAS 32, the corresponding distributions paid to the Unitholders are classified as financing costs under

IFRS. The Trust believes these distribution payments do not truly represent "financing charges" as these amounts are only payable if the Trust declares distributions, and only for the amount of any distributions declared, both of which are at the discretion of the Board of Trustees as outlined in the DOT. The total amount of distributions declared for the LP Class B Unitholders for the three and six months ended June 30, 2015, which have been recorded as financing charges, was $2.3 million and $4.6 million, respectively ($2.3 million and $4.5 million for the three and six months ended June 30, 2014). Based on this rationale, these amounts have been added back in the calculation of FFO.

The reader should also note that under IFRS, financing charges are recorded net of interest income the Trust has earned for the period. The total amount of interest income earned for the current quarter and the first six months of 2015 was $0.2 million and $0.5 million, respectively, compared to $0.5 million and $0.9 million for the same periods in the prior year.

### Interest Rate Sensitivity

Although Boardwalk REIT manages its financing risk in a variety of ways, as discussed later in the MD&A, it is important the reader understands how significant interest rate changes could impact the Trust as a whole. 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. For the remainder of fiscal 2015, the Trust anticipates having approximately $253.0 million of secured mortgages maturing (of which $20.8 million relates to the Windsor property portfolio) with a weighted average rate of 3.61%. If we were to renew these mortgages today with a new 5-year term, we estimate, based upon interactions with possible lenders, the new rate would be approximately 1.70% (as of August 2015), resulting in an estimated $4.8 million potential annualized reduction in interest expense in our soon-to-mature mortgages.

## ADMINISTRATION

Included in administration expenses are costs associated with Boardwalk REIT's centralized administrative functions. The amount reported for the three and six months ended June 30, 2015, which relates to corporate administration from continuing operations, was $8.7 million and $16.9 million, respectively, compared to $8.2 million and $15.7 million for the same periods in the prior year, an increase of approximately 5.9% and 8.0%. The increase for the three and six months ended June 30, 2015 is primarily due to higher wages and salaries and Associate transition payments. The increase for the six months also included higher profit sharing accruals.

For the current and prior comparative periods, Boardwalk REIT allocated certain administration costs between corporate and rental operating expenses. The administration costs allocated to rental operating expenses consist primarily of specific amounts associated with operation-specific staff and related support initiatives. Total administration costs, combining rental operating and corporate, were $14.6 million and $29.0 million for the three and six months ended June 30, 2015, compared to $14.0 million and $27.2 million for the same periods in the prior year (excluding discontinued operations). The increase in total administration costs for the six months ended June 30, 2015 of approximately $1.8 million, or approximately 6.5%, was primarily the result of higher wages and salaries and Associate transition payments.

## DEPRECIATION AND AMORTIZATION

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

### Depreciation of property, plant and equipment

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

### Amortization of Deferred Financing Costs

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

For the three and six months ended June 30, 2015, no deferred financing costs were written off due to the term maturity and payout of mortgages in Boardwalk's secured debt portfolio.

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

The total amount reported as depreciation and amortization for the three and six months ended June 30, 2015, was $2.5 million and $4.7 million, respectively, compared to $3.1 million and $6.1 million recorded for the same periods in the prior year.

## OTHER INCOME AND EXPENSES

### Income Tax Expense

Boardwalk REIT qualifies as a 'mutual fund trust' as defined in the Income Tax Act (Canada) (the "Tax Act"). The Tax Act also contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation") and the criteria for qualifying for the real estate investment trust exemption (the "REIT Exemption"), which would exempt Boardwalk REIT from income tax under the SIFT Legislation. For 2014 and 2015 to date, the Trust qualified for the REIT Exemption.

Although Boardwalk REIT is exempted from income taxes, provided it distributes all of its taxable income to its Unitholders, this exemption does not apply to its corporate subsidiaries, which are subject to income taxes.

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

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. The LP Class B Units and the deferred unit-based compensation plan are classified as financial liabilities in accordance with IFRS standards, and, as a result, are recorded at their fair value at each reporting date. As at June 30, 2015, the Trust used a price of $56.63 based on the closing price of the TSX-listed Boardwalk REIT Trust Units to determine the fair value of these financial liabilities at that date. The total fair value of these units recorded on the Condensed Consolidated Statements of Financial Position at June 30, 2015 was $253.4 million, and a corresponding fair value gain of $22.0 million (six months ended June 30, 2014 – fair value loss of $24.2 million) was recorded on the Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2015.

The deferred unit-based compensation plan had a fair value of $7.8 million, and a corresponding fair value gain of $0.4 million (six months ended June 30, 2014 – fair value loss of $1.3 million) was recorded on the Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2015.

### Operating Activities

*Cash Flow from Operations*

Boardwalk REIT prepares its financial statements in accordance with IFRS and with the recommendations of the Real Property Association of Canada ("REALpac"). REALpac has adopted measurements called Funds From Operations and Adjusted Funds From Operations to supplement profits or earnings as measures of operating performance. These measurements are considered to be meaningful and useful measures of real estate operating performance. Boardwalk REIT's presentation of FFO and AFFO are materially consistent with the definitions provided by REALpac. These measurements, however, are not necessarily indicative of cash that is available to fund cash needs and should not be considered alternatives to cash flow as a measure of liquidity. FFO and AFFO do not represent cash flow from operations as defined by IFRS. Boardwalk REIT considers FFO and AFFO to be appropriate measurements 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 and AFFO should be considered in conjunction with profit as presented in the audited consolidated financial statements. Boardwalk REIT's computation of FFO from profit is highlighted above in the section titled, "FFO Reconciliations". Boardwalk REIT's computation of AFFO from FFO is highlighted below in the section titled, "Maintenance of Productive Capacity".

A reconciliation of FFO to cash flow from operating activities as shown in the Consolidated Statements of Cash Flow prepared in accordance with IFRS is highlighted below.

| **FFO Reconciliation**<br>*In $000's, except per unit amounts* | **3 months June 2015** | 3 months June 2014 | % Change | **6 months June 2015** | 6 months June 2014 | % Change |
|---|---|---|---|---|---|---|
| Cash flow from operating activities | **$ 46,510** | $ 44,557 | | **$ 79,621** | $ 81,166 | |
| Adjustments | | | | | | |
| Operating working capital | **1,123** | 197 | | **4,517** | 3,207 | |
| Deferred financing amortization | **(1,289)** | (1,985) | | **(2,397)** | (4,002) | |
| Government grant earned | **95** | 95 | | **189** | 189 | |
| Add back distributions to LP Class B Units recorded as financing charges (1) | **2,282** | 2,282 | | **4,565** | 4,542 | |
| Interest paid | **20,451** | 21,810 | | **47,641** | 43,671 | |
| Financing costs | **(20,315)** | (21,643) | | **(41,097)** | (43,445) | |
| Funds from operations | **$ 48,857** | $ 45,313 | 7.8% | **$ 93,039** | $ 85,328 | 9.0% |
| Funds from operations – per unit | **$ 0.94** | $ 0.86 | 9.3% | **$ 1.79** | $ 1.63 | 9.8% |

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

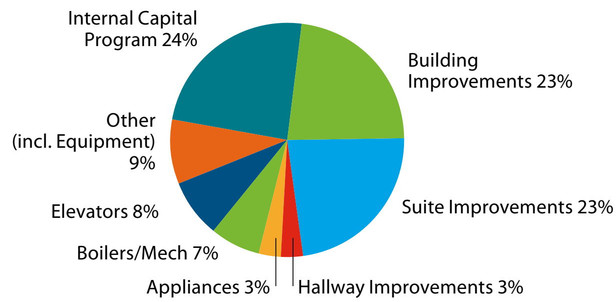
The reader is cautioned that Boardwalk REIT's calculation of FFO may be different from other real estate corporations or REITs and, as such, a straight comparison may not be warranted. For the quarter ended June 30, 2015, Boardwalk REIT reported total FFO of $48.9 million, or $0.94 per fully diluted Trust Unit. This represented an increase of approximately 7.8% and 9.3%, respectively, compared to the $45.3 million, or $0.86 per fully diluted Trust Unit, reported for the same quarter in 2014. For the first six months of 2015, Boardwalk REIT reported total FFO of $93.0 million, or $1.79 per fully diluted Trust Unit. This represented an increase of approximately 9.0% and 9.8% respectively, compared to the $85.3 million, or $1.63 per fully diluted Trust Unit, reported for the same periods in 2014. The increase is primarily due to rental revenue growth, utility cost savings and interest expense savings.

### Capital Improvements

Boardwalk has a continuous internal capital program with respect to its investment properties. The program is designed to extend their useful lives, improve operating efficiency, enhance appeal, maintain their earnings capacity and meet Resident Members' expectations, as well as meet health and safety regulations.

In the first six months of 2015, Boardwalk REIT invested approximately $36.1 million (comprised of $32.6 million on its stabilized investment properties and $3.5 million on property, plant and equipment) in the form of equipment purchases and project enhancements to upgrade existing suites, common areas, building exteriors and systems, compared to the $34.5 million ($30.7 million on its stabilized investment properties and $3.8 million on property, plant and equipment) invested in the first six months of 2014. The amount of this investment will vary from year-to-year.

A significant part of Boardwalk's capital improvement program relates to projects that are carried out by Boardwalk's Associates. This internal capital program was initiated in 1996 as a way to create more value for the Trust. The Trust recognizes that there are certain efficiencies and economies of scale available from having Boardwalk Associates perform certain capital projects ourselves, or "in-house". This results in the faster execution and greater control of these projects while at the same time eliminating the profit charged by third-party contractors. The Trust focuses on specific projects where there is the largest opportunity for value creation, like flooring and painting. Over the last few years, the Trust has intensified this focus of performing capital projects "in-house" rather than contracting such services. Included in capital improvements is approximately $8.8 million of on-site wages and salaries that have been incurred towards these projects for the first six months of 2015, compared to $8.3 million for the same period in 2014.




### 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, called Adjusted Funds From Operations, that can be distributed to Unitholders. Maintenance capital expenditures include those expenditures that are not considered betterments, and relate more to maintaining the existing earnings capacity of our property portfolio. In contrast, stabilizing and value enhancing capital expenditures are more discretionary in nature and focus on increasing the productivity of the property, with the goal of increasing the FFO generated at that location. In addition, the Trust invests funds in its portfolio in the form of ongoing repairs and maintenance as well as on-site maintenance Associates. Both of these expenditures are designed to maintain the operating capacity of our assets.

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

| *in $000's, except for per suite amounts* | **3 Months Jun 30, 2015** | **Per Suite** | 3 Months Jun 30, 2014 | Per Suite | **6 Months Jun 30, 2015** | **Per Suite** | 6 Months Jun 30, 2014 | Per Suite |
|---|---|---|---|---|---|---|---|---|
| Maintenance Capital Expenditures | **$ 4,327** | **$ 125** | $ 4,156 | $ 119 | **$ 8,656** | **$ 250** | $ 8,345 | $ 238 |
| Stabilizing & Value Enhancing Capital (excluding Property, Plant & Equipment) | **$ 13,844** | **$ 400** | $ 13,993 | $ 399 | **$ 23,936** | **$ 691** | $ 22,274 | $ 634 |
| | **$ 18,171** | **$ 525** | $ 18,149 | $ 518 | **$ 32,592** | **$ 941** | $ 30,619 | $ 872 |

Items reported as capital are determined as investments in assets that have a useful life longer than the current reporting period. Management has estimated that for the second quarter of fiscal 2015 and 2014, the amount allocated to maintenance capital was approximately $4.3 million, or $125 per apartment unit, and $4.2 million, or $119 per apartment unit, respectively, with investment in value-enhancing expenditures to its stabilized investment properties totaling $13.8 million and $14.0 million, respectively, or $400 and $399 per apartment unit.

For the six months ended June 30, 2015, and 2014, the amount allocated to capital was approximately $8.7 million, or $250 per apartment unit, and $8.3 million, or $238 per apartment unit, respectively, with investment in value-enhancing expenditures to its stabilized investment properties totaling $23.9 million and $22.3 million, respectively, or $691 and $634 per apartment unit.

If we compare the funds generated by the Trust after adjusting for the required maintenance capital expenditures, we note the Trust is currently paying out an estimated 54.3% of reported FFO and 59.6% of AFFO for the three months ended June 30, 2015, compared to 58.9% and 64.9%, respectively, for the same period in the previous year. For the six months ended June 30, 2015, the Trust is currently paying out an estimated 57.0% of reported FFO and 62.9% of AFFO compared to the 62.3% and 69.1%, respectively, for the same periods in the previous year. For 2015, maintenance capital is estimated to be approximately $500 per apartment unit, compared to $475 per apartment unit for 2014.

| *(000's)* | **3 months Jun 30, 2015** | 3 months Jun 30, 2014 | **6 months Jun 30, 2015** | 6 months Jun 30, 2014 |
|---|---|---|---|---|
| Funds From Operations (FFO) | **$ 48,857** | $ 45,313 | **$ 93,039** | $ 85,328 |
| Maintenance Capital Expenditures | **$ 4,327** | $ 4,156 | **$ 8,656** | $ 8,345 |
| Adjusted Funds From Operations (AFFO) | **$ 44,530** | $ 41,157 | **$ 84,383** | $ 76,983 |
| AFFO per unit (Trust and LP B Units) | **$ 0.86** | $ 0.79 | **$ 1.62** | $ 1.47 |
| Unitholder Distributions – Regular (Trust Units and LP B Units) | **$ 26,529** | $ 26,707 | **$ 53,050** | $ 53,173 |
| Distribution as a % of FFO | **54.3%** | 58.9% | **57.0%** | 62.3% |
| Distribution as a % of AFFO | **59.6%** | 64.9% | **62.9%** | 69.1% |

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, resulting in safe and desirable apartments for its Resident Members and Associates.

## INVESTMENT PROPERTIES

In the first quarter of 2015, the Trust acquired an office building in Verdun, Quebec, which has now been included under the Nun's Island property for a purchase price of $3.1 million (three and six months ended June 30, 2014 – $nil). The purchase closed on January 19, 2015.

On April 15, 2015, the Trust purchased one unit in the property known as Morningside Estates for $130 thousand. The Trust now owns 223 of the 224 units in the property.

The Trust has elected to use the fair value model in accordance with IAS 40 - Investment Properties to report the value of its investment properties at each reporting date.

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

| Date | Number of properties | Aggregate fair value | Percentage of portfolio as of that date |
|---|---|---|---|
| June 30, 2015 | 4 | $ 120,113 | 2.1% |
| March 31, 2015 | 5 | $ 168,992 | 2.9% |
| December 31, 2014 | 5 | $ 524,041 | 9.1% |
| September 30, 2014 | 4 | $ 348,154 | 6.0% |
| June 30, 2014 | 4 | $ 102,104 | 1.8% |
| March 31, 2014 | 4 | $ 105,282 | 1.8% |

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

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

| As at | **June 30, 2015** | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Capitalization rate** | | **Forecasted total standardized net** | Capitalization rate | | Forecasted total standardized net |
| | **Minimum** | **Maximum** | **operating income** | Minimum | Maximum | operating income |
| Calgary | **4.50%** | **6.00%** | **$ 63,718** | 4.50% | 6.00% | $ 63,743 |
| Edmonton | **5.00%** | **5.50%** | **125,548** | 5.00% | 5.50% | 126,363 |
| Other Alberta | **5.75%** | **7.25%** | **19,787** | 5.75% | 7.25% | 20,643 |
| Kitchener | **5.25%** | **5.25%** | **1,789** | 5.50% | 5.50% | 1,754 |
| London | **5.50%** | **5.75%** | **11,352** | 5.75% | 6.00% | 10,875 |
| Windsor | **– %** | **– %** | **–** | 6.50% | 7.00% | 6,814 |
| Montreal | **5.50%** | **6.25%** | **5,560** | 5.50% | 6.25% | 5,510 |
| Quebec City | **5.50%** | **6.00%** | **9,928** | 5.75% | 6.25% | 9,926 |
| Regina | **5.75%** | **6.00%** | **22,909** | 5.75% | 6.00% | 23,118 |
| Saskatoon | **5.75%** | **6.00%** | **19,676** | 5.75% | 6.00% | 19,675 |
| | **4.50%** | **7.25%** | **$ 280,267** | 4.50% | 7.25% | $ 288,421 |
| Land Lease | **5.25%** | **15.09%** | **$ 28,263** | 5.25% | 15.09% | $ 28,055 |

Overall portfolio weighted average capitalization rates was 5.44% as at June 30, 2015 and 5.48% as at December 31, 2014.

The "Overall Capitalization Rate" method requires a forecasted stabilized net operating income ("NOI") be divided by a capitalization rate ("cap rate") to determine a fair value. NOI is calculated as a one-year income forecast based on rental income from current leases and key assumptions about rental income, vacancies and inflation rates, among other factors, less property operating costs. As such, fluctuations in both NOI and cap rates could significantly alter the fair value. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in capitalization rate will result in a decrease to the fair value of an investment property. When the capitalization rate is applied to NOI to calculate fair value, there is a significant impact whereby the lower the capitalization rate, the larger the impact. Below are tables that summarize the sensitivity impact of changes in both cap rates and NOI on the Trust's fair value of its investment properties (excluding development) as at June 30, 2015 and December 31, 2014:

As at June 30, 2015 *(in 000's)*

| Net Operating Income | | **-3%** | **-1%** | **As Forecasted** | **+1%** | **+3%** |
|---|---|---|---|---|---|---|
| | | **$ 299,274** | **$ 305,445** | **$ 308,530** | **$ 311,615** | **$ 317,786** |
| Capitalization Rate | | | | | | |
| -0.25% | **5.19%** | **$ 94,853** | **$ 231,747** | **$ 273,194** | **$ 332,641** | **$ 451,535** |
| Cap Rate As Reported | **5.44%** | **(170,145)** | **(56,715)** | **5,671,506** | **56,715** | **170,145** |
| +0.25% | **5.69%** | **(411,857)** | **(303,411)** | **(249,187)** | **(194,964)** | **(86,518)** |

As at December 31, 2014 *(in 000's)*

| Net Operating Income | | -3% | -1% | As Forecasted | +1% | +3% |
|---|---|---|---|---|---|---|
| | | $ 306,982 | $ 313,311 | $ 316,476 | $ 319,641 | $ 325,970 |
| Capitalization Rate | | | | | | |
| -0.25% | 5.23% | $ 94,522 | $ 215,545 | $ 276,057 | $ 336,569 | $ 457,592 |
| Cap Rate As Reported | 5.48% | (173,253) | (57,751) | 5,775,111 | 57,751 | 173,253 |
| +0.25% | 5.73% | (417,662) | (307,200) | (251,968) | (196,737) | (86,274) |

## INVESTMENT PROPERTY DEVELOPMENT

In the past, the development of multi-family apartment units by the Trust was not a significant part of its overall strategy. The main reason was due to management's opinion that the anticipated return on development was far below other available risk adjusted capital allocation alternatives, such as the acquisition of existing apartment units in the Trust's target markets and/or the buyback of Trust Units for cancellation. Over the last number of years, there has been a change in the multi-family apartment environment in Canada. Over this period, we have witnessed a significant increase in the market value of rental apartments. This increase, although somewhat helped by a steady increase in reported market rental rates, has been mainly driven by a significant compression in market capitalization rates, which in turn has been the result of a prolonged low interest rate environment in Canada.

With this increase in the market value of apartments, there has been a significant decrease in the expected returns from the above noted allocation alternatives to a level that warrants a measured allocation of capital to the area of new apartment development, particularly on excess land the Trust currently owns. Accordingly, the Trust pursued new apartment development on some of its excess density. In November 2013, the Trust completed on time and within budget a 109-unit four storey, elevatored, wood frame building in the Southwest part of Calgary. To assist in the development cost of this property, the Trust had applied for, and received, a grant from the Province of Alberta in the amount of $7.5 million. In return for this grant, the Trust has agreed to classify 54 of the 109 units as 'affordable', with market rents set at 10% below average market rates for Calgary for a term of 20 years. The estimated stabilized capitalization rate on this project was between 6.5% and 7.0%, including an estimated allocation of $4.25 million, or $39 thousand per apartment unit, for the excess land allocated to this project. In accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance under IFRS, this grant will be recognized in profit or loss on a systematic basis over the periods in which the Trust recognizes revenue from the 54 units classified as affordable units, resulting in achievable rents being much closer to market rents. For the three and six months ended June 30, 2015, $95 thousand and $189 thousand, respectively, was recognized in profit under rental revenue for this grant (three and six months ended June 30, 2014 – $95 thousand and $189 thousand, respectively).

In October of 2014, the Trust commenced the first phase of construction for a 79-unit building on excess land on our property known as Pines of Normanview in Regina, Saskatchewan. The Trust executed a fixed-price construction contract with an estimated cost to complete of approximately $14.1 million, or $178,000 per door. The four-story, wood frame building will consist of 13 one-bedroom and 66 two-bedroom units. Stabilized capitalization rate is estimated to be between 6.0% and 6.5%, excluding land value. Internally, we have valued the land at approximately $12,000 per door. The building is estimated to be completed in Q1 2016.

It is our intention to continue to investigate further development opportunities, particularity in Alberta and Saskatchewan; however, each future opportunity will require a separate analysis and, depending on the analysis and economic conditions, Boardwalk REIT will determine if additional development projects are warranted. Historically, one of the biggest risks to real estate evaluations is the building of oversupply in a particular market, which results in significant corrections of property values market wide. The Trust currently mitigates this risk by avoiding leverage and using cash on hand for new development and undertaking development as a small part of Boardwalk's overall strategy.

For the three and six months ended June 30, 2015, the Trust expended $3.3 million and $4.9 million, respectively, on total development costs compared to $0.1 million and $0.2 million for the same periods in the prior year.

## CAPITAL STRUCTURE AND LIQUIDITY

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

To mitigate the risk of renewal, the Trust utilizes NHA mortgage insurance, the benefits of which we discussed in detail above. Approximately 99% of Boardwalk REIT's secured mortgages carry NHA insurance. In volatile times, the ability to access this product was very beneficial to the Trust as a whole.

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

*($000)*

| | |
|---|---|
| Cash position June 30, 2015 | $ 86,527 |
| Subsequent Committed Financing | 84,835 |
| Committed Revolving Credit Facility Available | 195,850 |
| Total Available Liquidity | $ 367,212 |

In addition to this, the Trust currently has 1,549 rental apartment units of unencumbered assets, of which 257 units are pledged against the Trust's committed revolving credit facility. It is estimated under current CMHC underwriting criteria, that the Trust could obtain an additional $151.8 million of new proceeds from the financing of its current unencumbered assets.

The reader should also be aware that of the $253.0 million of secured mortgages coming due in the remainder of 2015 (as shown in the table below), all have NHA insurance, and represent in aggregate approximately 47% of current estimated "underwriting" values on those individual secured assets. Of the $253.0 million maturing mortgages, $20.8 million relates to our Windsor property portfolio, which will be paid out upon the closing of the sale transaction. Currently, interest rates on NHA insured mortgages are below the weighted average interest rate of the $253.0 million maturing mortgages of 3.61%. The reader, however, is cautioned these current rates do fluctuate and, by the time these maturing mortgages are set for renewal, with or without additional financing, interest rates may have changed materially. Even with the NHA insurance program attached to its secured mortgages, the Trust is still susceptible to changes in market interest rates. To take advantage of current interest rates and to reduce a portion of the Trust's interest rate risk, the Trust, to date, has renewed or forward interest rate locked $119.4 million of its remaining 2015 mortgage maturities with a weighted average interest rate of 2.33%, while also securing an average mortgage term of approximately 8 years on these financings.

### Mortgages Schedule

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

Total mortgages payable (net of unamortized transaction costs) on June 30, 2015, were $2.20 billion, compared to $2.17 billion reported on December 31, 2014.

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 June 30, 2015, was 3.16% compared to 3.34% on December 31, 2014 and 3.45% on June 30, 2014. 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 to reduce interest rate renewal risk.

| Year of Maturity | Principal Outstanding as at June 30, 2015 | Weighted Average Interest Rate By Maturity | % of Total |
|---|---|---|---|
| 2015 | $ 253,038 | 3.61% | 11.1% |
| 2016 | 253,898 | 3.79% | 11.2% |
| 2017 | 301,732 | 2.87% | 13.3% |
| 2018 | 174,376 | 3.27% | 7.7% |
| 2019 | 408,663 | 2.93% | 18.0% |
| 2020 | 138,902 | 2.94% | 6.1% |
| 2021 | 54,927 | 3.67% | 2.4% |
| 2022 | 312,027 | 3.07% | 13.7% |
| 2023 | 183,233 | 3.01% | 8.1% |
| 2024 | 92,783 | 3.37% | 4.1% |
| 2025 | 98,244 | 2.57% | 4.3% |
| Total Principal Outstanding | $ 2,271,823 | 3.16% | 100.0% |
| Unamortized Deferred Financing Costs | $ (74,476) | | |
| Per Financial Statements | $ 2,197,347 | | |

### Interest Coverage

Notwithstanding the Trust's current liquidity situation, Boardwalk's liquidity and access to capital resources is constrained by certain tests that have been adopted in both its Declaration of Trust, as well as in its credit facility. The Declaration of Trust stipulates an interest coverage ratio limit of 1.5 to 1. For the purpose of the interest coverage ratio calculation, gains or losses on the sale or disposition of investment properties are excluded from earnings. Additionally, distributions on the LP Class B Units are excluded from interest expense, despite the LP Class B Units being classified as a financial liability under IFRS.

The following table sets out the Trust's interest coverage ratio calculation as at June 30, 2015 and December 31, 2014, based on the most recently four completed fiscal quarters.

| As at | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| Consolidated EBITDA | **$ 263,531** | $ 260,531 |
| Consolidated Interest Expense | **74,235** | 77,341 |
| Interest Coverage Ratio | **3.55** | 3.37 |
| Minimum Threshold | **1.50** | 1.50 |

For the twelve months ended June 30, 2015, Boardwalk REIT's overall interest coverage ratio of adjusted EBITDA (i.e. Earnings Before Interest, Taxes, Depreciation and Amortization) to interest expense, excluding distributions on LP B Units and fair value gains and losses, was 3.55, compared to 3.37 for the year ended December 31, 2014. The reader should note that upon the adoption of IFRS standards, the distributions made to the LP Class B Unitholders are now considered financing charges and is the result of the reclassification of these units as financial liabilities. The calculation of the interest coverage ratio above does not include these distribution payments in the calculation of interest expense.

### Unitholders' Equity

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

| Summary of Unitholders' Capital Contributions | Units |
|---|---|
| December 31, 2013 | 47,919,964 |
| Units issued for vested deferred units | 73,089 |
| Units purchased and cancelled | (472,100) |
| December 31, 2014 | 47,520,953 |
| Units issued for vested deferred units | 20,800 |
| **June 30, 2015** | **47,541,753** |

Boardwalk REIT has one class of publicly traded voting securities known as "REIT Units". As at June 30, 2015, there were 47,541,753 REIT Units issued and outstanding. In addition, there were 4,475,000 special voting units issued to holders of "Class B Units" of Boardwalk REIT Limited Partnership ("LP B Units"), each of which also has a special voting unit in the REIT. Each LP B Unit is exchangeable for a REIT Unit on a one-for-one basis at the option of the holder. Each LP B Unit, through the special voting unit, entitles the holder to one vote at any meeting of Unitholders. Accordingly, if all of the LP B Units were exchanged for REIT Units, the total issued and outstanding REIT Units would be 52,016,753. These LP Class B Units are classified as fair value through profit or loss ("FVTPL") financial liabilities under IFRS and are recorded at their fair value as liabilities on the Condensed Consolidated Statements of Financial Position.

On June 30, 2014, the Trust received regulatory approval for a Normal Course Issuer Bid (the "Bid") to purchase and cancel up to 3,901,031 Trust Units, representing 10% of the public float at the time of the TSX approval. The Bid commenced July 3, 2014, and terminated July 2, 2015. The Trust's daily purchase limit pursuant to the Bid was 15,449 Trust Units.

On June 30, 2015, the Trust received regulatory approval for a Normal Course Issuer Bid (the "Bid") to purchase and cancel up to 3,855,766 Trust Units, representing 10% of the public float at the time of the TSX approval. The Bid commenced July 3, 2015, and will terminate on July 2, 2016, or when the Bid is completed. The Trust's daily purchases under this Bid will be limited to 38,006 Trust Units.

During 2014, the Trust purchased and cancelled 472,100 Units at an average purchase cost of $67.01 per Trust Unit. For the 2015 year to date, no Trust Units have been purchased and cancelled.

### Equity

Boardwalk has an equity market capitalization of approximately $2.9 billion based on the Trust Unit closing price of $56.63 on the Toronto Stock Exchange on June 30, 2015.

### Enterprise Value

With a total enterprise value of approximately $5.1 billion (consisting of total debt of $2.2 billion and market capitalization of $2.9 billion) as at June 30, 2015, Boardwalk's total debt is approximately 43% of total enterprise value at the end of the year.

## CRITICAL ACCOUNTING POLICIES

The Trust adopted IFRS as its basis of financial reporting, effective January 1, 2011. The significant accounting policies adopted by the Trust are included in Note 2 of the notes to the audited Consolidated Financial Statements for the year ended December 31, 2014.

Certain new standards, Interpretations, amendments, and improvements to existing standards, were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning January 1, 2015 or later periods. The standards and the impact on the Trust's consolidated financial statements were disclosed in Note 3 of the notes to the Trust's December 31, 2014 annual audited consolidated financial statements as well as Note 2 of the condensed consolidated financial statements for the current quarter.

## 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 appropriate decisions can be made regarding public disclosure.

The preparation of this information is supported by a set of disclosure controls and procedures ("DC&P") implemented by management. In fiscal 2014, these controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of both the design and the operation of disclosure controls and procedures as at December 31, 2014. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission's 2013 control framework (the "2013 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.

There were no changes made to our disclosure controls and procedures during the quarter ended June 30, 2015. Boardwalk REIT continues to review the design of disclosure controls and procedures to provide reasonable assurance that material information relating to Boardwalk REIT is properly communicated to certifying officers responsible for establishing and maintaining disclosure controls and procedures, as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

As at December 31, 2014, Boardwalk REIT confirmed the effectiveness of both the design and the operation of its internal control 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 quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## 2015 FINANCIAL OUTLOOK AND MARKET GUIDANCE

As is customary, the Trust on a quarterly basis reviews its key assumptions used in deriving its public financial guidance. During this quarter-end review, and with consideration to the sale of the Trust's Windsor Portfolio scheduled to close in September of 2015, the Trust is revising its previously announced 2015 FFO and AFFO guidance. The following table highlights the current financial objectives for the 2015 fiscal year.

| Description | 2015 Objectives | 2015 Q1 Revised Objectives | 2015 Q2 Revised Objectives |
|---|---|---|---|
| Investment Properties | No new apartment acquisitions, dispositions or developments | No new apartment acquisitions, dispositions or developments | No new apartment acquisitions, dispositions or developments |
| Stabilized Building NOI Growth | 1% to 4% | 1% to 4% | 1% to 4% |
| FFO Per Unit | $3.40 to $3.60 | $3.48 to $3.65 | $3.48 to $3.62 |
| AFFO Per Unit | $3.07 to $3.27 | $3.15 to $3.32 | $3.15 to $3.29 |

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

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

In addition to the above financial guidance for 2015, the Trust has assumed the following capital will be reinvested in its existing portfolio for the 2015 fiscal year.

| **Capital Budget** | **2015 Budget** | **Per Suite** | Six Months Ended June 30, 2015 Actual | Per Suite |
|---|---|---|---|---|
| Total Operational Capital Approved (including Property, Plant & Equipment) | **$ 98,837** | **$ 2,854** | $ 36,135 | $ 1,044 |
| Maintenance Capital | **$ 17,326** | **$ 500** | $ 8,656 | $ 250 |
| Stabilizing & Value Added Capital (including Property, Plant & Equipment) | **$ 81,511** | **$ 2,354** | $ 27,479 | $ 794 |
| | **$ 98,837** | **$ 2,854** | $ 36,135 | $ 1,044 |
| Acquisitions and Development Capital Approved | **$ 12,158** | | $ 8,194 | |

For the first six months of 2015, Boardwalk REIT has incurred approximately $36.1 million, or $1,044 per suite, of capital improvements on its stabilized Investment Properties, $4.9 million on development and $3.3 million on acquisitions, primarily on the Nun's Island office space and warehouse acquisition.

### 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.

Respectfully,

*(signed)*

Roberto A. Geremia
President

*(signed)*

William Wong
Chief Financial Officer

August 13, 2015

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*Unaudited (CDN $ THOUSANDS)*

| As at | Note | June 30, 2015 | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | 3 | **$ 5,679,407** | $ 5,778,108 |
| Property, plant and equipment | 5 | **27,216** | 26,124 |
| Deferred tax assets | 9 | **334** | 378 |
| | | **5,706,957** | 5,804,610 |
| **Current assets** | | | |
| Inventories | | **3,657** | 3,594 |
| Prepaid assets | | **5,623** | 4,493 |
| Trade and other receivables | | **8,275** | 7,246 |
| Segregated tenants' security deposits | | **12,281** | 12,138 |
| Cash and cash equivalents | | **86,527** | 139,564 |
| Assets classified as held for sale | 4 | **136,502** | – |
| | | **252,865** | 167,035 |
| **Total Assets** | | **$ 5,959,822** | $ 5,971,645 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Mortgages payable | 6 | **$ 1,788,112** | $ 1,702,179 |
| LP Class B Units | 7 | **253,419** | 275,392 |
| Deferred unit-based compensation | 8 | **4,443** | 4,510 |
| Deferred tax liabilities | 9 | **20** | 13 |
| Deferred government grant | 10 | **6,586** | 6,775 |
| | | **2,052,580** | 1,988,869 |
| **Current liabilities** | | | |
| Mortgages payable | 6 | **388,919** | 467,320 |
| Deferred unit-based compensation | 8 | **3,350** | 3,250 |
| Deferred government grant | 10 | **378** | 378 |
| Refundable tenants' security deposits | | **14,707** | 15,900 |
| Trade and other payables | | **60,084** | 137,940 |
| Liabilities directly associated with assets classified as held for sale | 4 | **22,050** | – |
| | | **489,488** | 624,788 |
| **Total Liabilities** | | **2,542,068** | 2,613,657 |
| **Equity** | | | |
| Unitholders' equity | 11 | **3,417,754** | 3,357,988 |
| **Total Equity** | | **3,417,754** | 3,357,988 |
| **Total Liabilities and Equity** | | **$ 5,959,822** | $ 5,971,645 |

*See accompanying notes to these condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *Unaudited (CDN $ THOUSANDS)* | Note | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|---|
| **Rental revenue** | | **$ 119,105** | $ 116,167 | **$ 237,408** | $ 231,059 |
| Ancillary rental income | | **1,642** | 1,787 | **3,374** | 3,448 |
| Total rental revenue | | **120,747** | 117,954 | **240,782** | 234,507 |
| **Rental expenses** | | | | | |
| Operating expenses | | **23,573** | 23,395 | **46,620** | 46,477 |
| Utilities | | **10,229** | 10,307 | **25,040** | 26,115 |
| Property taxes | | **10,115** | 9,755 | **20,208** | 19,348 |
| **Net operating income** | | **76,830** | 74,497 | **148,914** | 142,567 |
| Financing costs | 12 | **20,315** | 21,643 | **41,097** | 43,445 |
| Administration | | **8,651** | 8,172 | **16,944** | 15,678 |
| Depreciation and amortization | | **2,486** | 3,083 | **4,704** | 6,106 |
| **Profit from continuing operations before the undernoted** | | **45,378** | 41,599 | **86,169** | 77,338 |
| Loss on sale of assets | | **(4)** | (235) | **(4)** | (235) |
| Fair value (losses) gains | 13 | **(10,906)** | 44,041 | **19,950** | 117,635 |
| **Profit from continuing operations before income tax (expense) recovery** | | **34,468** | 85,405 | **106,115** | 194,738 |
| Income tax (expense) recovery | 9 | **125** | (71) | **(98)** | (22) |
| **Profit from continuing operations** | | **34,593** | 85,334 | **106,017** | 194,716 |
| Profit (loss) from discontinued operations, net of tax | 4 | **–** | (1,478) | **–** | 11,519 |
| **Profit for the period** | | **34,593** | 83,856 | **106,017** | 206,235 |
| Other comprehensive income | | **458** | 617 | **1,014** | 1,214 |
| **Total comprehensive income** | | **$ 35,051** | $ 84,473 | **$ 107,031** | $ 207,449 |

*See accompanying notes to these condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

| *Unaudited (CDN $ THOUSANDS)* | Trust Units | Cumulative profit | Cumulative distributions to Unitholders | Retained earnings | Accumulated other comprehensive income (loss) (NOTE 11(a)) | Total Unitholders' equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | $ 195,223 | $ 3,935,037 | $ (827,279) | $ 3,107,758 | $ (3,459) | $ 3,299,522 |
| Units issued | 2,070 | – | – | – | – | 2,070 |
| Units purchased and cancelled | (1,227) | (8,549) | – | (8,549) | – | (9,776) |
| Profit for the period | – | 206,235 | – | 206,235 | – | 206,235 |
| Other comprehensive income | – | – | – | – | 1,214 | 1,214 |
| Total comprehensive income for the period | – | 206,235 | – | 206,235 | 1,214 | 207,449 |
| Distributions declared to Unitholders | – | – | (48,631) | (48,631) | – | (48,631) |
| Balance, June 30, 2014 | $ 196,066 | $ 4,132,723 | $ (875,910) | $ 3,256,813 | $ (2,245) | $ 3,450,634 |
| Balance, December 31, 2014 | $ 195,951 | $ 4,154,039 | $ (990,988) | $ 3,163,051 | $ (1,014) | $ 3,357,988 |
| Units issued | 1,220 | – | – | – | – | 1,220 |
| Profit for the period | – | 106,017 | – | 106,017 | – | 106,017 |
| Other comprehensive income | – | – | – | – | 1,014 | 1,014 |
| Total comprehensive income for the period | – | 106,017 | – | 106,017 | 1,014 | 107,031 |
| Distributions declared to Unitholders | – | – | (48,485) | (48,485) | – | (48,485) |
| **Balance, June 30, 2015** | **$ 197,171** | **$ 4,260,056** | **$ (1,039,473)** | **$ 3,220,583** | **$ –** | **$ 3,417,754** |

*See accompanying notes to these condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| *Unaudited (CDN $ THOUSANDS)* | Note | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit for the period | | **$ 34,593** | $ 83,856 | **$ 106,017** | $ 206,235 |
| Loss (profit) from discontinued operations, net of tax | 4 | **–** | 1,478 | **–** | (11,519) |
| Loss on sale of assets | | **4** | 235 | **4** | 235 |
| Financing costs | 12 | **20,315** | 21,643 | **41,097** | 43,445 |
| Interest paid | | **(20,451)** | (21,810) | **(47,641)** | (43,671) |
| Fair value losses (gains) | 13 | **10,906** | (44,041) | **(19,950)** | (117,635) |
| Income tax expense (recovery) | 9 | **(125)** | 71 | **98** | 22 |
| Income tax paid | 9 | **–** | – | **(2)** | (1) |
| Government grant amortization | 10 | **(95)** | (95) | **(189)** | (189) |
| Depreciation and amortization | | **2,486** | 3,083 | **4,704** | 6,106 |
| | | **47,633** | 44,420 | **84,138** | 83,028 |
| Net cash operating inflows from discontinued operations | 4 | **–** | 334 | **–** | 1,345 |
| Net change in operating working capital | 19 | **(1,123)** | (197) | **(4,517)** | (3,207) |
| | | **46,510** | 44,557 | **79,621** | 81,166 |
| **Investing activities** | | | | | |
| Purchase of investment properties | 3 | **(165)** | – | **(3,290)** | – |
| Improvements to investment properties | 3 | **(18,171)** | (17,884) | **(32,592)** | (30,053) |
| Development of investment properties | 3 | **(3,311)** | (87) | **(4,904)** | (210) |
| Additions to property, plant and equipment | 5 | **(2,007)** | (1,888) | **(3,543)** | (3,822) |
| Net cash proceeds from sale of investment properties | 4 | **821** | 13,265 | **821** | 13,265 |
| Net cash investing outflows from discontinued operations | 4 | **–** | 137,400 | **–** | 137,099 |
| Net change in investing working capital | 19 | **1,623** | 2,008 | **91** | (1,687) |
| | | **(21,210 )** | 132,814 | **(43,417)** | 114,592 |
| **Financing activities** | | | | | |
| Distributions paid | 19 | **(24,246)** | (24,448) | **(115,011)** | (48,411) |
| Unit repurchase program | | **–** | (9,776) | **–** | (9,776) |
| Proceeds from mortgage financings | | **63,560** | 9,779 | **63,560** | 9,779 |
| Mortgage payments upon refinancing | | **(10,955)** | – | **(10,955)** | – |
| Scheduled mortgage principal repayments | | **(12,248)** | (11,658) | **(24,413)** | (23,267) |
| Deferred financing costs incurred | | **(2,406)** | (709) | **(2,725)** | (804) |
| Bond forward settlement, net of amortization | 11 | **27** | 14 | **41** | 27 |
| Government grant proceeds | 10 | **–** | 715 | **–** | 715 |
| Net cash financing outflows from discontinued operations | 4 | **–** | (62,200) | **–** | (62,496) |
| Net change in financing working capital | 19 | **128** | 181 | **262** | (12) |
| | | **13,860** | (98,102) | **(89,241)** | (134,245) |
| Net increase (decrease) in cash | | **39,160** | 79,269 | **(53,037)** | 61,513 |
| Cash and cash equivalents, beginning of period | | **47,367** | 113,323 | **139,564** | 131,079 |
| **Cash and cash equivalents, end of period** | | **$ 86,527** | $ 192,592 | **$ 86,527** | $ 192,592 |

*See accompanying notes to these condensed consolidated financial statements*

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For *the Three and Six Months Ended June 30, 2015 and 2014*

*(Unaudited) (Tabular amounts in Cdn $ thousands, except number of units and per unit amounts UNLESS OTHERWISE STAT*ED)

## NOTE 1: ORGANIZATION OF THE TRUST

Boardwalk Real Estate Investment Trust ("Boardwalk REIT" or the "Trust" or the "Entity") is an unincorporated, open-ended real estate investment trust created pursuant to the Declaration of Trust ("DOT"), dated January 9, 2004, and as amended and restated on various dates between May 3, 2004 and May 14, 2015, under the laws of the Province of Alberta. Boardwalk REIT was created to invest in multi-family residential investment properties or similar interests, initially through the acquisition of the assets and operations of Boardwalk Equities Inc. (the "Corporation"), which was acquired on May 3, 2004. Boardwalk REIT Trust Units are listed on the Toronto Stock Exchange under the symbol 'BEI.UN'. The registered office of the Trust and its head office operations are located at First West Place, Suite 200, 1501 1st Street SW, Calgary, Alberta, T2R 0W1.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

### (b) Basis of presentation

These condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2014, except for the impact of the adoption of accounting standards described below (NOTE 2(d)).

The Trust's condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, assets classified as held for sale, and certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. These condensed consolidated financial statements were prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects.

The operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015 due to seasonal variations in property expenses and other factors. Historically, Boardwalk REIT has experienced higher utility expenses in the first and fourth quarters as a result of the winter months, resulting in variations in quarterly results.

Certain comparative figures have been reclassified to conform to the presentation of the current period. Specifically, elements have been reclassified between operating expenses and administration.

### (c) Significant accounting judgments, estimates and assumptions

The preparation of the Trust's June 30, 2015 condensed consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, profit (loss) and related disclosures. The estimates and associated assumptions are based on historical experience and various other factors that are deemed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the Trust's December 31, 2014 annual consolidated financial statements.

### (d) Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning January 1, 2015 or later periods. Recently, the effective date to adopt IFRS 15 – Revenue from Contracts with Customers has been deferred to annual reporting periods beginning on or after January 1, 2018. The Trust is still assessing the potential impact to its consolidated financial statements. All other new standards, and the impact on the Trust's consolidated financial statements, were previously disclosed in the Trust's December 31, 2014 annual consolidated financial statements.

## NOTE 3: INVESTMENT PROPERTIES

| | **6 months ended June 30, 2015** | Year ended December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **$ 5,778,108** | $ 5,745,207 |
| Additions | | |
| Building purchases | **3,290** | – |
| Building improvements (incl. internal capital program) | **32,592** | 79,662 |
| Building improvements discontinued operations | **–** | 566 |
| Development of investment properties | **4,904** | 1,995 |
| Transferred to assets classified as held for sale | **(136,200)** | – |
| Dispositions | **(825)** | (153,420) |
| Fair value (losses) gains, unrealized, from continuing operations | **(36,442)** | 89,781 |
| Fair value gains, unrealized, from assets classified as held for sale | **33,980** | – |
| Fair value gains, realized, from discontinued operations | **–** | 14,317 |
| Balance, end of period | **$ 5,679,407** | $ 5,778,108 |
| Revenue producing properties | **$ 5,671,506** | $ 5,775,111 |
| Development | **7,901** | 2,997 |
| Total | **$ 5,679,407** | $ 5,778,108 |

In determining the appropriate classes of investment properties in order to determine the fair value measurement, the Trust has considered the nature, characteristics and risk of its properties. The classification of investment properties is based primarily on the geographical location of the asset, with the exception of properties situated on land leases. Below is a continuity schedule based on investment property classes:

| | 6 months ended June 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, beginning of period | Purchases and Building improvements (incl. internal capital program) | Development of investment properties | Dispositions | Transferred to assets classified as held for sale | Fair value gains (losses), unrealized, from continuing operations | Balance, end of period |
| **Recurring measurements Investment properties** | | | | | | | |
| Calgary | **$ 1,278,174** | **$ 4,845** | **$ 61** | **$ –** | **$ –** | **$ (5,862)** | **$ 1,277,218** |
| Edmonton | **2,396,720** | **11,044** | **29** | **–** | **–** | **(28,016)** | **2,379,777** |
| Other Alberta | **319,765** | **2,098** | **–** | **–** | **–** | **(14,560)** | **307,303** |
| Kitchener | **31,897** | **386** | **–** | **–** | **–** | **1,802** | **34,085** |
| London | **188,836** | **1,313** | **–** | **–** | **–** | **15,909** | **206,058** |
| Windsor | **100,935** | **1,285** | **–** | **–** | **(136,200)** | **33,980** | **–** |
| Montreal | **95,878** | **396** | **–** | **–** | **–** | **461** | **96,735** |
| Quebec City | **166,943** | **2,270** | **–** | **–** | **–** | **5,137** | **174,350** |
| Regina | **388,380** | **2,628** | **4,814** | **(825)** | **–** | **(5,282)** | **389,715** |
| Saskatoon | **330,607** | **3,163** | **–** | **–** | **–** | **(3,152)** | **330,618** |
| Land leases | **479,973** | **6,454** | **–** | **–** | **–** | **(2,879)** | **483,548** |
| Total | **$ 5,778,108** | **$ 35,882** | **$ 4,904** | **$ (825)** | **$ (136,200)** | **$ (2,462)** | **$ 5,679,407** |

| | Year ended December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, beginning of year | Building improvements (incl. internal capital program and discontinued operations) | Development of investment properties | Dispositions | Fair value gains (losses), unrealized, from continuing operations | Fair value gains realized, from discontinued operations | Balance, end of year |
| **Recurring measurements Investment properties** | | | | | | | |
| Calgary | $ 1,204,095 | $ 10,598 | $ 82 | $ – | $ 63,399 | $ – | $ 1,278,174 |
| Edmonton | 2,303,868 | 29,363 | 5 | (13,485) | 76,969 | – | 2,396,720 |
| Other Alberta | 316,819 | 5,694 | – | – | (2,748) | – | 319,765 |
| Vancouver/Victoria | 125,052 | 566 | – | (139,935) | – | 14,317 | – |
| Kitchener | 31,890 | 956 | – | – | (949) | – | 31,897 |
| London | 193,722 | 4,620 | – | – | (9,506) | – | 188,836 |
| Windsor | 104,664 | 3,196 | – | – | (6,925) | – | 100,935 |
| Montreal | 92,985 | 2,306 | – | – | 587 | – | 95,878 |
| Quebec City | 168,008 | 4,831 | – | – | (5,896) | – | 166,943 |
| Regina | 387,046 | 5,828 | 1,908 | – | (6,402) | – | 388,380 |
| Saskatoon | 328,949 | 5,586 | – | – | (3,928) | – | 330,607 |
| Land leases | 488,109 | 6,684 | – | – | (14,820) | – | 479,973 |
| Total | $ 5,745,207 | $ 80,228 | $ 1,995 | $ (153,420) | $ 89,781 | $ 14,317 | $ 5,778,108 |

Investment properties measured at fair value in the statement of financial position are categorized by fair value levels according to the significance of the inputs used in making the measurements. The levels of inputs are defined as follows:

*Level 1 inputs:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

*Level 2 inputs:* Inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly.

*Level 3 inputs:* Unobservable inputs for the asset or liability.

The Trust's policy is to recognize transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. As at June 30, 2015, all of the Trust's investment properties were designated as Level 3 inputs, except those properties which are classified as assets held for sale. Those properties are considered Level 2 inputs as they are valued based on an unconditional purchase and sale agreement and, as such, were transferred from Level 3 to Level 2 as at June 30, 2015. There were no transfers in or out of Level 3 fair value measurements for investment properties held as at December 31, 2014.

External valuations were obtained from third-party external valuation professionals (the "Appraisers") based on a cross section of properties from different geographical locations and markets across the Trust's rental portfolio as determined by the Trust's management. The Appraisers are an independent valuation firm not related to the Trust and employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des Evaluateurs Agrees du Quebec who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. External appraisals were obtained as follows:

| Date | Number of properties | Aggregate fair value | Percentage of portfolio as of that date |
|---|---|---|---|
| **June 30, 2015** | **4** | **$ 120,113** | **2.1%** |
| March 31, 2015 | 5 | $ 168,992 | 2.9% |
| December 31, 2014 | 5 | $ 524,041 | 9.1% |
| September 30, 2014 | 4 | $ 348,154 | 6.0% |
| June 30, 2014 | 4 | $ 102,104 | 1.8% |
| March 31, 2014 | 4 | $ 105,282 | 1.8% |

The fair value of the remainder of the Trust's investment property portfolio was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. In addition to performing a valuation on a selection of the Trust's properties (and not performing a valuation on all of the Trust's properties) to corroborate the Trust's internal valuation, the Appraisers provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

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

Five of the Trust's properties: one in Calgary, one in Banff, one in Edmonton and two in Montreal, are subject to long-term land 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 land 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, including taxes, utilities, insurance, maintenance, repairs and replacements in respect of all the leased premises. 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. Due to the relatively short term remaining on one of the land leases in Montreal (with an expiry date of 2028) and an anticipated significant land rent escalation in 2016 for the land lease in Calgary, these two properties utilized the Discounted Cash Flow ("DCF") approach to derive the fair value. The DCF Method calculates the present value of the future cash flows over a specified time period to determine the fair value for each property at each reporting date. The most significant assumption using the DCF method is the discount rate applied over the term of the lease. The discount rates reflect the uncertainty regarding the renegotiation of the land lease payments and the ability to extend the land lease at the expiry date. Forecasted cash flows are reduced for contractual land lease payments during the term of the leases.

The key valuation metrics (and significant unobservable inputs in Level 3) for the Trust's investment properties are set out in the following tables:

| As at | **June 30, 2015** | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Capitalization rate** | | **Forecasted total standardized net** | Capitalization rate | | Forecasted total standardized net |
| | **Minimum** | **Maximum** | **operating income** | Minimum | Maximum | operating income |
| Calgary | **4.50%** | **6.00%** | **$ 63,718** | 4.50% | 6.00% | $ 63,743 |
| Edmonton | **5.00%** | **5.50%** | **125,548** | 5.00% | 5.50% | 126,363 |
| Other Alberta | **5.75%** | **7.25%** | **19,787** | 5.75% | 7.25% | 20,643 |
| Kitchener | **5.25%** | **5.25%** | **1,789** | 5.50% | 5.50% | 1,754 |
| London | **5.50%** | **5.75%** | **11,352** | 5.75% | 6.00% | 10,875 |
| Windsor | **– %** | **– %** | **–** | 6.50% | 7.00% | 6,814 |
| Montreal | **5.50%** | **6.25%** | **5,560** | 5.50% | 6.25% | 5,510 |
| Quebec City | **5.50%** | **6.00%** | **9,928** | 5.75% | 6.25% | 9,926 |
| Regina | **5.75%** | **6.00%** | **22,909** | 5.75% | 6.00% | 23,118 |
| Saskatoon | **5.75%** | **6.00%** | **19,676** | 5.75% | 6.00% | 19,675 |
| | **4.50%** | **7.25%** | **$ 280,267** | 4.50% | 7.25% | $ 288,421 |
| Land Lease | **5.25%** | **15.09%** | **$ 28,263** | 5.25% | 15.09% | $ 28,055 |

The overall weighted average Capitalization Rates for fair valuing the Trust's investment properties at June 30, 2015 and December 31, 2014, were 5.44% and 5.48%, respectively.

The Overall Capitalization Rate method requires that a forecasted stabilized net operating income ("NOI") be divided by a Capitalization Rate ("Cap Rate") to determine a fair value. NOI is calculated as a one-year income forecast based on rental income from current leases and key assumptions about rental income, vacancies and inflation rates, among other factors, less property operating costs. As such, fluctuations in both NOI and Cap Rates could significantly alter the fair value. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in capitalization rate will result in a decrease to the fair value of an investment property. When the capitalization rate is applied to NOI to calculate fair value, there is a significant impact as the lower the capitalization rate, the larger the impact. Below are tables that summarize the impact of changes in both the Cap Rates and NOI on the Trust's fair value of investment properties (excluding development and Windsor properties):

**As at June 30, 2015**

| Net Operating Income | | -3% | -1% | As Forecasted | +1% | +3% |
|---|---|---|---|---|---|---|
| | | **$ 299,274** | **$ 305,445** | **$ 308,530** | **$ 311,615** | **$ 317,786** |
| Capitalization Rate | | | | | | |
| -0.25% | **5.19%** | **$ 94,853** | **$ 231,747** | **$ 273,194** | **$ 332,641** | **$ 451,535** |
| Cap Rate As Reported | **5.44%** | **(170,145)** | **(56,715)** | **5,671,506** | **56,715** | **170,145** |
| +0.25% | **5.69%** | **(411,857)** | **(303,411)** | **(249,187)** | **(194,964)** | **(86,518)** |

As at December 31, 2014

| Net Operating Income | | -3% | -1% | As Forecasted | +1% | +3% |
|---|---|---|---|---|---|---|
| | | $ 306,982 | $ 313,311 | $ 316,476 | $ 319,641 | $ 325,970 |
| Capitalization Rate | | | | | | |
| -0.25% | 5.23% | $ 94,522 | $ 215,545 | $ 276,057 | $ 336,569 | $ 457,592 |
| Cap Rate As Reported | 5.48% | (173,253) | (57,751) | 5,775,111 | 57,751 | 173,253 |
| +0.25% | 5.73% | (417,662) | (307,200) | (251,968) | (196,737) | (86,274) |

## NOTE 4: ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

On July 20, 2015, the Trust announced it has entered into an unconditional agreement to sell all its properties in the City of Windsor, which forms part of the Ontario geographical segment, for the sale price of $136.2 million. The impact of the unsolicited offer to the Trust's operations and long-term strategy was assessed and it was determined that the sale would allow for greater focus on other higher-performing, more accretive properties. The sale is expected to close on September 10, 2015. The details regarding the assets and liabilities held for sale are presented below:

| As at | **June 30, 2015** |
|---|---|
| Investment properties | **$ 136,200** |
| Property, plant and equipment | **144** |
| Inventories | **105** |
| Prepaid assets | **9** |
| Trade and other receivables | **44** |
| Assets classified as held for sale | **$ 136,502** |
| Mortgages payable | **$ 20,316** |
| Deferred tax liabilities | **46** |
| Refundable tenants security deposit | **1,275** |
| Trade and other payables | **413** |
| Liabilities directly associated with assets classified as held for sale | **$ 22,050** |

On June 1, 2015, the Trust disposed of a 22-unit stand-alone building that was part of the Trust's Boardwalk Estates property in Regina, Saskatchewan for gross proceeds of approximately $0.8 million.

On May 5, 2014, the Trust disposed of a 102-unit project in Edmonton, Alberta (Alberta segment) for gross proceeds of $13.5 million.

On May 29, 2014, the Trust disposed of all its properties (633 units) located in the province of British Columbia. As the Trust disposed of all of its British Columbia operations, which represented a separate, identifiable geographical segment, the profit from discontinued operations, net of tax, for the comparative prior periods is summarized below:

| | 3 months ended June 30, 2014 | 6 months ended June 30, 2014 |
|---|---|---|
| Rental revenue | $ 1,355 | $ 3,447 |
| Ancillary rental income | 16 | 50 |
| Total rental revenue | 1,371 | 3,497 |
| Rental expenses | | |
| Operating expenses | 518 | 810 |
| Utilities | 136 | 379 |
| Property taxes | 100 | 223 |
| Net operating income | 617 | 2,085 |
| Financing costs | 283 | 736 |
| Administration | – | 4 |
| Depreciation and amortization | 17 | 43 |
| Profit before the undernoted | 317 | 1,302 |
| Loss on sale of assets | (4,100) | (4,100) |
| Fair value gains | 2,305 | 14,317 |
| Profit (loss) before income tax (expense) recovery | (1,478) | 11,519 |
| Income tax (expense) recovery | – | – |
| Profit (loss) from discontinued operations, net of tax | $ (1,478) | $ 11,519 |

The loss on sale of assets was as follows:

| | 3 months ended June 30, 2014 | 6 months ended June 30, 2014 |
|---|---|---|
| Cash received | $ 140,000 | $ 140,000 |
| Cost of disposition | (4,100) | (4,100) |
| Net proceeds | $ 135,900 | $ 135,900 |
| Net book value | (140,000) | (140,000) |
| Loss on sale of assets | $(4,100) | $(4,100) |

The cash flows from discontinued operations were as follow:

| | 3 months ended June 30, 2014 | 6 months ended June 30, 2014 |
|---|---|---|
| Profit (loss) from discontinued operations, net of tax | $ (1,478) | $ 11,519 |
| Loss on sale of assets | 4,100 | 4,100 |
| Financing costs | 283 | 736 |
| Interest paid | (283) | (736) |
| Fair value gains | (2,305) | (14,317) |
| Depreciation and amortization | 17 | 43 |
| Net cash inflows from operating activities | $ 334 | $ 1,345 |
| Improvements to investment properties | $ (265) | $ (566) |
| Net cash proceeds from sale of investment properties | 137,665 | 137,665 |
| Net cash inflows from investing activities | $ 137,400 | $ 137,099 |
| Scheduled mortgage principal repayments | $ (203) | $ (499) |
| Mortgages on investment properties sold | (61,997) | (61,997) |
| Net cash outflows from financing activities | $ (62,200) | $ (62,496) |
| Total cash inflows from discontinued operations | $ 75,534 | $ 75,948 |

## NOTE 5: PROPERTY, PLANT AND EQUIPMENT ("PP&E")

The carrying amounts of PP&E were as follows:

| As at | June 30, 2015 | | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Transferred to assets classified as held for sale (Note 4)** | **Carrying amount** | Cost | Accumulated depreciation | Carrying amount |
| Administration building | **$ 5,973** | **$ (2,681)** | **$ –** | **$ 3,292** | $ 5,944 | $ (2,551) | $ 3,393 |
| Site equipment and other assets | **43,003** | **(22,536)** | **(141)** | **20,326** | 40,288 | (21,039) | 19,249 |
| Corporate technology assets[(1)] | **27,372** | **(23,771)** | **(3)** | **3,598** | 26,572 | (23,090) | 3,482 |
| Total | **$ 76,348** | **$ (48,988)** | **$ (144)** | **$ 27,216** | $ 72,804 | $ (46,680) | $ 26,124 |

(1) For the six months ended June 30, 2015, $305 thousand of capitalized programmers' salaries related to the internally developed software applications used by the Trust in the normal course of its operations has been included in corporate technology assets ($597 thousand for the year ended December 31, 2014).

## NOTE 6: MORTGAGES PAYABLE

| As at | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Weighted Average Interest** | **Debt Balance** | Weighted Average Interest | Debt Balance |
| Mortgage payable | | | | |
| Fixed rate | **3.16%** | **$ 2,197,347** | 3.34% | $ 2,169,499 |
| Total | | **$ 2,197,347** | | $ 2,169,499 |
| Current | | **$ 388,919** | | $ 467,320 |
| Non-current | | **1,788,112** | | 1,702,179 |
| Liabilities directly associated with assets classified as held for sale (Note 4) | | **20,316** | | – |
| | | **$ 2,197,347** | | $ 2,169,499 |

Estimated future principal payments required to meet mortgage obligations as at June 30, 2015 are as follows:

| | Secured By Investment Properties |
|---|---|
| 12 months ending June 30, 2016 | $ 409,756 |
| 12 months ending June 30, 2017 | 320,759 |
| 12 months ending June 30, 2018 | 271,875 |
| 12 months ending June 30, 2019 | 167,465 |
| 12 months ending June 30, 2020 | 390,654 |
| Subsequent | 711,314 |
| | 2,271,823 |
| Unamortized deferred financing costs | (74,516) |
| Unamortized mark-to-market adjustment | 40 |
| | $ 2,197,347 |

## NOTE 7: LP CLASS B UNITS

The LP Class B Units, representing an aggregate fair value of $253.4 million at June 30, 2015 (December 31, 2014 – $275.4 million), 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 these exchangeable units in an amount equivalent to the distributions which would have been made had the units been exchanged for Boardwalk REIT Units. Additional details on the LP Class B Units are described in NOTE 11.

As at June 30, 2015 and December 31, 2014, there were 4,475,000 LP Class B Units issued and outstanding.

## NOTE 8: DEFERRED UNIT-BASED COMPENSATION

Deferred unit-based compensation is comprised of the following:

| As at | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| Current | **$ 3,350** | $ 3,250 |
| Non-current | **4,443** | 4,510 |
| | **$ 7,793** | $ 7,760 |

The total of $7.8 million represents the fair value of the underlying deferred units at June 30, 2015 (December 31, 2014 – $7.8 million).

For the three and six months ended June 30, 2015, total costs of $1.1 million and $1.7 million, respectively, were recognized in profit related to executive bonuses and trustee fees under the deferred unit plan ($1.0 million and $1.6 million for the three and six months ended June 30, 2014, respectively).

The status of the outstanding deferred units was as follows:

| | # of Units Outstanding | # of Units vested |
|---|---|---|
| Balance, December 31, 2013 | 212,797 | 14,334 |
| Deferred units granted | 55,098 | 49,729 |
| Additional deferred units earned on units | 6,693 | 9,026 |
| Deferred units converted to Trust Units or cash | (73,089) | (73,089) |
| Balance, December 31, 2014 | 201,499 | – |
| Deferred units granted | 39,563 | 38,651 |
| Additional deferred units earned on units | 7,924 | 4,299 |
| Deferred units converted to Trust Units | (20,800) | (20,800) |
| **Balance, June 30, 2015** | **228,186** | **22,150** |

## NOTE 9: INCOME TAXES

### Deferred income tax

Boardwalk REIT is a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and as a Real Estate Investment Trust ("REIT") eligible for the 'REIT Exemption' in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, the Trust is not taxable on its income provided all of its taxable income is distributed to its Unitholders. This exemption, however, does not extend to the corporate subsidiaries of Boardwalk REIT that are subject to income tax.

The source of deferred tax balances and movements were as follows:

| As at | Dec 31, 2014 | Recognized in profit | Transferred to liabilities directly associated with assets held for sale (Note 4) | **June 30, 2015** |
|---|---|---|---|---|
| Deferred tax assets (liabilities) related to: | | | | |
| Operating losses | $ 378 | $ (44) | $ – | **$ 334** |
| Differences in tax base and carrying amount, net, investment properties and PP&E for corporate entities | (8) | (38) | 46 | **–** |
| Other | (5) | (15) | – | **(20)** |
| Net deferred tax assets (liabilities) | $ 365 | $ (97) | $ 46 | **$ 314** |
| Deferred tax assets | $ 378 | $ (44) | $ – | **$ 334** |
| Deferred tax liabilities | (13) | (53) | 46 | **(20)** |
| Net deferred tax assets (liabilities) | $ 365 | $ (97) | $ 46 | **$ 314** |

| As at | Dec 31, 2013 | Recognized in profit | Dec 31, 2014 |
|---|---|---|---|
| Deferred tax assets (liabilities) related to: | | | |
| Operating losses | $ 455 | $ (77) | $ 378 |
| Differences in tax base and carrying amount, net, investment properties and PP&E for corporate entities | (45) | 37 | (8) |
| Other | (5) | – | (5) |
| Net deferred tax assets (liabilities) | $ 405 | $ (40) | $ 365 |
| Deferred tax assets | $ 455 | $ (77) | $ 378 |
| Deferred tax liabilities | (50) | 37 | (13) |
| Net deferred tax assets (liabilities) | $ 405 | $ (40) | $ 365 |

The major components of income tax (expense) recovery include the following:

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| Current tax (expense) | **$ –** | $ – | **$ (2)** | $ (1) |
| Deferred tax (expense) recovery | **125** | (71) | **(96)** | (21) |
| Total income tax (expense) recovery | **$ 125** | $ (71) | **$ (98)** | $ (22) |

## NOTE 10: DEFERRED GOVERNMENT GRANT

In December 2013, the Trust completed the construction of a 109-unit, four storey, elevatored, wood frame building in the southwest part of Calgary, Alberta (the “Project” or “Development”). In conjunction with this Development, the Trust applied and received approval for a government grant from the Province of Alberta totaling approximately $7.5 million. In return for this grant, the Trust has agreed to provide 54 of the 109 units at rents to be 10% below the average market rates for Calgary (“affordable units”) for a term of 20 years.

In accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, this grant will be recognized in profit or loss on a systematic basis over the periods in which the Trust recognizes revenue from the 54 units classified as affordable units. For the three and six months ended June 30, 2015, $95 thousand and $189 thousand, respectively, was recognized in profit under rental revenue for this grant ($95 thousand and $189 thousand for the three and six months ended June 30, 2014, respectively).

## NOTE 11: UNITHOLDERS' EQUITY

Under the reorganization of the Corporation to a real estate investment trust, the former shareholders of the Corporation received Boardwalk REIT Units or Class B Limited Partnership Units ("LP Class B Units") of a controlled limited partnership of the Trust, Boardwalk REIT Limited Partnership. The interests in Boardwalk REIT are represented by two classes of units: a class described and designated as "REIT Units" and a class described and designated as "Special Voting Units". The Special Voting Units, which are not entitled to monthly distributions, are used to provide voting rights to holders of LP Class B Units or other securities that are, directly or indirectly, exchangeable for REIT Units. The LP Class B Units are classified as a financial liability in accordance with IAS 32 – Financial Instruments: Presentation ("IAS 32"), and were discussed in NOTE 7.

The Trust has the following capital securities outstanding:

| | Units outstanding June 30, 2015 | Monthly Distribution | Units outstanding December 31, 2014 | Monthly Distribution (1) |
|---|---|---|---|---|
| Boardwalk REIT Units | 47,541,753 | $0.17/unit | 47,520,953 | $0.17/unit |
| Special Voting Units | 4,475,000 | N/A | 4,475,000 | N/A |

(1) In addition to the regular monthly distribution, as at December 31, 2014, the Trust recorded a distribution payable in the amount of $66.5 million in relation to a $1.40 special distribution paid on January 15, 2015 to all Boardwalk REIT Unitholders with a record date of December 31, 2014.

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.

On June 30, 2014, Boardwalk REIT requested and received regulatory approval for a Bid (Boardwalk's eighth Bid since its first Bid in August of 2007), which commenced on July 3, 2014 and terminated on July 2, 2015. The Bid allowed Boardwalk REIT to purchase and cancel up to 3,901,031 Trust Units.

On June 30, 2015, Boardwalk REIT requested and received regulatory approval for a Bid (Boardwalk's ninth Bid since its first Bid in August of 2007), which commenced on July 3, 2015 and terminates on July 2, 2016. The Bid allows Boardwalk REIT to purchase and cancel up to 3,855,766 Trust Units.

The Trust did not purchase for cancellation any Trust Units for the quarter ended June 30, 2015. For the year ended December 31, 2014, Boardwalk REIT purchased and cancelled the following Trust Units:

| | Year ended Dec 31, 2014 | | |
|---|---|---|---|
| Bid Number | Number of Trust Units Purchased and Cancelled | Purchase Cost | Cost per Trust Unit |
| 7/8 | 472,100 | $31,634 | $67.01 |

Monthly distributions are determined at the discretion of the Board of Trustees. The Board of Trustees declares distributions to be paid on, or about, the 15th of the month following the record date. Distributions to be paid on the Boardwalk REIT Units with a record date of July 31, 2015 (to be paid on August 17, 2015) totaled $8.1 million ($0.17 per unit) and have not been included as a liability in the consolidated statement of financial position as at June 30, 2015.

### (a) Accumulated other comprehensive income ("AOCI")

For the three and six months ended June 30, 2015 and 2014, AOCI consists of the following amounts:

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| AOCI, beginning of period | **$ (458)** | $ (2,862) | **$ (1,014)** | $ (3,459) |
| Change in fair value of the effective portion of the interest rate swaps | **432** | 603 | **973** | 1,187 |
| Losses on settlement of effective bond forward | **26** | 14 | **41** | 27 |
| AOCI, end of period | **$ –** | $ (2,245) | **$ –** | $ (2,245) |

### (b) Earnings per unit

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| **Numerator – continuing operations** | | | | |
| Profit from continuing operations – basic | **$ 34,593** | $ 85,334 | **$ 106,017** | $ 194,716 |
| Distribution paid on LP Class B units | **2,282** | – | **4,565** | – |
| Gain on fair value adjustment to LP Class B units | **(10,382)** | – | **(21,972)** | – |
| Gain on fair value adjustments to unexercised deferred units | **(51)** | – | **(109)** | – |
| Profit from continuing operations – diluted | **$ 26,442** | $ 85,334 | **$ 88,501** | $ 194,716 |
| **Numerator – discontinued operations** | | | | |
| Profit (loss) from discontinued operations basic and diluted | **$ –** | $ (1,478) | **$ –** | $ 11,519 |
| **Denominator** | | | | |
| Weighted average units outstanding – basic | **47,541,753** | 47,919,167 | **47,535,088** | 47,923,925 |
| Conversion of LP Class B units | **4,475,000** | – | **4,475,000** | – |
| Unexercised deferred units | **1,042** | – | **524** | – |
| Weighted average units outstanding – diluted | **52,017,795** | 47,919,167 | **52,010,612** | 47,923,925 |
| Earnings per unit – continuing operations | | | | |
| – basic | **$ 0.73** | $ 1.78 | **$ 2.23** | $ 4.06 |
| – diluted | **$ 0.51** | $ 1.78 | **$ 1.70** | $ 4.06 |
| Earnings per unit – discontinued operations | | | | |
| – basic | **$ –** | $ (0.03) | **$ –** | $ 0.24 |
| – diluted | **$ –** | $ (0.03) | **$ –** | $ 0.24 |

All dilutive elements were included in the calculation of diluted per unit amounts. For the three and six months ended June 30, 2015, the conversion of LP Class B units was dilutive, as their conversion to REIT Units decreases earnings per unit, but was anti-dilutive for the same periods in 2014. For the three and six months ended June 30 ,2015, the conversion of the unexercised deferred units was dilutive, but was anti-dilutive for the three and six months ended June 30, 2014. There were 1,042 and 524 unexercised weighted average deferred units outstanding for the three and six months ended June 30, 2015, respectively.

## NOTE 12: FINANCING COSTS

Financing costs are comprised of interest on mortgages payable, distributions paid to the LP Class B Unitholders and other interest charges. Financing costs are net of interest income earned. Financing costs total $20.3 million and $41.1 million for the three and six months ended June 30, 2015, respectively, ($21.6 million and $43.4 million for the three and six months ended June 30, 2014) and can be summarized as follows:

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| Interest on secured debt (mortgages payable) | **$ 17,896** | $ 19,476 | **$ 36,281** | $ 39,061 |
| LP Class B unit distribution | **2,282** | 2,282 | **4,564** | 4,542 |
| Other interest charges | **365** | 385 | **733** | 764 |
| Interest income | **(228)** | (500) | **(481)** | (922) |
| Total | **$ 20,315** | $ 21,643 | **$ 41,097** | $ 43,445 |

## NOTE 13: FAIR VALUE GAINS (LOSSES)

The components of fair value gains (losses) were as follows:

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| Investment properties | **$ (21,584)** | $ 65,676 | **$ (2,462)** | $ 143,120 |
| Financial liabilities designated as FVTPL | | | | |
| Deferred unit-based compensation | **296** | (960) | **440** | (1,275) |
| LP Class B Units | **10,382** | (20,675) | **21,972** | (24,210) |
| Total fair value gains (losses) | **$ (10,906)** | $ 44,041 | **$ 19,950** | $ 117,635 |

## NOTE 14: GUARANTEES, CONTINGENCIES, COMMITMENTS AND OTHER

From time to time, the Trust enters into various physical supply contracts for energy commodities to hedge its own usage, which are summarized below:

**Natural Gas:**

| Area | Usage Coverage | Term | Cost |
|---|---|---|---|
| Alberta | 25% | January 1, 2015 to April 30, 2015 | $3.65/Gigajoule ("GJ") |
| Alberta | 25% | November 1, 2014 to October 31, 2016 | $4.25/GJ |
| Alberta | 25% | November 1, 2014 to October 31, 2017 | $4.22/GJ |
| Alberta | 25% | November 1, 2015 to April 30, 2016 | $3.84/GJ |
| Saskatchewan | 100% | November 1, 2012 to October 31, 2014 | $3.74/GJ |
| Saskatchewan | 50% | November 1, 2014 to October 31, 2015 | $4.51/GJ |
| Saskatchewan | 50% | November 1, 2014 to October 31, 2017 | $4.53/GJ |
| Ontario and Quebec | 50% | November 1, 2014 to October 31, 2015 | $3.62/GJ |

**Electrical:**

| Area | Usage Coverage | Term | Cost |
|---|---|---|---|
| Southern Alberta | 100% | October 1, 2010 to September 30, 2017 | $0.06/Kilowatt-hour ("kWh") |
| Northern Alberta | 100% | October 1, 2010 to September 30, 2015 | $0.06/kWh |

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. Management believes the outcome of claims of this nature at June 30, 2015 will not have a material impact on the Trust.

In the normal course of business, various agreements may be entered into that may contain features that meet the definition of a contingent liability in accordance with IFRS. With the BC Property Portfolio sale in 2014, mortgage balances totaling approximately $62.0 million were assumed by the purchaser. One of the three mortgages, with a term maturity date of October 1, 2022 and a mortgage balance of approximately $22.8 million, assumed by the purchaser has an indirect guarantee provided to the lender by the Trust until this mortgage is renewed or refinanced by the purchaser, whichever occurs sooner. In the event of default by the purchaser, the Trust would be liable for the outstanding mortgage balance. This guarantee is considered a contingent liability as payment of the amount will only occur if the purchaser defaults. If the purchaser does not default, the balance is not payable. Boardwalk REIT's maximum exposure as at June 30, 2015 is approximately $22.8 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 June 30, 2015, no amount has been recorded in the condensed consolidated financial statements with respect to the above noted indirect guarantee.

## NOTE 15: CAPITAL MANAGEMENT AND LIQUIDITY

Boardwalk REIT's DOT, as amended, provides for a minimum interest coverage ratio of 1.5 to 1 calculated on the most recently completed four fiscal quarters. The DOT also defines interest expense to exclude distributions on the LP Class B Units, which under IFRS are considered financing charges.

The following table highlights Boardwalk REIT's interest service coverage ratio in accordance with the DOT:

| As at | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| Consolidated EBITDA(1) (12 months ended) | **$ 263,531** | $ 260,531 |
| Consolidated interest expense (12 months ended) | **74,235** | 77,341 |
| Interest coverage ratio | **3.55** | 3.37 |
| Minimum threshold | **1.50** | 1.50 |

(1) Earnings Before Interest, Taxes, Depreciation and Amortization

The Trust employs a broad range of financing strategies to facilitate growth and manage financial risk. The Trust's objective is to reduce its weighted average cost of capital and improve Unitholder distributions through value enhancement initiatives and consistent monitoring of the balance between debt and equity financing. As at June 30, 2015, the Trust's estimated weighted average cost of capital was 4.57%.

The following schedule details the components of the Trust's capital and the related costs thereof:

| As at | **June 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| | **Cost of Capital (1)** | **Underlying Value (2)** | Cost of Capital (1) | Underlying Value (2) |
| **Liabilities** | | | | |
| Mortgages payable | **3.16%** | **$ 2,289,903** | 3.34% | $ 2,251,098 |
| LP Class B Units | **5.67%** | **253,419** | 4.96% | 275,392 |
| Deferred unit-based compensation | **5.67%** | **7,793** | 4.96% | 7,760 |
| **Unitholders' equity** | | | | |
| Boardwalk REIT Units | **5.67%** | **2,692,289** | 4.96% | 2,924,439 |
| Total | **4.57%** | **$ 5,243,404** | 4.29% | $ 5,458,689 |

(1) As a percentage of average carrying value unless otherwise noted.

(2) Underlying value of liabilities represents carrying value or the cost to retire on maturity. Underlying value of equity is based on the closing unit price of the Trust's Units.

Mortgages payable – These are the mortgages outstanding on the Trust's investment properties. The debt is fixed rate debt and approximately 99% of this debt at June 30, 2015 is insured under the National Housing Act ("NHA"). These financings are typically structured on a loan to appraised value basis of between 75-80%. The Trust currently has a level of indebtedness of approximately 40% of the fair value of the Trust's investment properties. This level of indebtedness is considered by the Trust to be within its target.

LP Class B Units – These units are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Boardwalk REIT Units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Boardwalk REIT been issued. Each LP Class B Unit was accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The LP Class B Units have been classified as "FVTPL" financial liabilities in accordance with IAS 32. Gains or losses resulting from changes in the fair value at each reporting date are recorded in the consolidated statement of comprehensive income.

As outlined in NOTE 17 (d), Boardwalk REIT's committed revolving credit facility agreements contain financial covenants.

Available liquidity as at June 30, 2015 included cash and cash equivalents on hand of $86.5 million (December 31, 2014 – $139.6 million) as well as an unused committed revolving credit facility of $195.9 million (December 31, 2014 – $195.8 million). The Trust monitors its ratios and, as at June 30, 2015 and December 31, 2014, the Trust was in compliance with all covenants in both its DOT and all existing debt facilities.

## NOTE 16: FAIR VALUE MEASUREMENT

### (a) Fair value of financial instruments

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risk. The fair values of the Trust's financial instruments were determined as follows:

*(i)* the carrying amounts of trade and other receivables, segregated tenants' security deposits, cash, refundable tenants' security deposits and trade and other payables approximate their fair values due to their short-term nature.

*(ii)* the fair values of the Trust's mortgages payable are estimates made at a specific point in time, based on relevant market information. These estimates are based on quoted market prices for the same or similar issues or on the current rates offered to the Trust for similar financial instruments subject to similar risks and maturities.

*(iii)* the fair values of the deferred unit compensation plan and the LP Class B Units are estimates at a specific point in time, based on the closing market price of the REIT Units listed on the Toronto Stock Exchange.

*(iv)* the fair values of the effective portion of the interest rate swaps, reported as other non-current liabilities, are estimates at a specific point in time, based on quoted prices in markets that are not active for substantially the same term as the remaining effective portion of the derivatives.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The significant financial instruments of Boardwalk REIT and their carrying values as at June 30, 2015 and December 31, 2014 are as follows:

| As at | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial liabilities carried at amortized cost** | | | | |
| Mortgages payable | **$ 2,197,347** | **$ 2,289,903** | $ 2,169,499 | $ 2,251,098 |
| **Financial liabilities carried at FVTPL** | | | | |
| LP Class B Units | **253,419** | **253,419** | 275,392 | 275,392 |
| Other non-current liabilities | **–** | **–** | 972 | 972 |
| Deferred unit-based compensation | **7,793** | **7,793** | 7,760 | 7,760 |

The fair value of the Trust's mortgages payable exceeded the recorded value by approximately $92.6 million at June 30, 2015 (December 31, 2014 – $81.6 million), due to changes in interest rates since the dates on which the individual mortgages were last contracted. The fair values of the mortgages payable have been estimated based on the current market rates for mortgages with similar terms and conditions. The fair value of the Trust's mortgages payable is an amount computed based on the interest rate environment prevailing at June 30, 2015 and December 31, 2014, 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 are held to maturity.

As at June 30, 2015 and December 31, 2014, 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 in NOTE 17.

### (b) Assets and liabilities measured at fair value

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position is as follows:

| As at | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | | |
| Investment properties | **$ –** | **$ –** | **$ 5,679,407** | $ – | $ – | $ 5,778,108 |
| Assets classified as held for sale | **–** | **136,200** | **–** | – | – | – |
| **Liabilities** | | | | | | |
| LP Class B Units | **253,419** | **–** | **–** | 275,392 | – | – |
| Other non-current liabilities | **–** | **–** | **–** | – | 972 | – |
| Deferred unit-based compensation | **7,793** | **–** | **–** | 7,760 | – | – |

The three levels of the fair value hierarchy are described in NOTE 3.

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. As at June 30, 2015, there were no transfers of assets or liabilities between Level 1, Level 2 and Level 3, except for the $136.2 million of investment properties representing the Windsor Portfolio, which were assets transferred from Level 3 to Level 2 (as discussed in NOTE 3). As at December 31, 2014, there were no transfers of assets or liabilities between Level 1, Level 2 and Level 3.

## NOTE 17: RISK MANAGEMENT

### (a) Interest rate risk

As at June 30, 2015, the Trust had no amount outstanding on its committed revolving credit facility and, as such, of the Trust's total debt at June 30, 2015, 100% was fixed-rate debt and none was floating-rate debt. For the three and six months ended June 30, 2015, all else being equal, the increase or decrease in net earnings for each 1% change in market interest rates would be $nil (three and six months ended June 30, 2014 – $nil).

### (b) Credit risk

The Trust is exposed to credit risk as a result of its trade and other receivables. This balance is comprised of mortgage hold-backs and refundable mortgage fees, accounts receivable from significant customers and tenant receivables. As at June 30, 2015 and December 31, 2014, no balance relating to mortgage holdbacks, refundable mortgage fees or accounts receivable from significant customers was past due.

Past due receivables (receivables which are greater than 30 days) are reviewed by management on a monthly basis and tenant receivables are considered for impairment on a case-by-case basis. The Trust takes into consideration the tenant's payment history, their credit worthiness and the current economic environment; however, tenant receivable balances exceeding 60 days are typically written off to bad debt expense as the Trust does not utilize an allowance for doubtful accounts. The amount of the loss is recognized in the consolidated statement of comprehensive income as part of operating expenses. Subsequent recoveries of amounts previously written off are credited against operating expenses during the period of settlement. As tenant receivables are typically written off after 60 days, none of the balance is considered to be past due by the Trust. For the three months ended June 30, 2015, bad debt expense totaled $1.0 million (three months ended June 30, 2014 – $0.8 million). For the six months ended June 30, 2015, bad debt expense totaled $1.8 million (six months ended June 30, 2014 – $1.6 million).

The credit risk of both Boardwalk REIT and the counter party have been taken into account in determining the fair value of Boardwalk REIT's trade and other receivables.

### (c) Liquidity risk

The following table details the Trust's remaining contractual maturity for its non-derivative and derivative (i.e. vested deferred units) financial liabilities listed by year of maturity date:

| Year of Maturity | Weighted average interest rate | Mortgage principal outstanding | Mortgage interest(1) | Deferred unit-based compensation | Tenants' security deposits | Distribution Payable | Trades and other payables | Total |
|---|---|---|---|---|---|---|---|---|
| 2015 | 3.28% | $ 232,200 | $ 33,232 | $ 1,254 | $ 15,982 | $ 8,843 | $ 60,497 | $ 352,008 |
| 2016 | 3.89% | 261,708 | 57,134 | – | – | – | – | 318,842 |
| 2017 | 2.92% | 305,609 | 46,890 | – | – | – | – | 352,499 |
| 2018 | 3.27% | 174,376 | 38,848 | – | – | – | – | 213,224 |
| 2019 | 2.97% | 415,293 | 31,914 | – | – | – | – | 447,207 |
| Subsequent | 3.07% | 882,637 | 65,738 | – | – | – | – | 948,375 |
| | 3.16% | 2,271,823 | 273,756 | 1,254 | 15,982 | 8,843 | 60,497 | 2,632,155 |
| Unamortized deferred financing costs | | (74,516) | – | – | – | – | – | (74,516) |
| Unamortized mark-to-market adjustment | | 40 | – | – | – | – | – | 40 |
| | | $ 2,197,347 | $ 273,756 | $ 1,254 | $ 15,982 | $ 8,843 | $ 60,497 | $ 2,557,679 |

(1) Based on current in-place interest rates for the remaining contracted term to maturity.

### (d) Debt covenants

The Trust has a committed revolving credit facility with a major financial institution. This credit facility is secured by a pledge of a group of specific real estate assets (fair value at June 30, 2015 of approximately $526.0 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 $200.0 million and an available limit of $195.9 million as at June 30, 2015 (December 31, 2014 – $195.8 million). The revolving facility requires monthly interest payments, is for a three-year term maturing on July 27, 2017 (which was extended to July 27, 2020 subsequent to the quarter ended), and can be extended annually thereafter, subject to the mutual consent of the lender and the Trust. In the event the committed revolving credit facility is not extended, the drawn-down principal would be due on the maturity date of the credit agreement.

The credit facility contains three financial covenants as follows:

*(i)* The Trust will maintain an overall Debt Service Coverage Ratio of at least 1.20, calculated on the most recent completed trailing four fiscal quarter basis. As at June 30, 2015, this ratio was 2.15 (December 31, 2014 – 2.09).

*(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 June 30, 2015, this ratio was 1.69 (December 31, 2014 – 1.98).

*(iii)* Total indebtedness of the Trust will not exceed 75% of the Gross Book Value ("GBV") of all assets for the two most recent quarters as defined in the credit agreement. The calculation of the components of Debt to GBV in accordance with the credit agreement is similar to that previously defined in the DOT; however, the credit facility uses the two most recent quarters to calculate GBV. As at June 30, 2015, this ratio was 36.5% (December 31, 2014 – 35.8%).

As at June 30, 2015 and December 31, 2014, the Trust was in compliance with all covenants.

### (e) Utility risk

As outlined in NOTE 14, the Trust has commitments to certain utility contracts to reduce the risk of exposure to adverse changes in commodity prices.

## NOTE 18: RELATED PARTY DISCLOSURES

IAS 24 – Related Party Disclosures requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. Balances and transactions between the Trust and its subsidiaries, which are related parties of the Trust, have been eliminated on consolidation and are not disclosed in this note disclosure.

The individuals considered key personnel of the Trust as at June 30, 2015, have not changed since December 31, 2014. The remuneration of the Trust's key management personnel was as follows:

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| Short-term benefits | **$ 252** | $ 260 | **$ 794** | $ 587 |
| Post-employment benefits | **11** | 12 | **24** | 24 |
| Other long-term benefits | **2** | 2 | **3** | 3 |
| Deferred unit-based compensation | **–** | 552 | **792** | 1,203 |
| | **$ 265** | $ 826 | **$ 1,613** | $ 1,817 |

In addition, the LP Class B Units are held by Sam Kolias (Chairman of the Board, Chief Executive Officer and Trustee) and Van Kolias (Senior Vice President, Quality Control). Under IAS 32 the LP Class B Units issued by a wholly owned subsidiary of the Trust are considered financial liabilities, and are reclassified from equity to liabilities on the consolidated financial statements. Additionally, as the LP Class B Units are liabilities, all distributions paid are recorded as a financing charge under IFRS. For the three and six months ended June 30, 2015, distributions on the LP Class B Units totaled $2.3 million and $4.6

million, respectively (three and six months ended June 30, 2014 – $2.3 million and $4.5 million, respectively). Distributions on the LP Class B Units are made on terms equal to distributions made on Boardwalk REIT Units.

As at June 30, 2015, there was $761 thousand owed to related parties (December 31, 2014 – $7.0 million, comprised of $761 thousand in relation to the monthly regular LP Class B Units distribution and $6.3 million in relation to the $1.40 special distribution on the LP Class B Units) based on the LP Class B Units distribution outlined above.

## NOTE 19: OTHER INFORMATION

### (a) Supplemental cash flow information

| | **3 months ended June 30, 2015** | 3 months ended June 30, 2014 | **6 months ended June 30, 2015** | 6 months ended June 30, 2014 |
|---|---|---|---|---|
| **Net change in operating working capital** | | | | |
| Net change in inventories | **$ 16** | $ (93) | **$ (168)** | $ (182) |
| Net change in prepaid assets | **(510)** | (294) | **(1,139)** | 503 |
| Net change in trade and other receivables | **(1,869)** | (1,765) | **(1,073)** | (1,948) |
| Net change in segregated and refundable tenants' security deposits | **(50)** | (81) | **(61)** | 24 |
| Net change in deferred unit-based compensation | **1,062** | 1,032 | **1,694** | 1,612 |
| Net change in trade and other payables | **228** | 1,004 | **(3,770)** | (3,216) |
| | **$ (1,123)** | $ (197) | **$ (4,517)** | $ (3,207) |
| **Net change in investing working capital** | | | | |
| Net change in trade and other payables | **$ 1,623** | $ 2,008 | **$ 91** | $ (1,687) |
| **Net change in financing working capital** | | | | |
| Net change in trade and other payables | **$ 128** | $ 181 | **$ 262** | $ (12) |
| **Distributions paid** | | | | |
| Distributions declared | **$ (24,246)** | $ (24,425) | **$ (48,485)** | $ (48,631) |
| Distributions declared in prior period paid in current period | **(8,082)** | (8,150) | **(74,608)** | (7,907) |
| Distributions declared in current period paid in next period | **8,082** | 8,127 | **8,082** | 8,127 |
| Distributions paid | **$ (24,246)** | $ (24,448) | **$ (115,011)** | $ (48,411) |

(b) Included in administration costs is $0.7 million relating to RRSP matching for the three months ended June 30, 2015 and $1.3 million for the six months ended June 30, 2015 ($0.6 million and $1.2 million for the three and six months ended June 30, 2014, respectively).

## NOTE 20: SEGMENTED INFORMATION

Boardwalk REIT specializes in multi-family residential housing and operates primarily within one business segment in five provinces located wholly in Canada. Each provincial segment operates with a high degree of autonomy. Management monitors the operating results on a regional basis. Segment performance is evaluated on a number of measures, including net profit. Financial information reported is on the same basis as used for internal evaluation and allocation of resources. Boardwalk REIT does not have any one major tenant or a significant group of tenants. Either expiring leases are renewed or new tenants are found.

Net debt, interest income and expenses, and income taxes are managed on a group basis. Transfer prices between locations are set on an arm's-length basis in a manner similar to transactions with third parties and are eliminated upon inter-company consolidation.

Corporate represents corporate functions, technology assets, activities incidental to operations, and certain comparative data for divested assets.

Details of segmented information are as follows:

| As at | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Alberta** | **Saskatchewan** | **Ontario** | **Quebec** | **Corporate** | **Total** |
| Assets | **$ 4,037,591** | **$ 714,646** | **$ 377,384** | **$ 748,936** | **$ 81,265** | **$ 5,959,822** |
| Liabilities | **1,537,884** | **267,434** | **116,321** | **316,857** | **303,572** | **2,542,068** |

| As at | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Alberta | Saskatchewan | Ontario | Quebec | Corporate | Total |
| Assets | $ 4,065,612 | $ 718,186 | $ 322,418 | $ 737,031 | $ 128,398 | $ 5,971,645 |
| Liabilities | 1,510,504 | 262,837 | 117,808 | 320,734 | 401,774 | 2,613,657 |

| | Three months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Alberta** | **Saskatchewan** | **Ontario** | **Quebec** | **Corporate** | **Total** |
| **Rental revenue** | $ 75,575 | $ 15,462 | $ 10,416 | $ 17,589 | $ 63 | $ 119,105 |
| Ancillary rental income | 1,110 | 109 | 212 | 211 | – | 1,642 |
| **Total rental revenue** | 76,685 | 15,571 | 10,628 | 17,800 | 63 | 120,747 |
| **Rental expenses** | | | | | | |
| Operating expenses | 13,259 | 2,751 | 1,885 | 4,188 | 1,490 | 23,573 |
| Utilities | 5,690 | 1,691 | 1,435 | 1,369 | 44 | 10,229 |
| Property taxes | 5,758 | 1,072 | 1,333 | 1,924 | 28 | 10,115 |
| **Net operating income (loss)** | 51,978 | 10,057 | 5,975 | 10,319 | (1,499) | 76,830 |
| Financing costs (a) | 12,566 | 2,299 | 950 | 2,136 | 2,364 | 20,315 |
| Administration | 105 | (72) | 17 | 74 | 8,527 | 8,651 |
| Depreciation and amortization (b) | 1,006 | 219 | 72 | 195 | 994 | 2,486 |
| **Profit (loss) from continuing operations before the undernoted** | 38,301 | 7,611 | 4,936 | 7,914 | (13,384) | 45,378 |
| Loss on sale of assets | – | – | (4) | – | – | (4) |
| Fair value gains (losses) | (44,081) | (6,963) | 29,541 | (81) | 10,678 | (10,906) |
| **Profit (loss) from continuing operations before income tax (expense)** | (5,780) | 648 | 34,473 | 7,833 | (2,706) | 34,468 |
| Income tax recovery(c) | – | – | – | – | 125 | 125 |
| Profit (loss) from continuing operations | $ (5,780) | $ 648 | $ 34,473 | $ 7,833 | $ (2,581) | $ 34,593 |
| Profit from discontinued operations, net of tax | – | – | – | – | – | – |
| Profit (loss) for the period | $ (5,780) | $ 648 | $ 34,473 | $ 7,833 | $ (2,581) | $ 34,593 |
| Other comprehensive income | 249 | 209 | – | – | – | 458 |
| **Total comprehensive income (loss)** | $ (5,531) | $ 857 | $ 34,473 | $ 7,833 | $ (2,581) | $ 35,051 |
| Additions to non-current assets (d) | $ 10,125 | $ 3,525 | $ 1,510 | $ 3,234 | $ 5,261 | $ 23,655 |

| | Three months ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Alberta | Saskatchewan | Ontario | Quebec | Corporate | Total |
| **Rental revenue** | $ 72,856 | $ 15,435 | $ 10,251 | $ 17,604 | $ 21 | $ 116,167 |
| Ancillary rental income (loss) | 1,118 | 167 | 221 | 244 | 37 | 1,787 |
| **Total rental revenue** | 73,974 | 15,602 | 10,472 | 17,848 | 58 | 117,954 |
| **Rental expenses** | | | | | | |
| Operating expenses | 12,978 | 2,653 | 1,766 | 4,495 | 1,503 | 23,395 |
| Utilities | 5,706 | 1,296 | 1,546 | 1,594 | 165 | 10,307 |
| Property taxes | 5,452 | 1,069 | 1,326 | 1,867 | 41 | 9,755 |
| **Net operating income (loss)** | 49,838 | 10,584 | 5,834 | 9,892 | (1,651) | 74,497 |
| Financing costs (a) | 13,196 | 2,551 | 1,050 | 2,753 | 2,093 | 21,643 |
| Administration | 16 | (6) | 2 | 46 | 8,114 | 8,172 |
| Depreciation and amortization(b) | 849 | 159 | 70 | 1,035 | 970 | 3,083 |
| **Profit (loss) from continuing operations before the undernoted** | 35,777 | 7,880 | 4,712 | 6,058 | (12,828) | 41,599 |
| Loss on sale of assets | (235) | – | – | – | – | (235) |
| Fair value gains (losses) | 63,884 | 1,139 | 325 | 327 | (21,634) | 44,041 |
| **Profit (loss) from continuing operations before income tax recovery** | 99,426 | 9,019 | 5,037 | 6,385 | (34,462) | 85,405 |
| Income tax (expense) (c) | – | – | – | – | (71) | (71) |
| Profit (loss) from continuing operations | $ 99,426 | $ 9,019 | $ 5,037 | $ 6,385 | $ (34,533) | $ 85,334 |
| Profit from discontinued operations, net of tax | – | – | – | – | (1,478) | (1,478) |
| Profit (loss) for the period | $ 99,426 | $ 9,019 | $ 5,037 | $ 6,385 | $ (36,011) | $ 83,856 |
| Other comprehensive income | 349 | 268 | – | – | – | 617 |
| **Total comprehensive income (loss)** | $ 99,775 | $ 9,287 | $ 5,037 | $ 6,385 | $ (36,011) | $ 84,473 |
| Additions to non-current assets (d) | $ 11,266 | $ 2,822 | $ 1,641 | $ 2,336 | $ 2,059 | $ 20,124 |

| | Six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Alberta** | **Saskatchewan** | **Ontario** | **Quebec** | **Corporate** | **Total** |
| **Rental revenue** | **$ 150,720** | **$ 30,693** | **$ 20,788** | **$ 35,106** | **$ 101** | **$ 237,408** |
| Ancillary rental income | **2,297** | **213** | **423** | **440** | **1** | **3,374** |
| **Total rental revenue** | **153,017** | **30,906** | **21,211** | **35,546** | **102** | **240,782** |
| **Rental expenses** | | | | | | |
| Operating expenses | **26,989** | **5,383** | **3,798** | **8,257** | **2,193** | **46,620** |
| Utilities | **12,930** | **3,857** | **3,950** | **4,200** | **103** | **25,040** |
| Property taxes | **11,509** | **2,150** | **2,666** | **3,834** | **49** | **20,208** |
| **Net operating income (loss)** | **101,589** | **19,516** | **10,797** | **19,255** | **(2,243)** | **148,914** |
| Financing costs (a) | **25,420** | **4,738** | **1,948** | **4,286** | **4,705** | **41,097** |
| Administration | **138** | **(76)** | **37** | **145** | **16,700** | **16,944** |
| Depreciation and amortization (b) | **1,865** | **399** | **144** | **386** | **1,910** | **4,704** |
| **Profit (loss) from continuing operations before the undernoted** | **74,166** | **14,455** | **8,668** | **14,438** | **(25,558)** | **86,169** |
| Loss on sale of assets | **–** | **–** | **(4)** | **–** | **–** | **(4)** |
| Fair value gains (losses) | **(48,922)** | **(8,434)** | **51,691** | **3,203** | **22,412** | **19,950** |
| **Profit (loss) from continuing operations before income tax (expense)** | **25,244** | **6,021** | **60,355** | **17,641** | **(3,146)** | **106,115** |
| Income tax (expense)(c) | **–** | **–** | **–** | **–** | **(98)** | **(98)** |
| **Profit (loss) from continuing operations** | **$ 25,244** | **$ 6,021** | **$ 60,355** | **$ 17,641** | **$ (3,244)** | **$ 106,017** |
| Profit from discontinued operations, net of tax | **–** | **–** | **–** | **–** | **–** | **–** |
| Profit (loss) for the period | **$ 25,244** | **$ 6,021** | **$ 60,355** | **$ 17,641** | **$ (3,244)** | **$ 106,017** |
| Other comprehensive income | **563** | **451** | **–** | **–** | **–** | **1,014** |
| **Total comprehensive income (loss)** | **$ 25,807** | **$ 6,472** | **$ 60,355** | **$ 17,641** | **$ (3,244)** | **$ 107,031** |
| Additions to non-current assets (d) | **$ 18,999** | **$ 5,860** | **$ 3,006** | **$ 8,124** | **$ 8,341** | **$ 44,330** |

| | Six months ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Alberta | Saskatchewan | Ontario | Quebec | Corporate | Total |
| **Rental revenue** | $ 144,664 | $ 30,712 | $ 20,401 | $ 35,164 | $ 118 | $ 231,059 |
| Ancillary rental income (loss) | 2,171 | 326 | 433 | 483 | 35 | 3,448 |
| **Total rental revenue** | 146,835 | 31,038 | 20,834 | 35,647 | 153 | 234,507 |
| **Rental expenses** | | | | | | |
| Operating expenses | 26,467 | 5,125 | 3,567 | 8,464 | 2,854 | 46,477 |
| Utilities | 14,346 | 2,983 | 4,179 | 4,313 | 294 | 26,115 |
| Property taxes | 10,839 | 2,115 | 2,637 | 3,687 | 70 | 19,348 |
| **Net operating income (loss)** | 95,183 | 20,815 | 10,451 | 19,183 | (3,065) | 142,567 |
| Financing costs (a) | 26,460 | 5,108 | 2,111 | 5,529 | 4,237 | 43,445 |
| Administration | 31 | 5 | 15 | 82 | 15,545 | 15,678 |
| Depreciation and amortization(b) | 1,727 | 337 | 137 | 2,036 | 1,869 | 6,106 |
| **Profit (loss) from continuing operations before the undernoted** | 66,965 | 15,365 | 8,188 | 11,536 | (24,716) | 77,338 |
| Loss on sale of assets | (235) | – | – | – | – | (235) |
| Fair value gains (losses) | 132,665 | 8,201 | (336) | 2,589 | (25,484) | 117,635 |
| **Profit (loss) from continuing operations before income tax recovery** | 199,395 | 23,566 | 7,852 | 14,125 | (50,200) | 194,738 |
| Income tax (expense) (c) | – | – | – | – | (22) | (22) |
| **Profit (loss) from continuing operations** | $ 199,395 | $ 23,566 | $ 7,852 | $ 14,125 | $ (50,222) | $ 194,716 |
| Profit from discontinued operations, net of tax | – | – | – | – | 11,519 | 11,519 |
| Profit (loss) for the period | $ 199,395 | $ 23,566 | $ 7,852 | $ 14,125 | $ (38,703) | $ 206,235 |
| Other comprehensive income | 687 | 527 | – | – | – | 1,214 |
| **Total comprehensive income (loss)** | $ 200,082 | $ 24,093 | $ 7,852 | $ 14,125 | $ (38,703) | $ 207,449 |
| Additions to non-current assets (d) | $ 19,045 | $ 4,689 | $ 3,215 | $ 3,464 | $ 4,238 | $ 34,651 |

### (a) Financing costs

Financing costs were as follows:

| | **Three months ended June 30, 2015** | | | | | |
|---|---|---|---|---|---|---|
| | **Alberta** | **Saskatchewan** | **Ontario** | **Quebec** | **Corporate** | **Total** |
| Interest on secured debt (mortgages payable) | **$ 12,538** | **$ 2,296** | **$ 933** | **$ 2,130** | **$ (1)** | **$ 17,896** |
| LP Class B unit distribution | **–** | **–** | **–** | **–** | **2,282** | **2,282** |
| Other interest charges | **28** | **3** | **17** | **6** | **310** | **364** |
| Interest income | **–** | **–** | **–** | **–** | **(227)** | **(227)** |
| Total | **$ 12,566** | **$ 2,299** | **$ 950** | **$ 2,136** | **$ 2,364** | **$ 20,315** |

| | Three months ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Alberta | Saskatchewan | Ontario | Quebec | Corporate | Total |
| Interest on secured debt (mortgages payable) | $ 13,168 | $ 2,546 | $ 1,025 | $ 2,746 | $ (9) | $ 19,476 |
| LP Class B unit distribution | – | – | – | – | 2,282 | 2,282 |
| Other interest charges | 28 | 5 | 25 | 7 | 320 | 385 |
| Interest income | – | – | – | – | (500) | (500) |
| Total | $ 13,196 | $ 2,551 | $ 1,050 | $ 2,753 | $ 2,093 | $ 21,643 |

| | Six months ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Alberta** | **Saskatchewan** | **Ontario** | **Quebec** | **Corporate** | **Total** |
| Interest on secured debt (mortgages payable) | **$ 25,362** | **$ 4,731** | **$ 1,914** | **$ 4,274** | **$ –** | **$ 36,281** |
| LP Class B unit distribution | **–** | **–** | **–** | **–** | **4,565** | **4,565** |
| Other interest charges | **58** | **7** | **34** | **12** | **621** | **732** |
| Interest income | **–** | **–** | **–** | **–** | **(481)** | **(481)** |
| Total | **$ 25,420** | **$ 4,738** | **$ 1,948** | **$ 4,286** | **$ 4,705** | **$ 41,097** |

| | Six months ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Alberta | Saskatchewan | Ontario | Quebec | Corporate | Total |
| Interest on secured debt (mortgages payable) | $ 26,389 | $ 5,098 | $ 2,060 | $ 5,514 | $ – | $ 39,061 |
| LP Class B unit distribution | – | – | – | – | 4,542 | 4,542 |
| Other interest charges | 71 | 10 | 51 | 15 | 617 | 764 |
| Interest income | – | – | – | – | (922) | (922) |
| Total | $ 26,460 | $ 5,108 | $ 2,111 | $ 5,529 | $ 4,237 | $ 43,445 |

### (b) Depreciation and amortization

This represents depreciation and amortization on items carried at cost and primarily includes deferred financing charged, corporate assets, technology assets, site equipment and other assets. These figures exclude any impairment charges.

### (c) Income tax (expense) recovery

This relates to any current and deferred taxes.

### (d) Additions to non-current assets (other than financial instruments and deferred tax assets)

This represents the total cost incurred during the year to acquire non-current assets (other than financial instruments and deferred tax assets), measured on an accrual basis.

## NOTE 21: SUBSEQUENT EVENTS

On July 20, 2015, the Trust announced it has entered into an unconditional agreement to sell all its properties in the City of Windsor (which forms part of the Ontario geographical segment) for the sale price of $136.2 million. The sale is expected to close on September 10, 2015. The Trust estimates the taxable income and non-taxable portion of capital gains as a result of this transaction will be in the range of $0.90 and $1.00 per Trust Unit.

Subsequent to June 30, 2015, the maturity date of the Trust's committed revolving credit facility was extended for three years, from July 27, 2017 to July 27, 2020.

## NOTE 22: APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the Board of Trustees and authorized for issuance on August 13, 2015.

# CORPORATE INFORMATION

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