BTB Real Estate Investment Trust
Condensed Consolidated Interim Financial Statements

Quarter ended September 30, 2014

Space for growth

Table of Contents

BTB Real Estate Investment Trust

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - in thousands of CAD dollars)

	Notes	As at September 30,2014	As at December 31,2013
		$	$
ASSETS			
Investment properties	3, 4, 5	570,271	529,432
Property and equipment	6	2,331	2,384
Derivative financial instruments	13	2,387	251
Restricted cash	7	2,298	5,832
Other assets	8	5,723	3,671
Receivables	9	1,800	2,459
Cash and cash equivalents		7,381	2,530
Total assets		**592,191**	**546,559**
LIABILITIES AND UNITHOLDERS' EQUITY			
Mortgage loans payable	10	334,211	313,816
Convertible debentures	11	64,861	63,929
Bank loans	12	—	1,045
Derivative financial instruments	13	9	1,723
Unit-based compensation	14	13	187
Trade and other payables		9,733	12,324
Distributions payable to unitholders		1,191	943
Total liabilities		**410,018**	**393,967**
Unitholders' equity		**182,173**	**152,592**
		592,191	**546,559**

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board on November 6, 2014

Michel Léonard, Trustee

Jocelyn Proteau, Trustee

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited - in thousands of CAD dollars)

	Notes	For the three-month periods ended September 30, 2014	2013	For the nine-month periods ended September 30, 2014	2013
		$	$	$	$
Operating revenues					
Rental revenues from properties	16	16,866	15,452	49,612	47,087
Operating expenses					
Property taxes and public utilities		4,529	4,287	13,574	13,279
Other operating costs		2,694	2,405	8,063	7,533
		7,223	6,692	21,637	20,812
Net operating income		**9,643**	**8,760**	**27,975**	**26,275**
Finance costs		5,176	5,293	15,250	16,271
Net adjustment to fair value of derivative financial instruments		(1,640)	(559)	(3,849)	259
Net financing costs	17	3,536	4,734	11,401	16,530
Trust administration expenses		1,139	1,018	3,082	2,983
Net income before the following item		**4,968**	**3,008**	**13,492**	**6,762**
Increase in fair value of investment properties		—	2,652	796	3,855
Net income being total comprehensive income for the period		**4,968**	**5,660**	**14,288**	**10,617**

See accompanying notes to condensed consolidated interim financial statements.

BTB Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

(Unaudited - in thousands of CAD dollars)

For the nine-month period ended September 30, 2014	Notes	Unitholders' contributions	Cumulative distributions	Cumulative comprehensive income	Total
Balance at January 1, 2014		**157,207**	**(25,295)**	**20,680**	**152,592**
Issuance of units	15	24,666	—	—	24,666
Distributions to unitholders		—	(9,373)	—	(9,373)
		181,873	(34,668)	20,680	167,885
Comprehensive income		—	—	14,288	14,288
Balance as at September 30, 2014		**181,873**	**(34,668)**	**34,968**	**182,173**

For the nine-month period ended September 30, 2013					
Balance at January 1, 2013		**137,330**	**(14,883)**	**2,331**	**124,778**
Issuance of units		19,599	—	—	19,599
Distribution to unitholders		—	(7,584)	—	(7,584)
		156,929	(22,467)	2,331	136,793
Comprehensive income		—	—	10,617	10,617
Balance as at September 30, 2013		**156,929**	**(22,467)**	**12,948**	**147,410**

See accompanying notes to condensed consolidated interim financial statements.

BTB Real Estate Investment Trust

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - in thousands of CAD dollars)

	Notes	For the three-month periods ended September 30, 2014	2013	For the nine-month periods ended September 30, 2014	2013
		$	$	$	$
Operating activities					
Net income for the period		4,968	5,660	14,288	10,617
Adjustment for:					
Increase in fair value of investment properties		—	(2,652)	(796)	(3,855)
Depreciation of property and equipment	6	42	35	120	93
Unit-based compensation		50	—	84	43
Straight-line lease adjustment	16	(119)	(34)	(467)	(539)
Lease incentive amortization	16	493	368	1,317	1,073
Net financing costs	17	3,536	4,734	11,401	16,530
		8,970	8,111	25,947	23,962
Net change in non-cash operating items		1,034	(4)	(2,821)	(2,481)
Net cash from operating activities		**10,004**	**8,107**	**23,126**	**21,481**
Investing activities					
Additions to investment properties	3, 4	(10,571)	(1,526)	(45,373)	(15,508)
Net proceeds from disposal of investment properties	5	—	—	4,656	2,300
Additions to property and equipment	6	(3)	(130)	(67)	(144)
Net cash used in investing activities		**(10,574)**	**(1,656)**	**(40,784)**	**(13,352)**
Financing activities					
Mortgage loans, net of financing costs		19,341	5,428	66,127	24,366
Repayment of mortgage loans		(12,616)	(4,264)	(45,934)	(20,228)
Bank loans, net of financing costs		—	—	2,246	—
Repayment of bank loans		—	(16,073)	(3,291)	(15,008)
Net proceeds from issue of convertible debentures		—	4	—	21,756
Repayment of convertible debentures		—	—	—	(13,020)
Net proceeds from issue of units		—	18,999	23,429	18,999
Net distributions to unitholders		(3,075)	(2,466)	(8,135)	(6,836)
(Additions) Deduction to restricted cash	7	(300)	(350)	3,534	(2,700)
Interest paid		(6,085)	(6,437)	(15,467)	(16,213)
Net cash (used in) from financing activities		**(2,735)**	**(5,159)**	**22,509**	**(8,884)**
Net (decrease) increase in cash and cash equivalents		**(3,305)**	**1,292**	**4,851**	**(755)**
Cash and cash equivalents, beginning of period		**10,686**	**2,559**	**2,530**	**4,606**
Cash and cash equivalents, end of period		**7,381**	**3,851**	**7,381**	**3,851**

See accompanying notes to condensed consolidated interim financial statements.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

1. Reporting Entity

BTB Real Estate Investment Trust ("BTB") is an unincorporated open-ended real estate investment trust formed and governed under the Civil code of Quebec pursuant to a trust agreement and is domiciled in Canada. The address of BTB's registered office is 2155, Crescent street, Montreal, Quebec, Canada. The condensed consolidated interim financial statements of BTB for the nine-month periods ended September 30, 2014 and 2013 comprise BTB and its wholly-owned subsidiaries (together referred to as the "Trust") and the Trust's interest in joint operations.

2. Basis of Preparation

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Trust's consolidated financial statements for the years ended December 31, 2013 and 2012.

The accounting policies applied by the Trust in these unaudited condensed consolidated interim financial statements are the same as those applied by the Trust in its consolidated financial statements for the year ended December 31, 2013 except for those described in note 2e).

These condensed consolidated interim financial statements were approved by the Board of Directors on November 6, 2014.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Investment properties are measured at fair value;
- Derivative financial instruments are measured at fair value;
- Unit-based compensation is measured using a fair value-based method of accounting.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is BTB's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per unit amounts.

(d) Use of estimates and judgments

The preparation of condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The significant judgments made by management in applying the Trust's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013.

(e) Change in accounting policy

In 2014, the Trust adopted IFRIC 21, *Levies.* The application of this interpretation had no impact on the Trust's consolidated financial statements.

(f) New standards and interpretations not yet adopted

In May 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* in replacement of IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services.* The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The new standard is effective for the Trust's annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). In November 2009 the IASB issued the first version of IFRS 9 *Financial Instruments* (IFRS 9 (2009)) and subsequently issued various amendments in October 2010, (IFRS 9 *Financial Instruments* (2010)) and November 2013 (IFRS 9 *Financial Instruments* (2013)). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2013) includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The new standard is effective for the Trust's annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

3. Investment Properties

	Nine-month period ended September 30, 2014	Year ended December 31, 2013
	$	$
Balance beginning of period	529,432	488,521
Acquisition of investment properties (note 4)	40,121	29,614
Disposal of investment properties (note 5)	(4,725)	(2,300)
Capital expenditures	3,117	3,663
Government grants	—	(176)
Capitalized leasing fees	676	478
Capitalized lease incentives	1,704	1,833
Lease incentives amortization	(1,317)	(1,480)
Straight-line lease adjustment	467	904
Increase in fair value of investment properties	796	8,375
Balance end of period	**570,271**	**529,432**

The fair value of a subset of the Trust's investment properties comprised of the ten most significant investment properties and approximately 1/3 of the remaining investment properties is determined annually on the basis of valuations made by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising the Discounted Cash Flow, the Direct Capitalization and Comparable methods. The selection of investment properties subject to external valuation is determined by management based on its assessment of circumstances that in its view, may impact the value of a particular individual investment property. The fair value of the remaining investment properties is determined by management using internally generated valuations based on the Discounted Cash Flow method.

At September 30, 2014 external appraisals were obtained for investment properties with an aggregate fair value of $9,350 (December 31, 2013 - $349,282) and management's valuation model was used for investment properties with an aggregate fair value of $560,921 (December 31, 2013 - $180,150).

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

The fair value of investment properties is based on Level 3 inputs. There have been no transfers during the period between levels. The significant inputs used to determine the fair value of the Trust's investment properties are as follows:

	Commercial	Office	Industrial	General purpose
As at September 30, 2014				
Capitalization rate	6.25% - 10.00%	6.75% - 9.25%	6.50% - 10.50%	7.00% - 8.25%
Terminal capitalization rate	6.50% - 8.25%	6.50% - 9.25%	7.00% - 10.50%	7.25% - 8.50%
Discount rate	7.25% - 9.00%	7.50% - 9.75%	7.50% - 10.75%	7.50% - 9.25%
As at December 31, 2013				
Capitalization rate	6.25% - 10.00%	6.75% - 10.25%	6.50% - 10.50%	7.00% - 8.25%
Terminal capitalization rate	6.50% - 8.25%	6.50% - 9.25%	7.00% - 10.50%	7.25% - 8.50%
Discount rate	7.25% - 9.00%	7.50% - 9.75%	7.50% - 10.75%	8.25% - 9.25%

Significant increases (decreases) in estimated rental values and rent growth per annum in isolation would result in a significantly higher (lower) fair value of income properties. Significant increases (decreases) in long-term vacancy rates and exit yields in isolation would result in significantly lower (higher) fair values.

Generally, a change in the assumption made for the estimated rental value is accompanied by:

- A directionally similar change in the rent growth per annum and discount rate and exit yield;
- An opposite change in the long term vacancy rate.

Valuations determined by the Discounted Cash Flow method are most sensitive to changes in discount rate.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

4. Acquisitions

(a) 2014 Asset acquisitions

The relative fair value of the assets and liabilities recognized in the condensed consolidated interim statement of financial position on the date of the acquisition during 2014 were as follows:

				Fair value recognized on acquisition			
Acquisition date	**Property type**	**Location**	**Interest acquired**	**Investment properties, including transaction costs**	**Mortgage loans payable**	**Trade and other payables, including transaction costs**	**Total cash consideration paid**
			%	$	$	$	$
May 2014	Commercial	Saint-Jean-sur-Richelieu	100	31,600	—	24	31,576
August 2014	Industrial	Saint-Augustin-de-Desmaures	100	8,300	—	—	8,300
Transaction costs				221	—	221	—
Total				**40,121**	**—**	**245**	**39,876**

(b) 2013 Asset acquisitions

The relative fair value of the assets and liabilities recognized in the condensed consolidated interim statement of financial position on the date of the acquisition during 2013 were as follows:

				Fair value recognized on acquisition			
Acquisition date	**Property type**	**Location**	**Interest acquired**	**Investment properties, including transaction costs**	**Mortgage loans payable**	**Trade and other payables, including transaction costs**	**Total cash consideration paid**
			%	$	$	$	$
February 2013	General purpose	Saint-Lazare	50	2,563	1,586	69	908
March 2013	Industrial	Laval	100	11,000	—	—	11,000
	Office	Longueuil	100				
October 2013	Industrial	Longueuil	100	12,700	—	—	12,700
	Industrial	Sherbrooke	100				
December 2013	General purpose	Saint-Lazare	50[1]	2,552	1,555	475	522
Transaction costs				799	—	799	—
Total				**29,614**	**3,141**	**1,343**	**25,130**

[1]Residual interest of initial participation acquired in February 2013

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

5. Disposal

In May 2014, the Trust partially disposed of an office investment property located in the city of Sherbrooke for gross proceeds of $525 (net proceeds of $522 after giving effect to trade and other payables assumed by the purchaser).

In April 2014, the Trust disposed of a commercial investment property located in Montreal for gross proceeds of $4,200 (net proceeds of $4,134 after giving effect to trade and other payables assumed by the purchaser).

In May 2013, the Trust disposed of a general purpose investment property located in the city of Brossard for net proceeds of $2,300.

6. Property and Equipment

	Owner-occupied land	Owner-occupied building	Equipment, furniture and fixtures	Rolling stock	Total
	$	$	$	$	$
Cost					
Balance at December 31, 2012	494	1,724	348	59	**2,625**
Additions	—	200	124	23	**347**
Balance at December 31, 2013	494	1,924	472	82	**2,972**
Additions	—	11	56	—	**67**
Balance at September 30, 2014	494	1,935	528	82	**3,039**
Accumulated Depreciation					
Balance at December 31, 2012		245	210	7	**462**
Depreciation for the year		65	49	12	**126**
Balance at December 31, 2013		310	259	19	**588**
Depreciation for the period		52	57	11	**120**
Balance at September 30, 2014		362	316	30	**708**
Net carrying amount					
Balance at December 31, 2013	494	1,614	213	63	**2,384**
Balance at September 30, 2014	494	1,573	212	52	**2,331**

7. Restricted Cash

Restricted cash consists of an amount of $2,298 (December 31, 2013 - $5,832) provided in guarantee of mortgage loans. The permitted use of restricted cash is to lease up vacant space and fund certain future capital expenditures.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

8. Other Assets

	As at September 30, 2014	As at December 31, 2013
	$	$
Prepaid expenses	5,187	3,273
Deposits	536	398
Total	**5,723**	**3,671**

9. Receivables

	As at September 30, 2014	As at December 31, 2013
	$	$
Rents receivable	1,898	2,619
Provision for doubtful accounts	(305)	(263)
Net rents receivable	1,593	2,356
Other receivable	207	103
Total	**1,800**	**2,459**

10. Mortgage Loans Payable

Mortgage loans payable are secured by immovable hypothecs on investment properties having a fair value of approximately $563,412 as at September 30, 2014 (December 31, 2013 – $525,342).

	As at September 30, 2014	As at December 31, 2013
	$	$
Fixed rate mortgage loans payable	324,070	305,794
Floating rate mortgage loans payable	11,045	8,379
Unamortized fair value assumption adjustments	1,340	1,642
Unamortized financing costs	(2,244)	(1,999)
Mortgage loans payable	**334,211**	**313,816**
Weighted average interest rate	4.13%	4.44%
Weighted average term to maturity (years)	5.14	4.44
Range of annual rates	2.55% - 6.80%	2.55% - 6.80%

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

As at September 30, 2014, the mortgage loan scheduled repayments are as follows:

	Scheduled repayments	Principal maturity	Total
	$	$	$
2014*	2,434	11,475	13,909
2015	9,523	22,401	31,924
2016	8,841	70,409	79,250
2017	6,109	59,283	65,392
2018	4,242	35,493	39,735
Thereafter	25,375	79,530	104,905
	56,524	**278,591**	**335,115**
Unamortized fair value assumption adjustments			1,340
Unamortized financing costs			(2,244)
			334,211

*For the three-month period remaining.

In March 2013, the Trust entered into an interest rate swap agreement on a floating interest rate mortgage to hedge the variability in cash flows attributed to fluctuating interest rates. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis. The original principal amount of the interest rate swap was $7,150, the maturity date is April 2023 and the effective fixed interest rate is 4.02%. As at September 30, 2014, the outstanding principal amount was $6,818 (December 31, 2013 – $7,000). The Trust does not apply hedge accounting to such cash flow hedging relationships (see note 13).

11. Convertible Debentures

As at September 30, 2014, the Trust had three series of subordinated, convertible, redeemable debentures outstanding.

	Capital	Interest rates		Unit conversion price	Interest payments	Maturity
		Coupon	Effective			
		%	%	$		
Series C	23,000	8.00	9.78	5.00	Semi-annual	January 2016
Series D	23,000	7.25	8.47	6.10	Semi-annual	July 2018
Series E	23,000	6.90	7.90	6.15	Semi-annual	March 2020

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

The components of the subordinated convertible debentures on the issue date were allocated as follows:

	Series C	Series D	Series E
	$	$	$
Non-derivative liability component	21,592	21,346	22,690
Conversion and redemption options liability component	1,408	1,654	310
	23,000	**23,000**	**23,000**

The accretion of the non-derivative liability component of the subordinated convertible debentures, which increases as of the initial allocation on the issuance date to the final amount repayable, is recorded under finance costs. The conversion and redemption options liability component is measured at fair value.

	Series C	**Series D**	**Series E**	**Total**
	$	$	$	$
As at September 30,2014				
Non-derivative liability component upon issuance	21,592	21,346	22,690	65,628
Accretion of non-derivative liability component	979	636	57	1,672
	22,571	21,982	22,747	67,300
Unamortized financing costs	(499)	(917)	(1,023)	(2,439)
Non-derivative liability component	**22,072**	**21,065**	**21,724**	**64,861**
Conversion and redemption options liability (asset) component at fair value	**(2,118)**	**(276)**	**7**	**(2,387)**

	Series C	**Series D**	**Series E**	**Total**
	$	$	$	$
As at December 31,2013				
Non-derivative liability component upon issuance	21,592	21,346	22,690	65,628
Accretion of non-derivative liability component	754	472	30	1,256
	22,346	21,818	22,720	66,884
Unamortized financing costs	(760)	(1,064)	(1,131)	(2,955)
Non-derivative liability component	**21,586**	**20,754**	**21,589**	**63,929**
Conversion and redemption options liability component at fair value	**780**	**361**	**582**	**1,723**

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

Series C
In January 2011, the Trust issued Series C subordinated convertible, redeemable, unsecured debentures bearing 8% interest payable semi-annually and maturing in January 2016, in the amount of $23,000. The debentures are convertible at the holder's option at any time before January 2016, at a conversion price of $5.00 per unit ("Series C Conversion Price").

Until January 31, 2015, under certain conditions, the debentures are redeemable by the Trust at a redemption price equal to their principal amount plus accrued, unpaid interest, provided that the average weighted price based on the volume of units traded on the Toronto Stock Exchange during a period of 20 consecutive trading days ending on the fifth trading day prior to the date on which an advanced notice of redemption is given (the "current market price") is at least 125% of the conversion price. As of January 31, 2015, but before January 31, 2016, under certain conditions, the debentures will be redeemable by the Trust, in whole or in part at any time and for a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Trust may, under certain conditions, elect to satisfy its obligation to pay the principal amount of the debentures that are to be redeemed or that have matured by issuing a number of units obtained by dividing the principal amount of the debentures by 95% of the current market price on the date of redemption or maturity.

Series D
In July 2011, the Trust issued Series D subordinated convertible, redeemable, unsecured debentures bearing 7.25% interest payable semi-annually and maturing in July 2018, in the amount of $23,000. The debentures are convertible at the holder's option at any time before July 2018, at a conversion price of $6.10 per unit ("Series D Conversion Price").

Until July 31, 2016, under certain conditions, the debentures will be redeemable by the Trust at a redemption price equal to their principal amount plus accrued, unpaid interest, provided that the average weighted price based on the volume of units traded on the Toronto Stock Exchange during a period of 20 consecutive trading days ending on the fifth trading day prior to the date on which an advanced notice of redemption is given (the "current market price") is at least 125% of the conversion price. As of July 31, 2016, but before July 31, 2018, under certain conditions, the debentures will be redeemable by the Trust, in whole or in part at any time and for a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Trust may, under certain conditions, elect to satisfy its obligation to pay the principal amount of the debentures that are to be redeemed or that have matured by issuing a number of units obtained by dividing the principal amount of the debentures by 95% of the current market price on the date of redemption or maturity.

Series E
In February 2013, the Trust issued Series E subordinated convertible, redeemable, unsecured debentures bearing 6.90% interest payable semi-annually and maturing in March 2020, in the amount of $23,000. The debentures are convertible at the holder's option at any time before March 2020, at a conversion price of $6.15 per unit ("Series E Conversion Price").

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

These debentures are not redeemable before March 31, 2016, except in the case of a change in control. As of March 31, 2016, but before March 31, 2018, under certain conditions, the debentures will be redeemable by the Trust at a redemption price equal to their principal amount plus accrued, unpaid interest, provided that the average weighted price based on the volume of units traded on the Toronto Stock Exchange during a period of 20 consecutive trading days ending on the fifth trading day prior to the date on which an advanced notice of redemption is given (the “current market price”) is at least 125% of the conversion price. As of March 31, 2018, but before March 31, 2020, under certain conditions, the debentures will be redeemable by the Trust, in whole or in part at any time and for a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Trust may, under certain conditions, elect to satisfy its obligation to pay the principal amount of the debentures that are to be redeemed or that have matured by issuing a number of units obtained by dividing the principal amount of the debentures by 95% of the current market price on the date of redemption or maturity.

12. Bank Loans

The Trust has access to an acquisition line of credit in the amount of $15,000. This line of credit bears interest at a rate of 3.25% above the prime rate. As at September 30, 2014, no amount was drawn under the acquisition line of credit.

The Trust also has access to an operating credit facility for a maximum amount of $2,000. This facility bears interest at a rate of 0.75% above the prime rate. As at September 30, 2014, no amount was due under the operating credit facility (December 31, 2013 - $1,045)

The line of credit and the credit facility are secured by an immoveable first rank hypothec on three properties having a value of $6,863 (December 31, 2013 – two properties having a value of $4,308) and by an immoveable second rank hypothec on two properties having a value of $60,842 (December 31, 2013 - $nil).

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

13. Fair Value Measurement

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. They do not include the fair value of cash and cash equivalents, restricted cash, receivables, other assets, trade and other payables and distributions payable to unitholders, which approximated their carrying amount as at September 30, 2014 and December 31, 2013 because of their short-term maturity.

As at September 30, 2014	**Carrying amount**		**Fair value**	
		Level 1	**Level 2**	**Level 3**
	$	$	$	$
Measured at fair value				
Conversion and redemption options of convertible debentures (note 11)	(2,387)	—	—	(2,387)
Interest rate swap	9	—	9	—
For which fair values are disclosed				
Mortgage loans payable (note 10)	334,211	—	337,877	—
Convertible debentures, including their conversion and redemption features	62,474	70,960	—	—

As at December 31, 2013	**Carrying amount**		**Fair value**	
		Level 1	**Level 2**	**Level 3**
	$	$	$	$
Measured at fair value				
Conversion and redemption options of convertible debentures (note 11)	1,723	—	—	1,723
Interest rate swap asset	(251)	—	(251)	—
For which fair values are disclosed				
Mortgage loans payable (note 10)	313,816	—	317,816	—
Convertible debentures, including their conversion and redemption features	65,652	67,505	—	—
Bank loans (note 12)	1,045	—	1,045	—

The fair value of mortgage loans payable was calculated by discounting cash flows from future payments of principal and interest using the period end market rate for various loans with similar risk and credit profiles. The period end market rates have been estimated by reference to published mortgage rates by major financial institutions for similar maturities.

The fair value of convertible debentures, including their conversion and redemption features, was determined with reference to the last quoted trading price preceding the period end.

The fair value of bank loans was calculated by discounting cash flows from financial obligations using the period end market rate for similar instruments

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

The fair values of derivative financial instruments, which comprise the conversion and redemption options of convertible debentures and an interest rate swap, are based respectively on the partial differential equation method and the discounted future cash flows method. The assumptions used in the partial differential equation method are estimated by reference to the Trust's unit price and its volatility, and take into account the credit risk of the financial instrument. The assumptions used in the discounted future cash flows method are estimated by reference to the Canadian Dealer Offered Rate ("CDOR") forward rates.

Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The following tables provide a reconciliation of Level 3 fair value measurements on the condensed consolidated interim statements of financial position:

	Conversion and redemption options of convertible debentures
	$
Period ended September 30, 2014	
Balance beginning of period	1,723
Change for the period recognized in profit and loss under Net adjustment to fair value of derivative financial instruments	(4,110)
Balance end of period	**(2,387)**

	Conversion and redemption options of convertible debentures
	$
Year ended December 31, 2013	
Balance beginning of year	927
Change for the year recognized in profit and loss under Net adjustment to fair value of derivative financial instruments	486
Issue of Series E subordinated convertible redeemable debentures	310
Balance end of year	**1,723**

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

The following table provides a sensitivity analysis for the volatility applied in fair value measurement of the conversion and redemption options of convertible debentures at September 30, 2014:

	Conversion and redemption options of convertible debentures	Volatility
	$	%
Volatility sensitivity		
Increase (decrease)		
(0.50%)	(2,489)	11.66
September 30, 2014	(2,387)	12.16
0.50%	(2,277)	12.66

As shown in the sensitivity analysis above, the fair value of the conversion and redemption options of convertible debentures is impacted by a change in the volatility used in the valuation model. Generally, an increase in the volatility, other things being equal, will result in an increase in fair value of the conversion and redemption options of convertible debentures and vice-versa. In some cases, when the fair value of the redemption option component is increasing more than the fair value of the conversion option component, an increase in volatility will result in a decrease in fair value of the conversion and redemption options.

14. Unit-based Compensation

(a) Unit option plan

The Trust may grant options to its trustees, senior officers, investor relations consultants, and technical consultants. The maximum number of units reserved for issuance under the unit option plan is limited to 10% of the total number of issued and outstanding units. The trustees set the exercise price at the time that the units are granted under the plan; the exercise price may not be less than the discounted market price of the units as determined under the policies of the Toronto Stock Exchange on the date of grant. The options have a minimum term of five years as of the grant date and vest over a period of up to 18 months.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

The following table presents relevant information on changes in the number of unit options during the period:

For the nine-month periods ended September 30,		**2014**		**2013**
	Units options	**Weighted average exercise price**	**Units options**	**Weighted average exercise price**
Outstanding, beginning of period	98,000	4.51	227,000	5.07
Forfeited / Cancelled	(24,000)	4.54	(119,000)	5.55
Outstanding, end of period	**74,000**	**4.50**	**108,000**	**4.53**
Options vested	**74,000**	**4.50**	**108,000**	**4.53**
Weighted average remaining life (years)		**0.65**		**1.58**

As at September 30, 2014, the liability related to the plan was $13 (December 31, 2013 - $14). The related income recorded in profit and loss amounted to $1 for the nine-month period ended September 30, 2014 (for the nine-month period ended September 30, 2013 – income of $7). No options were exercised under this plan for the nine-month periods ended September 30, 2014 and 2013.

(b) Deferred unit compensation plan for trustees and certain executive officers

The Trust offers a deferred unit compensation plan for its trustees and certain executive officers. Under this plan, the trustees and certain executive officers may elect to receive as compensation either cash, deferred units, or a combination of both.

The following table presents relevant information on changes in the number of deferred units during the period:

For the nine-month periods ended September 30,	**2014**	**2013**
	Deferred Units	Deferred Units
Outstanding, beginning of period	29,771	15,981
Trustees' compensation	5,619	8,873
Distributions paid in units	1,649	1,352
Units settled	(37,039)	—
Outstanding, end of period	**—**	**26,206**

As at September 30, 2014, the liability related to the plan was $nil (December 31, 2013 - $140). The related expense recorded in profit and loss amounted to $39 for the nine-month period ended September 30, 2014 (for the nine-month period ended September 30, 2013 - $50). As part of the settlement, the

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

Trust issued 36,491 units and paid an amount of $3 under this plan for the nine-month periods ended September 30, 2014 (no issuance and no amount for the nine-month period ended September 30, 2013).

(c) Employee unit purchase plan

The Trust offers an optional employee unit purchase plan to all its employees. Under this plan, the employees may contribute, each year, pursuant to a maximum of 3% to 7% of their base salary depending of their years of experience with the Trust. For each two units purchased by an employee, the Trust shall issue one unit from treasury. As at September 30, 2014, the liability related to the plan was $nil (December 31, 2013 - $33, representing a total of 7,456 units to issue). The related expense recorded in profit and loss amounted to $nil for the nine-month period ended September 30, 2014 (for the year ended December 31, 2013 - $33). The units related to 2013 purchases have been issued in February 2014.

(d) Restricted unit compensation plan

The Trust offers a restricted unit plan for all executive officers and key employees. Under this plan, the executive officers and key employees may elect to receive restricted units.

The following table presents relevant information on changes in the restricted units:

For the nine-month periods ended September 30,	**2014**	**2013**
	Restricted units	Restricted units
Outstanding, beginning of period	—	—
Granted	10,000	—
Vested / Settled	(10,000)	—
Outstanding, end of period	**—**	**—**

As at September 30, 2014, the liability related to the plan was $nil (December 31, 2013 - $nil). The related expense recorded in profit and loss amounted to $46 for the nine-month period ended September 30, 2014 (for the nine-month period ended September 30, 2013 - $nil). As part of the settlement, the Trust issued 10,000 units under this plan for the nine-month periods ended September 30, 2014 (no issuance made for the nine-month period ended September 30, 2013).

15. Trust Units Issued and Outstanding

BTB is authorized to issue an unlimited number of trust units. Each trust unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. The unitholders have the right to require BTB to redeem their trust units on demand. Upon receipt of the redemption notice, all rights to and under the trust units tendered for redemption are surrendered and the holder thereof is entitled to receive a price per trust unit ("Redemption Price"), as determined by a market formula. The Redemption Price is to be paid in accordance with the conditions provided for in the

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

Declaration of Trust. BTB trust units are considered liability instruments under IFRS because the units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32.

In June 2014, the Trust completed a public issue of 5,436,000 units, including the over-allotment option, for total net proceeds of $23,429.

In July 2013, the Trust completed a public issue of 4,328,600 units, including the over-allotment option, for total net proceeds of $18,996.

Trust units issued and outstanding are as follows:

	For the nine-month period ended September 30,		For the year ended December 31,	
		2014		2013
	Units	$	Units	$
Units outstanding, beginning of period	28,325,538	157,207	23,791,797	137,330
Issue pursuant to a public issue	5,436,000	24,734	4,328,600	20,128
Unit issue costs	—	(1,305)	—	(1,132)
	33,761,538	180,636	28,120,397	156,326
Issue pursuant to the distribution reinvestment plan	226,693	990	205,141	881
Issue pursuant to the deferred unit compensation plan (note 14 (b))	36,491	168	—	—
Issue pursuant to the employee unit purchase plan (note 14 (c))	7,456	33	—	—
Issue pursuant to the restricted unit compensation plan (note 14 (d))	10,000	46	—	—
Units outstanding, end of period	**34,042,178**	**181,873**	**28,325,538**	**157,207**

(a) Distribution reinvestment plan

BTB offers a distribution reinvestment plan for its trust unitholders. Participation in the plan is optional and under the terms of the plan, cash distributions on trust units are used to purchase additional trust units. The trust units are issued from BTB's treasury at a price based on the volume-weighted average of the trading prices on the Toronto Stock Exchange for the last five trading days before the distribution date, less a discount of 5%.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

16. Rental Revenues from Properties

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
Rental income contractually due from tenants	17,240	15,786	50,462	47,621
Lease incentive amortization	(493)	(368)	(1,317)	(1,073)
Straight-line lease adjustment	119	34	467	539
	16,866	**15,452**	**49,612**	**47,087**

17. Net Financing Costs

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
Financial income	(5)	(18)	(27)	(86)
Interest on mortgage loans payable	3,386	3,466	10,054	10,344
Interest on convertible debentures	1,274	1,274	3,822	3,872
Interest on bank loans	73	174	161	767
Other interest expense	18	12	45	36
Accretion of non-derivative liability component of convertible debentures	142	130	416	419
Accretion of effective interest on mortgage loans payable, convertible debentures and bank loans	288	255	779	919
Net adjustment to fair value of derivative financial instruments	(1,640)	(559)	(3,849)	259
	3,536	**4,734**	**11,401**	**16,530**

18. Expenses by Nature

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
Depreciation	42	34	120	93
Employee benefits expense	926	814	2,852	2,396

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

19. Earnings per Unit

BTB's trust units being puttable financial instruments presented as equity in accordance with IAS 32 (see note 15), the Trust is not required to report a profit or loss per unit figure on its condensed consolidated interim statements of comprehensive income. However, for disclosure purposes only, the Trust has determined basic earnings per unit using the same basis that would apply in accordance with IAS 33, *Earnings per Share*.

Net earnings per unit are calculated based on the weighted average number of units outstanding as follows:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	$	$	$
Net income	4,968	5,660	14,288	10,617
Weighted average number of units outstanding – basic	33,992,520	26,916,777	30,518,291	24,874,644
Earnings per unit – basic	**0.15**	**0.21**	**0.47**	**0.43**

20. Operating Lease Income

The Trust as lessor has entered into leases on its property portfolio. Initial lease terms are generally between three and ten years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to terminate before the end of the lease term.

21. Operating Segments

For investment properties, discrete financial information is provided to the Chief Executive Officer (''CEO'') on an aggregated investment property basis. The information provided is net rentals (including gross rent and property expenses), valuation gains/losses and the net value of investment properties. The individual investment properties are aggregated into segments with similar economic characteristics. The CEO considers that this is best achieved by aggregating into commercial, office, industrial and general purpose segments.

BTB Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

Consequently, the Trust is considered to have four reportable operating segments, as follows:

- Commercial
- Office
- Industrial
- General purpose

	Commercial	Office	Industrial	General purpose	Total
	$	$	$	$	$
Three-month period ended September 30, 2014					
Investment properties	129,825	210,826	109,713	119,907	**570,271**
Rental revenue from properties	3,733	6,632	2,447	4,054	**16,866**
Net operating income	2,400	3,164	2,019	2,060	**9,643**
Three-month period ended September 30, 2013					
Investment properties	101,113	201,287	90,314	114,532	**507,246**
Rental revenue from properties	2,903	6,523	2,215	3,811	**15,452**
Net operating income	1,843	3,186	1,860	1,871	**8,760**

	Commercial	Office	Industrial	General purpose	Total
	$	$	$	$	$
Nine-month period ended September 30, 2014					
Rental revenue from properties	9,760	20,596	7,345	11,911	**49,612**
Net operating income	6,093	9,941	5,936	6,005	**27,975**
Nine-month period ended September 30, 2013					
Rental revenue from properties	8,678	20,088	6,522	11,799	**47,087**
Net operating income	5,313	9,749	5,387	5,826	**26,275**

22. Commitments and Contingencies

(a) Contractual obligations

The Trust entered into a binding agreement under which the Trust is committed to pay, up to a maximum of $1,275, for the refurbishment work of one investment property acquired in October 2013. The funds required for the execution of this obligation are covered by an equivalent amount held in restricted cash

Notes to Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2014 and 2013
(Unaudited - in thousands of CAD dollars, except per unit amounts)

for the payment of the refurbishment work. As at September 30, 2014, the Trust has paid $198 in refurbishment work (December 31, 2013 - $nil).

The Trust entered into a commitment for a total consideration of $1,014 in exchange for work to be performed on an investment property. The total amount will be financed under a finance lease contract. The work is planned to start within the next quarter.

(b) Litigation

The Trust is involved with litigations and claims which arise from time to time in the normal course of business. These litigations and claims are generally covered by insurance. In the opinion of management, any liability that may arise from such contingencies will not have a significant adverse effect on the Trust's condensed consolidated interim financial statements.

BTB Real Estate Investment Trust
2155, Crescent
Montreal, Quebec, H3G 2C1
T 514 286 0188
F 514 286 0011
www.btbreit.com

BTB