



**Quarter ended March 31, 2016**

**Condensed Consolidated Interim Financial Statements**

# **Building Trust**



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BTB Real Estate Investment Trust

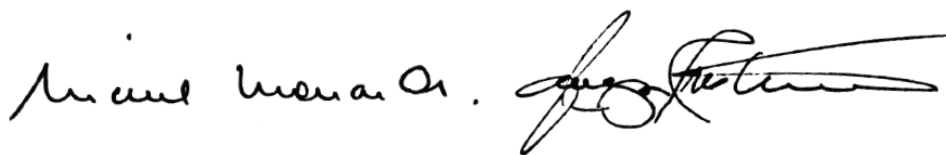
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited - in thousands of CAD dollars)

	Notes	As at March 31, 2016	As at December 31, 2015
		\$	\$
<b>ASSETS</b>			
Investment properties	3, 4, 5	634,804	622,651
Property and equipment	6	2,270	2,292
Restricted cash	7	51	51
Other assets	8	5,230	1,969
Receivables	9	2,574	1,981
Cash and cash equivalents		1,813	4,138
<b>Total assets</b>		<b>646,742</b>	<b>633,082</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Mortgage loans payable	10	374,729	366,596
Convertible debentures	11	69,097	68,866
Bank loans	12	13,500	9,800
Derivative financial instruments	13	476	380
Unit-based compensation	14	116	173
Trade and other payables		12,759	11,693
Distributions payable to unitholders		1,220	1,215
<b>Total liabilities</b>		<b>471,897</b>	<b>458,723</b>
<b>Unitholders' equity</b>		<b>174,845</b>	<b>174,359</b>
		<b>646,742</b>	<b>633,082</b>

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board on May 5, 2016.



Michel Léonard, Trustee

Jocelyn Proteau, Trustee

BTB Real Estate Investment Trust

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF  
COMPREHENSIVE INCOME

(Unaudited - in thousands of CAD dollars)

	Notes	For the three-month periods ended March 31,	
		2016	2015
		\$	\$
<b>Operating revenues</b>			
Rental revenues from properties	16	18,550	18,329
<b>Operating expenses</b>			
Property taxes and public utilities		5,469	5,265
Other operating costs		2,962	2,932
		8,431	8,197
<b>Net operating income</b>		<b>10,119</b>	<b>10,132</b>
Finance costs		5,460	5,355
Net adjustment to fair value of derivative financial instruments		95	156
Net financing costs	17	5,555	5,511
Trust administration expenses		1,013	1,221
<b>Net income being total comprehensive income for the period</b>		<b>3,551</b>	<b>3,400</b>

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)

	Notes	Unitholders' contributions	Cumulative distributions	Cumulative comprehensive income	Total
For the three-month period ended March 31, 2016					
<b>Balance at January 1, 2016</b>		<b>184,853</b>	<b>(52,726)</b>	<b>42,232</b>	<b>174,359</b>
Issuance of units	15	590	—	—	590
Distributions to unitholders	15	—	(3,655)	—	(3,655)
		185,443	(56,381)	42,232	171,294
Comprehensive income		—	—	3,551	3,551
<b>Balance as at March 31, 2016</b>		<b>185,443</b>	<b>(56,381)</b>	<b>45,783</b>	<b>174,845</b>
For the three-month period ended March 31, 2015					
<b>Balance at January 1, 2015</b>		<b>182,284</b>	<b>(38,248)</b>	<b>33,563</b>	<b>177,599</b>
Issuance of units		701	—	—	701
Distributions to unitholders	15	—	(3,596)	—	(3,596)
		182,985	(41,844)	33,563	174,704
Comprehensive income		—	—	3,400	3,400
<b>Balance as at March 31, 2015</b>		<b>182,985</b>	<b>(41,844)</b>	<b>36,963</b>	<b>178,104</b>

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	
		2016	2015
		March 31,	March 31,
		\$	\$
<b>Operating activities</b>			
Net income for the period		3,551	3,400
Adjustment for:			
Depreciation of property and equipment	6	44	45
Unit-based compensation		37	175
Straight-line lease adjustment	16	(100)	(224)
Lease incentive amortization	16	479	492
Net financing costs	17	5,555	5,511
		9,566	9,399
Net change in non-cash operating items		(2,857)	(3,810)
<b>Net cash from operating activities</b>		<b>6,709</b>	<b>5,589</b>
<b>Investing activities</b>			
Additions to investment properties	3, 4	(12,154)	(34,674)
Additions to property and equipment	6	(22)	(42)
<b>Net cash used in investing activities</b>		<b>(12,176)</b>	<b>(34,716)</b>
<b>Financing activities</b>			
Mortgage loans, net of financing costs		10,919	23,861
Repayment of mortgage loans		(2,894)	(2,651)
Bank loans, net of financing costs		3,700	11,340
Net distributions to unitholders		(3,154)	(3,172)
Reduction to restricted cash		—	772
Interest paid		(5,429)	(6,091)
<b>Net cash from financing activities</b>		<b>3,142</b>	<b>24,059</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,325)</b>	<b>(5,068)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>4,138</b>	<b>6,428</b>
<b>Cash and cash equivalents, end of period</b>		<b>1,813</b>	<b>1,360</b>

See accompanying notes to condensed consolidated interim financial statements.

## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the three-month periods ended March 31, 2016 and 2015  
(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 consolidated financial statements of BTB for the three-month periods ended March 31, 2016 and 2015 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, 2015 and 2014.

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, 2015.

These condensed consolidated interim financial statements were approved by the Board of Trustees on May 5, 2016.

### (b) Basis of presentation and measurement

The consolidated 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.

The Trust presents its consolidated statements of financial position based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity.

### (c) Functional and presentation currency

These consolidated 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.

## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

### **(d) Use of estimates and judgments**

The preparation of consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. 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, 2015.

### **(e) Change in accounting policy**

In 2016, the Trust adopted the amendments to IAS 1, *Presentation of Financial Statements* and to IFRS 11, *Joint Arrangements*. The application of the amendments had no impact on the Trust’s consolidated financial statements.

### **(f) New standards and interpretations not yet adopted**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year December 31, 2016, and have not been applied in preparing these condensed consolidated interim financial statements.

#### **(i) IFRS 9, Financial Instruments (“IFRS 9”)**

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns 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. 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

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For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

### **(ii) IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)**

In May 2014 the IASB issued IFRS 15 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, 2018. The extent of the impact of adoption of the standard has not yet been determined.

### **(iii) IFRS 16, Leases (“IFRS 16”)**

In January 2016, the IASB issued IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning after January 1, 2019 with earlier adoption permitted. 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 three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

#### 3. Investment Properties

	Three-month period ended March 31,	Year ended December 31,
	<b>2016</b>	<b>2015</b>
	\$	\$
Balance beginning of period	622,651	571,462
Acquisitions of investment properties (note 4)	11,337	63,383
Disposals of investment properties (note 5)	—	(13,053)
Capital expenditures	428	4,332
Government grants	—	(286)
Capitalized leasing fees	70	778
Capitalized lease incentives	697	2,364
Lease incentives amortization	(479)	(2,084)
Straight-line lease adjustment	100	702
Net changes in fair value of investment properties	—	(4,947)
<b>Balance end of period</b>	<b>634,804</b>	<b>622,651</b>

The fair value of a subset of the Trust's investment properties comprised of a selection of the 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 Direct Capitalization method.

At March 31, 2016 no external appraisal were obtained for investment properties (December 31, 2015 - \$394,213).

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(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
<b>As at March 31, 2016</b>				
Capitalization rate	6.25% - 10.00%	6.50% - 9.25%	6.50% - 9.75%	7.25% - 8.25%
Terminal capitalization rate	7.00% - 8.50%	6.75% - 7.75%	7.75% - 9.75%	7.50% - 8.00%
Discount rate	7.75% - 9.00%	7.25% - 8.50%	8.25% - 10.50%	8.00% - 8.50%
<b>As at December 31, 2015</b>				
Capitalization rate	6.25% - 10.00%	6.50% - 9.25%	6.50% - 9.75%	7.25% - 8.25%
Terminal capitalization rate	7.00% - 8.50%	6.75% - 7.75%	7.75% - 9.75%	7.50% - 8.00%
Discount rate	7.75% - 9.00%	7.50% - 8.50%	8.25% - 10.50%	8.00% - 8.50%

During the first quarter of 2016, the classification of six investment properties has been updated. The comparatives figures have been reclassified to conform to the current year's presentation.

Valuations determined by the Direct Capitalization method are most sensitive to changes in capitalization rate. An increase in the capitalization rate, other things being equal, will result in a decrease in fair value of the investment properties and vice-versa.

#### 4. Acquisitions

##### (a) 2016 Asset acquisition

The relative fair value of the assets and liabilities recognized in the consolidated statement of financial position on the date of the acquisition during 2016 were as follows:

Acquisition date	Property type	Location	Interest acquired	Fair value recognized on acquisition			
				Investment properties, including transaction costs	Mortgage loans payable	Trade and other payables, including transaction costs	Total cash consideration paid
			%	\$	\$	\$	\$
February 2016	Office	Montreal, QC	100	11,000	—	41	10,959
Transaction costs				337	—	337	—
<b>Total</b>				<b>11,337</b>	<b>—</b>	<b>378</b>	<b>10,959</b>

BTB Real Estate Investment Trust

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

**(b) 2015 Asset acquisitions**

The relative fair value of the assets and liabilities recognized in the consolidated statement of financial position on the date of the acquisition during 2015 were as follows:

Acquisition date	Property type	Location	Interest acquired	Fair value recognized on acquisition			
				Investment properties, including transaction costs	Mortgage loans payable	Trade and other payables, including transaction costs	Total cash consideration paid
			%	\$	\$	\$	\$
January 2015	Industrial	Ottawa, ON	100	12,525	—	—	12,525
January 2015	Commercial	Delson, QC	100	21,500	—	123	21,377
August 2015	Office	Ottawa, ON	100	8,560	—	(59)	8,619
August 2015	Office	Ottawa, ON	100	19,350	—	324	19,026
Transaction costs				1,448	—	1,448	—
<b>Total</b>				<b>63,383</b>	<b>—</b>	<b>1,836</b>	<b>61,547</b>

**5. Disposals**

**(a) 2016 Asset Disposals**

There were no disposals during the three-month period ended March 31, 2016.

**(b) 2015 Asset Disposals**

The following table presents relevant information on disposals recognized in the consolidated financial statements during 2015:

Disposal date	Property type	Location	Gross proceeds	Trade and other payables, including transaction costs	Balance of sale	Net proceeds
November 2015	Office	Boucherville, QC	2,945	(13)	—	2,932
November 2015	Office	St-Bruno-de-Montarville, QC	3,983	(4)	(600)	3,379
December 2015	General purpose	Laval, QC	3,125	(40)	—	3,085
December 2015	General purpose	Montreal, QC	3,000	(33)	—	2,967
Transaction costs*			—	(276)	—	(276)
<b>Total</b>			<b>13,053</b>	<b>(366)</b>	<b>(600)</b>	<b>12,087</b>

\*Transaction costs are recognized in profit and loss under Net changes in fair value of investment properties and disposals transaction costs.

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

#### 6. Property and Equipment

	Owner-occupied land	Owner-occupied building	Equipment, furniture and fixtures	Rolling stock	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance at December 31, 2014	494	1,934	539	82	<b>3,049</b>
Additions	—	11	55	88	<b>154</b>
Balance at December 31, 2015	494	1,945	594	170	<b>3,203</b>
Additions	—	8	14	—	<b>22</b>
Balance at March 31, 2016	494	1,953	608	170	<b>3,225</b>
<b>Accumulated Depreciation</b>					
Balance at December 31, 2014		379	340	34	<b>753</b>
Depreciation for the year		69	72	17	<b>158</b>
Balance at December 31, 2015		448	412	51	<b>911</b>
Depreciation for the period		16	19	9	<b>44</b>
Balance at March 31, 2016		464	431	60	<b>955</b>
<b>Net carrying amount</b>					
Balance at December 31, 2015	494	1,497	182	119	<b>2,292</b>
Balance at March 31, 2016	494	1,489	177	110	<b>2,270</b>

#### 7. Restricted Cash

Restricted cash consists of an amount of \$51 (December 31, 2015- \$51) provided in guarantee of mortgage loans. The permitted use of restricted cash is to fund certain future capital expenditures.

#### 8. Other Assets

	As at March 31, <b>2016</b>	As at December 31, <b>2015</b>
	\$	\$
Prepaid expenses	4,697	1,285
Deposits	533	684
<b>Total</b>	<b>5,230</b>	<b>1,969</b>

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

#### 9. Receivables

	As at March 31,	As at December 31,
	<b>2016</b>	<b>2015</b>
	\$	\$
Rents receivable	1,339	1,125
Provision for doubtful accounts	(323)	(329)
Net rents receivable	1,016	796
Unbilled recoveries	436	105
Other receivables	522	480
Balance of sale (note 5)	600	600
<b>Total</b>	<b>2,574</b>	<b>1,981</b>

Balance of sale is comprise of one mortgage loan receivable bearing interest at an interest rate of 2.75%, payable semi-annually, maturing in November 2020.

#### 10. Mortgage Loans Payable

Mortgage loans payable are secured by immovable hypothecs on investment properties having a fair value of approximately \$628,196 as at March 31, 2016 (December 31, 2015– \$616,301).

	As at March 31,	As at December 31,
	<b>2016</b>	<b>2015</b>
	\$	\$
Fixed rate mortgage loans payable	369,754	361,450
Floating rate mortgage loans payable	6,438	6,503
Unamortized fair value assumption adjustments	965	1,026
Unamortized financing costs	(2,428)	(2,383)
<b>Mortgage loans payable</b>	<b>374,729</b>	<b>366,596</b>
Weighted average interest rate	3.93%	3.95%
Weighted average term to maturity (years)	5.21	5.48
Range of annual rates	2.83% - 6.80%	2.83% - 6.80%

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

As at March 31, 2016, the mortgage loan scheduled repayments are as follows:

	Scheduled repayments	Principal maturity	Total
	\$	\$	\$
2016*	8,472	70,409	78,881
2017	8,610	57,226	65,836
2018	6,849	38,091	44,940
2019	5,432	37,872	43,304
2020	4,915	17,577	22,492
Thereafter	35,226	85,513	120,739
	<b>69,504</b>	<b>306,688</b>	<b>376,192</b>
Unamortized fair value assumption adjustments			965
Unamortized financing costs			(2,428)
			<b>374,729</b>

\* For the nine-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 March 31, 2016, the outstanding principal amount was \$6,438 (December 31, 2015– \$6,503). The Trust does not apply hedge accounting to such cash flow hedging relationships (see note 13).

#### 11. Convertible Debentures

As at March 31, 2016, the Trust had three series of subordinated, convertible, redeemable debentures outstanding.

	Capital	Interest rates		Unit conversion price	Interest payments	Maturity
		Coupon	Effective			
		%	%	\$		
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
Series F	26,700	7.15	8.47	5.65	Semi-annual	December 2020

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
(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 D	Series E	Series F
	\$	\$	\$
Non-derivative liability component	21,346	22,690	26,700
Conversion and redemption options liability component	1,654	310	—
	<b>23,000</b>	<b>23,000</b>	<b>26,700</b>

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 D	Series E	Series F	Total
	\$	\$	\$	\$
<b>As at March 31, 2016</b>				
Non-derivative liability component upon issuance	21,346	22,690	26,700	70,736
Accretion of non-derivative liability component	996	116	—	1,112
	22,342	22,806	26,700	71,848
Unamortized financing costs	(593)	(786)	(1,372)	(2,751)
<b>Non-derivative liability component</b>	<b>21,749</b>	<b>22,020</b>	<b>25,328</b>	<b>69,097</b>
<b>Conversion and redemption options liability component at fair value</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>2</b>

	Series D	Series E	Series F	Total
	\$	\$	\$	\$
<b>As at December 31, 2015</b>				
Non-derivative liability component upon issuance	21,346	22,690	26,700	70,736
Accretion of non-derivative liability component	932	106	—	1,038
	22,278	22,796	26,700	71,774
Unamortized financing costs	(651)	(828)	(1,429)	(2,908)
<b>Non-derivative liability component</b>	<b>21,627</b>	<b>21,968</b>	<b>25,271</b>	<b>68,866</b>
<b>Conversion and redemption options (asset) liability component at fair value</b>	<b>(5)</b>	<b>2</b>	<b>11</b>	<b>8</b>



## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the three-month periods ended March 31, 2016 and 2015  
(Unaudited - in thousands of CAD dollars, except per unit amounts)

### 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").

Until 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.

## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### Series F

In December 2015, the Trust issued Series F subordinated convertible, redeemable, unsecured debentures bearing 7.15% interest payable semi-annually and maturing in December 2020, in the amount of \$26,700. The debentures are convertible at the holder's option at any time before December 2020, at a conversion price of \$5.65 per unit ("Series F Conversion Price").

These debentures are not redeemable before December 31, 2018, except in the case of a change in control. As of December 31, 2018, but before December 31, 2019, 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 December 31, 2019, but before December 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 March 31, 2016, \$12,100 was due under the acquisition line of credit (December 31, 2015- \$9,800).

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 March 31, 2016, \$1,400 was due under the operating credit facility (December 31, 2015 – \$nil).

The acquisition line of credit and the operating credit facility are secured by an immovable first rank hypothec on three properties having a value of \$7,916, by an immovable second rank hypothec on three properties having a value of \$66,943 and by an immovable third rank hypothec on a property having a value of \$21,150.

## BTB Real Estate Investment Trust

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 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, deposits, trade and other payables and distributions payable to unitholders, which approximated their carrying amount as at March 31, 2016 and December 31, 2015 because of their short-term maturity.

As at March 31, 2016	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Measured at fair value</b>				
Conversion and redemption options of convertible debentures (note 11)	2	—	—	2
Interest rate swap	474	—	474	—
<b>For which fair values are disclosed</b>				
Mortgage loans payable (note 10)	374,729	—	384,805	—
Convertible debentures, including their conversion and redemption features	69,099	72,815	—	—
Bank loans (note 12)	13,500	—	13,500	—
<b>As at December 31, 2015</b>	<b>Carrying amount</b>	<b>Fair value</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>Measured at fair value</b>				
Conversion and redemption options of convertible debentures (note 11)	8	—	—	8
Interest rate swap	372	—	372	—
<b>For which fair values are disclosed</b>				
Mortgage loans payable (note 10)	366,596	—	377,459	—
Convertible debentures, including their conversion and redemption features	68,874	72,012	—	—
Bank loans (note 12)	9,800	—	9,800	—

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.

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# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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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 consolidated statements of financial position:

	Conversion and redemption options of convertible debentures
	\$
<b>Three-month period ended March 31, 2016</b>	
Balance beginning of period	8
Change for the year recognized in profit and loss under Net adjustment to fair value of derivative financial instruments	(6)
<b>Balance end of period</b>	<b>2</b>

	Conversion and redemption options of convertible debentures
	\$
<b>Year ended December 31, 2015</b>	
Balance beginning of year	(53)
Change for the year recognized in profit and loss under Net adjustment to fair value of derivative financial instruments	61
<b>Balance end of year</b>	<b>8</b>

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# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
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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 March 31, 2016:

	Conversion and redemption options of convertible debentures	Volatility
	\$	%
<b>Volatility sensitivity</b>		
<b>Increase (decrease)</b>		
(0.50%)	(149)	22.18
March 31, 2016	2	22.68
0.50%	170	23.18

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.

All of the outstanding options have been exercised during the year ended December 31, 2015. As a result, there is no option outstanding as at March 31, 2016 and December 31, 2015.

### (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.

As at March 31, 2016 and December 31, 2015, there was no deferred unit outstanding.

## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
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### (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 service with the Trust. For each two units purchased by an employee, the Trust issues one unit from treasury.

As at March 31, 2016, the liability related to the plan was \$nil (December 31, 2015 - \$37, representing a total of 8,340 units to issue). The related income recorded in profit and loss amounted to \$2 for the three-month period ended March 31, 2016 (for the three-month periods ended March 31, 2015 - expense of \$1). The 8,340 units related to 2015 purchases were issued in February 2016 (7,758 units related to 2014 purchases - February 2015).

### (d) Restricted unit compensation plan

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

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

For the three-month periods ended March 31,	2016	2015
	Restricted units	Restricted units
Outstanding, beginning of period	51,083	39,816
Granted	—	25,983
Vested / Settled	(14,198)	(51,601)
<b>Outstanding, end of period</b>	<b>36,885</b>	<b>14,198</b>

As at March 31, 2016, the liability related to the plan was \$116 (December 31, 2015- \$136). The related expense recorded in profit and loss amounted to \$39 for the three-month period ended March 31, 2016 (for the three-month period ended March 31, 2015- \$154). As part of settlement, the Trust issued 14,198 units under this plan for three-month period ended March 31, 2016 (51,601 units for the three-month period ended March 31, 2015).

## 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 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.

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
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Trust units issued and outstanding are as follows:

	Three-month period ended March 31, 2016		Year ended December 31, 2015	
	Units	\$	Units	\$
Units outstanding, beginning of period	34,705,151	184,853	34,133,967	182,284
Issue pursuant to the distribution reinvestment plan (a)	122,271	496	408,625	1,772
Issue pursuant to conversion of convertible debentures	—	—	29,200	144
Issue pursuant to the unit option plan (note 14 (a))	—	—	74,000	371
Issue pursuant to the employee unit purchase plan (note 14 (c))	8,340	35	7,758	37
Issue pursuant to the restricted unit compensation plan (note 14 (d))	14,198	59	51,601	245
<b>Units outstanding, end of period</b>	<b>34,849,960</b>	<b>185,443</b>	<b>34,705,151</b>	<b>184,853</b>

#### (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% (3% since April's distribution payable in May).

#### (b) Distributions

For the three-month periods ended March 31,	2016	2015
	\$	\$
Distributions to unitholders	3,655	3,596
Distributions per unit	0.105	0.105

## BTB Real Estate Investment Trust

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
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#### 16. Rental Revenues from Properties

For the three-month periods ended March 31,	2016	2015
	\$	\$
Rental income contractually due from tenants	18,929	18,597
Lease incentive amortization	(479)	(492)
Straight-line lease adjustment	100	224
	<b>18,550</b>	<b>18,329</b>

#### 17. Net Financing Costs

For the three-month periods ended March 31,	2016	2015
	\$	\$
Financial income	(21)	(13)
Interest on mortgage loans payable	3,658	3,513
Interest on convertible debentures	1,291	1,274
Interest on bank loans	158	104
Other interest expense	25	24
Accretion of non-derivative liability component of convertible debentures	74	149
Accretion of effective interest on mortgage loans payable, convertible debentures and bank loans	275	304
Net adjustment to fair value of derivative financial instruments	95	156
	<b>5,555</b>	<b>5,511</b>

#### 18. Expenses by Nature

For the three-month periods ended March 31,	2016	2015
	\$	\$
Depreciation	44	45
Employee benefits expense	1,376	958



## BTB Real Estate Investment Trust

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended March 31, 2016 and 2015  
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### 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 consolidated 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:

For the three-month periods ended March 31,	2016	2015
	\$	\$
Net income	3,551	3,400
Weighted average number of units outstanding – basic	34,785,321	34,222,227
<b>Earnings per unit – basic</b>	<b>0.10</b>	<b>0.10</b>

### 20. Operating Lease Income

The Trust as lessor enters into leases on its investment properties. 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), the change in fair value of investment properties and fair 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

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

- Commercial
- Office
- Industrial
- General purpose

	Commercial	Office	Industrial	General purpose	Total
	\$	\$	\$	\$	\$
<b>Three-month period ended March 31, 2016</b>					
Investment properties	167,752	287,824	116,969	62,259	<b>634,804</b>
Rental revenue from properties	4,701	9,040	2,682	2,127	<b>18,550</b>
Net operating income	2,639	4,230	2,197	1,053	<b>10,119</b>
<b>Three-month period ended March 31, 2015</b>					
Investment properties	170,498	254,399	116,117	65,844	<b>606,858</b>
Rental revenue from properties	4,436	8,799	2,719	2,375	<b>18,329</b>
Net operating income	2,509	4,287	2,209	1,127	<b>10,132</b>

During the first quarter of 2016, the classification of six investment properties has been modified. The comparatives figures have been reclassified to conform to the current year's presentation.

## 22. Commitments and Contingencies

### (a) Operating leases as lessee

The annual future payments required under operating leases expiring between 2017 and 2070 are as follows:

	Total
	\$
Within one year*	174
Beyond one year but within five years	910
Beyond five years	14,508
	<b>15,592</b>

\* For the nine-month period remaining

The related expense recorded in profit and loss amounted to \$64 for the three-month period ended March 31, 2016 (for the three-month period ended March 31, 2015- \$40).

BTB Real Estate Investment Trust

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**(b) Finance lease as lessee**

The annual future payments required under finance leases expiring between 2018 and 2024 are as follows:

	As at March 31, 2016			As at December 31, 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	\$	\$	\$	\$	\$	\$
Within one year*	209	41	168	244	55	189
Beyond one year but within five years	534	144	390	534	144	390
Beyond five years	455	47	408	455	47	408
	<b>1,198</b>	<b>232</b>	<b>966</b>	<b>1,233</b>	<b>246</b>	<b>987</b>

\* As at March 31, 2016, for the nine-month period remaining

The present value of the minimum lease payments is recorded in Trade and other payables.

**(c) 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 consolidated financial statements.