Management Discussion and Analysis

Quarter Ended September 30th, 2018

BTB

# Building on Quality

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## INTRODUCTION

The purpose of this Management Discussion and Analysis is to allow the reader to evaluate the operating results of BTB Real Estate Investment Trust ("BTB" or the "Trust") for the quarter ended September 30, 2018, as well as its financial position on that date. The report also presents the Trust's business strategies and the risk exposure it faces. This MD&A dated November 2, 2018 should be read together with the unaudited condensed consolidated interim financial statements and accompanying notes for the quarter ended September 30, 2018. It discusses any significant information available up to the date of this MD&A. The Trust's consolidated annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Unless otherwise indicated, all amounts are in thousands of Canadian dollars, except for per unit and per square foot amounts. Per unit amounts are calculated using the weighted average number of trust units outstanding for the quarters ended September 30, 2018 and 2017. Additional information about the Trust, including the 2017 Annual Information Form, is available on the Canadian Security Administrators ("CSA") website at www.sedar.com and on our website at www.btbreit.com.

The Audit Committee and the Trust's Board of Trustees have approved the contents of this Management Discussion and Analysis and the quarterly financial statements.

## FORWARD-LOOKING STATEMENTS – CAVEAT

From time to time, we make written or oral forward-looking statements within the meaning of applicable Canadian securities legislation. We may make forward-looking statements in this MD&A, other filings with Canadian regulators, reports to unitholders and other communications. These forward-looking statements include statements regarding our future objectives, strategies to achieve our objectives, as well as statements with respect to our beliefs, outlooks, plans, objectives, expectations, forecasts, estimates and intentions. The words "may," "could," "should," "outlook," "believe," "plan," "forecast," "estimate," "expect," "propose," and the use of the conditional and similar words and expressions are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include general economic conditions in Canada and elsewhere, the effects of competition in the markets where we operate, the impact of changes in laws and regulations, including tax laws, successful execution of our strategy, our ability to complete and integrate strategic acquisitions successfully, potential dilution, our ability to attract and retain key employees and executives, the financial position of lessees, our ability to refinance our debts upon maturity and to lease vacant space, our ability to complete developments on plan and on schedule and to raise capital to finance our growth, as well as changes in interest rates. We caution that the foregoing list of important factors likely to affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to BTB, investors and others should carefully consider these factors and other facts and uncertainties. Additional information about these factors can be found in the "Risks and Uncertainties" section of this MD&A.

BTB cannot assure investors that actual results will be consistent with any forward-looking statements and BTB assumes no obligation to update or revise such forward-looking statements to reflect new events or circumstances, except as required under applicable securities regulations.

## NON-IFRS FINANCIAL MEASURES

“Net operating income,” “net operating income of the same-property portfolio,” “distributable income,” “funds from operations” ("FFO"), “adjusted funds from operations” (“AFFO”), “adjusted net income and comprehensive income” and “net property income” and per unit information, if applicable, are non-IFRS performance measures and do not have standardized meanings prescribed by IFRS. These measures are used by BTB to improve the investing public’s understanding of operating results and the Trust’s performance. IFRS are International Financial Reporting Standards defined and issued by the IASB, in effect as at the date of this MD&A.

These measures cannot be compared to similar measures used by other issuers. However, BTB presents its FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations, as revised in February 2018. The FFO calculations for the quarter and the cumulative period have been corrected to conform to the White Paper.

Securities regulations require that these measures be clearly defined, that they be readily comparable to the most similar IFRS measures, and that they not be assigned greater weight than IFRS measures.

## IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, which introduces a single model that applies to contracts with customers and came into effect on January 1, 2018 with retroactive application.

The adoption of the new standard did not have a material impact on the financial statements except for the presentation on a gross basis of property tax recoveries and property tax expenses related to certain single tenants who paid property taxes directly on behalf of the Trust.

The presentation on a gross basis instead of on a net basis results in the recognition of an additional amount in property tax recoveries in revenue, which will be offset by an increase to property tax expenses, therefore generating no incremental net operating income. Accordingly, rental income and operating expenses for the third quarter and the cumulative period of 2017 were adjusted by $680 and $2,041, respectively, to align the presentation with the application of IFRS 15.

## THE TRUST

BTB is an unincorporated open-ended real estate trust formed and governed under the laws of the Province of Québec pursuant to a trust agreement. BTB began its real estate operations on October 3, 2006, and up to September 30, 2018, it owns 71 retail, office and industrial properties in primary and secondary markets. BTB is an important real estate owner in geographical markets in Québec and eastern Ontario. The units and Series E and F convertible debentures are traded on the Toronto Stock Exchange under the symbols “BTB.UN”, “BTB.DB.E”, and “BTB.DB.F,” respectively.

Most of the Trust’s properties are managed internally, with 68 of the Trust’s 71 properties held as at September 30, 2018 entirely managed by the Trust’s employees. Management’s objective is to resume, when favourable circumstances prevail, internal management of the Trust’s properties under agreements between the Trust and its external managers, thereby achieving savings in management and operating fees through centralized and improved property management.

The following table provides a summary of the real estate portfolio:

| | Number of properties | Leasable area (sq. ft.) | Fair value (thousands of $) |
|---|---|---|---|
| **As at September 30, 2018(1)** | **71** | **5,510,255** | **819,375** |

(1) These figures include a 50% interest in a 17,114 square-foot building in a Montréal suburb and a 50% interest in two buildings totalling 74,940 square feet in Gatineau, Québec.

BTB’s management is entirely internalized and no service agreements or asset management agreements are in force between BTB and its officers. The Trust therefore ensures that the interests of management and of its employees are aligned with those of the unitholders.

## OBJECTIVES AND BUSINESS STRATEGIES

BTB’s primary objective is to maximize total returns to unitholders. Returns include cash distributions and long-term appreciation in the value of units. More specifically, the objectives are as follows:

(i) Generate stable monthly cash distributions that are reliable and fiscally beneficial to unitholders.

(ii) Grow the Trust’s assets through internal growth and accretive acquisition strategies in order to increase distributable income and therefore fund distributions.

(iii) Optimize the value of its assets through dynamic management of its properties in order to maximize the long-term value of its units. Strategically, BTB has purchased and seeks to acquire properties with low vacancy rates, good lessee quality, superior locations, low lease turnover potential and properties that are well maintained and require a minimum of future capital expenditures.

BTB’s management also regularly performs a strategic portfolio assessment to determine whether it is financially advisable to hold on to certain investments. BTB may dispose of certain assets if their size, location and/or profitability do not meet the Trust’s current criteria.

In such cases, BTB expects to use the proceeds from the sale of assets to reduce debt and/or to make accretive acquisitions.

## HIGHLIGHTS OF THE QUARTER ENDED SEPTEMBER 30, 2018

- Important increase in rental income and net operating income following the recent acquisition of accretive properties;
- Increase of 17.5% in distributable income(1) per unit, of 14,5% in FFO(1) and of 12.9% in AFFO(1) per unit;
- Reduction of total debt ratio from 65.8% to 63.8%;
- Lease cancellation agreement negotiated with Shire Pharma, providing additional non-recurring revenue of $1.5 million, in order to accommodate the growth of a tenant of the property;
- Increase in market capitalization from $201 million to $265 million.

(1) Non-IFRS financial measures.

### Property purchase and sale

- On July 11, 2018, the Trust acquired a mixed-use property totalling approximately 31,000 square feet, located at 1327-1333 Ste-Catherine Street West and 1411 Crescent Street in downtown Montreal, for $25.2 million. In the fall, BTB moved its head office to this property, where it occupies approximately 8,000 square feet.
- On July 31, 2018, the Trust acquired a shopping centre in Lévis, Québec for $42.6 million. Walmart is the anchor tenant of this 205,000-square-foot shopping centre located near Carrefour Saint-Romuald, a property recently acquired by BTB.
- On August 15, 2018, the Trust sold a property located at 3036-3094 Chemin Chambly in Longueuil, Québec, for sale proceeds totalling $5.6 million.

### Subsequent transaction

- On October 18, 2018, the Trust sold six properties located in Sherbrooke, Québec, for sale proceeds totalling $30.5 million.

### Summary of significant items as at September 30, 2018

- 71 properties
- Approximately 5.5 million square feet
- $834 million total asset value
- $265 million market capitalization

## SELECTED FINANCIAL INFORMATION

The following table presents highlights and selected financial information for the periods ended September 30, 2018 and 2017:

| Periods ended September 30 | | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|---|
| (in thousands of dollars, except for ratios and per unit data) | | **2018** | 2017 | **2018** | 2017 |
| | **Reference** | **$** | $ | **$** | $ |
| **Financial information** | | | | | |
| Rental income | Page 20 | **23,098** | 18,187[2] | **65,341** | 55,625[2] |
| Net operating income[1] | Page 21 | **13,330** | 10,044 | **36,013** | 29,934 |
| Net income and comprehensive income | Page 24 | **5,793** | 4,327 | **16,941** | 12,673 |
| Net property income from the same-property portfolio[1] | Page 24 | **5,964** | 6,101 | **17,992** | 18,451 |
| Cash flows from operating activities | Page 27 | **12,484** | 10,161 | **29,029** | 24,327 |
| Distributable income[1] | Page 27 | **7,479** | 4,883 | **18,686** | 14,805 |
| Distributions | Page 25 | **5,843** | 4,483 | **16,295** | 13,407 |
| Funds from operations (FFO)[1] | Page 27 | **6,996** | 4,712 | **17,942** | 14,339 |
| Adjusted funds from operations (AFFO)[1] | Page 27 | **6,326** | 4,326 | **16,418** | 13,171 |
| Total assets | Page 30 | | | **833,916** | 678,885 |
| Investment properties | Page 30 | | | **819,375** | 663,933 |
| Mortgage loans payable | Page 33 | | | **468,328** | 384,702 |
| Convertible debentures | Page 35 | | | **48,579** | 48,057 |
| Mortgage debt ratio | Page 36 | | | ***56.3%*** | *56.8%* |
| Debt-equity ratio – convertible debentures | Page 36 | | | ***6.0%*** | *7.3%* |
| Debt-equity ratio – acquisition line of credit | Page 36 | | | ***1.8%*** | *2.1%* |
| Total debt ratio | Page 36 | | | ***63.8%*** | *65.8%* |
| Weighted average interest rate on mortgage debt | Page 33 | | | ***3.89%*** | *3.83%* |
| Unitholders' equity | Page 37 | | | **279,097** | 213,948 |
| Market capitalization | | | | **265,329** | 201,230 |
| **Financial information per unit** | | | | | |
| Units outstanding (000) | Page 37 | | | **55,162** | 42,724 |
| Class B LP units outstanding (000) | Page 37 | | | **532** | — |
| Weighted average number of units outstanding (000) | Page 37 | **55,089** | 42,662 | **51,070** | 42,541 |
| Weighted average number of units and Class B LP units outstanding (000) | Page 37 | **55,621** | — | **51,311** | — |
| Net income and comprehensive income | Page 24 | **10.4¢** | 10.1¢ | **33.0¢** | 29.8¢ |
| Distributable income[1] | Page 257 | **13.4¢** | 11.4¢ | **36.4¢** | 31.5¢ |
| Distributions | Page 25 | **10.5¢** | 10.5¢ | **31.5¢** | 31.5¢ |
| Payout ratio on distributable income[1] | Page 25 | ***78.4%*** | *91.8%* | ***86.5%*** | *90.6%* |
| FFO[1] | Page 27 | **12.6¢** | 11.0¢ | **35.0¢** | 33.7¢ |
| Payout ratio on FFO[1] | Page 27 | ***83.3%*** | *95.5%* | ***90.0%*** | *93.5%* |
| AFFO[1] | Page 279 | **11.4¢** | 10.1¢ | **32.0¢** | 31.0¢ |
| Payout ratio on AFFO[1] | Page 279 | ***92.1%*** | *104.0%* | ***98.4%*** | *101.6%* |
| Unitholders' equity | Page 37 | | | **5.06** | 5.01 |
| Market price | | | | **4.81** | 4.71 |
| **Tax on distributions** | | | | | |
| Revenue | Page 391 | | | ***0.0%*** | *0.0%* |
| Tax deferral | Page 40 | | | ***100%*** | *100%* |
| **Operational information** | | | | | |
| Number of properties | Page 31 | | | **71** | 70 |
| Leasable area (thousands of sq. ft.) | Page 31 | | | **5,510** | 5,181 |
| Occupancy rate | Page 18 | | | ***89.7%*** | *90.0%* |
| Increase in average lease renewal rate | Page 18 | ***4.4%*** | *3.7%* | ***2.4%*** | *4.2%* |
| Retention rate | Page 19 | | | ***49.6%*** | *59.1%* |

(1) Non-IFRS financial measures. See appropriate sections for reconciliation to the closest IFRS measure and definition in Appendix 2.

(2) Adjusted to take account of the retroactive implementation of IFRS-15. See page 12.

## SELECTED QUARTERLY INFORMATION

The following table summarizes the Trust's financial information for the last eight quarters.

| (in thousands of dollars except for per unit data) | **2018 Q-3** | 2018 Q-2 | 2018 Q-1 | 2017 Q-4 | 2017 Q-3 | 2017 Q-2 | 2017 Q-1 | 2016 Q-4 |
|---|---|---|---|---|---|---|---|---|
| | **$** | $ | $ | $ | $ | $ | $ | $ |
| Rental income | **23,098** | 20,803 | 21,440 | 20,414 | 18,187 | 18,392 | 19,046 | 18,270[2] |
| Net operating income[1] | **13,330** | 11,225 | 11,858 | 10,460 | 10,044 | 10,042 | 9,848 | 10,121 |
| Net income and comprehensive income | **5,793** | 4,593 | 6,555 | 15,498 | 4,327 | 4,362 | 3,984 | 9,130 |
| Net income and comprehensive income per unit | **10.4¢** | 9.2¢ | 13.5¢ | 33.0¢ | 10.1¢ | 10.3¢ | 9.4¢ | 21.6¢ |
| Net cash from operating activities | **12,484** | 7,778 | 8,767 | 14,121 | 10,161 | 8,749 | 5,417 | 13,250 |
| Distributable income[1] | **7,479** | 5,521 | 5,686 | 4,916 | 4,883 | 4,979 | 4,943 | 5,047 |
| Distributable income per unit[1] | **13.3¢** | 11.1¢ | 11.7¢ | 10.5¢ | 11.4¢ | 11.7¢ | 11.7¢ | 11.9¢ |
| Funds from operations (FFO)[1] | **6,996** | 5,279 | 5,736 | 4,865 | 4,902 | 4,884 | 4,611 | 4,808 |
| FFO per unit[1] | **12.4¢** | 10.6¢ | 11.8¢ | 10.3¢ | 11.5¢ | 11.5¢ | 10.9¢ | 11.4¢ |
| Adjusted funds from operations (AFFO)[1] | **6,257** | 4,936 | 5,222 | 5,222 | 4,370 | 4,463 | 4,250 | 4,485 |
| AFFO per unit[1] | **11.2¢** | 9.3¢ | 10.8¢ | 9.3¢ | 10.6¢ | 10.5¢ | 10.0¢ | 10.6¢ |
| Distributions [3] | **5,843** | 5,353 | 5,099 | 5,079 | 4,483 | 4,469 | 4,456 | 4,442 |
| Distributions per unit | **10.5¢** | 10.5¢ | 10.5¢ | 10.5¢ | 10.5¢ | 10.5¢ | 10.5¢ | 10.5¢ |

(1) Non-IFRS financial measures**.** See appropriate sections for definition and reconciliation to the closest IFRS measure.
(2) Not adjusted to take into account IFRS 15. See page 12.
(3) Includes distributions on Class B LP units.

## PERFORMANCE INDICATORS

The indicators used to measure BTB's financial performance are presented and explained in Appendix 1.

## REAL ESTATE PORTFOLIO

BTB owns 71 quality properties which have a fair value of $819 million, generating approximately $85 million in annual income and representing a total leasable area of approximately 5.4 million square feet. A concise description of the properties owned as at December 31, 2017, can be found in the Trust's Annual Information Form available at www.sedar.com.

### Investment properties under redevelopment

Subsequent to the bankruptcy of Pharmetics in March 2018, the Trust had accepted an offer to purchase the property located at "3695 Autoroute des Laurentides" in Laval, which did not close. Money may eventually be invested to reposition the property. Consequently, the 133,000-square-foot property was reclassified as a property under redevelopment and is therefore not included in the rental statistics.

### Summary of properties as at September 30, 2018

| **Operating segment** | **Number of properties** | **Leasable area (sq. ft.)** | **Occupancy rate (%)** |
|---|---|---|---|
| Office | 28 | 2,042,816 | *84.4%* |
| Retail | 17 | 1,457,669 | *96.1%* |
| Industrial | 18 | 1,364,613 | *89.7%* |
| Mixed use | 6 | 437,152 | *92.6%* |
| Subtotal | 69 | 5,302,250 | ***89.7%*** |
| Properties under redevelopment | 2 | 208,005 | |
| **Total** | **71** | **5,510,255** | |

## Strategic deliberations

### (a) Sale of properties

Following strategic evaluation of its portfolio, the Trust has elected to sell certain properties when circumstances are right. The proceeds of disposition from the sale of these assets will be used to repay related mortgages and any remaining proceeds will be redeployed to acquire properties in line with its investment criteria. During the cumulative nine-month period ended September 30, 2018, the Trust completed the following dispositions:

On January 19, 2018, the Trust disposed of the property located at "1863-1865 Autoroute Transcanadienne" in Dorval for $5.650 million. This property had been acquired in 2007 at a cost of $2.575 million, including acquisition costs.

On February 6, 2018, the Trust disposed of the property located at "2905 Marleau" in Cornwall for $0.49 million. This property had been acquired in 2007 for approximately $0.20 million, including acquisition costs.

On February 26, 2018, the Trust disposed of the property located at "1100 and 1108-1136 St-Joseph Blvd" in Drummondville for $3.075 million. This property had been acquired in 2008 at a cost of $3.398 million, including acquisition costs.

On July 20, 2018, the Trust disposed of a retail property under development located in Thetford Mines, Québec. The property, known as "Promenade St-Noël" was fully vacant and was sold for $0.475 million.

On August 16, 2018, the Trust disposed of the property located at "3036-3094 Chemin Chambly" in Longueuil, Québec, for $5.6 million. This property had been purchased in 2008 for $4.8 million, including acquisition costs.

### (b) Property acquisitions

In February 2018, the Trust acquired a retail property adjacent to a property owned by the Trust located in the city of Delson, Québec, for a consideration of $1,865.

On May 30, 2018, the Trust acquired a 25% residual interest in the "Complexe Lebourgneuf – Phase II" located at 815 Lebourgneuf Blvd., Québec City, for $7.5 million. The Trust already owned a 75% interest. The net consideration of $2.49 million, after assumption of a $5.01 million mortgage, was paid through the issuance of 532,265 Class B LP units priced at $4.68.

On July 11, 2018, the Trust acquired a mixed-use property totalling approximately 31,000 square feet, located at 1327-1333 Ste-Catherine Street West and 1411 Crescent Street in downtown Montreal, for $25.2 million. In October 2018, BTB moved its head office in this property, occupying an area of approximately 8,000 square feet.

On July 31, 2018, the Trust acquired a shopping centre in Lévis, Québec for $42.6 million. Walmart is the anchor tenant of the 205,000-square-foot shopping centre located near Carrefour Saint-Romuald, which was acquired in November 2017 by the Trust.

### (c) Transactions subsequent to the reporting date

On October 18, 2018, the Trust disposed of the following six properties located in Sherbrooke, Québec, for $30.5 million. The Trust thereby disposed of virtually all of its properties in the Sherbrooke area, namely:

- 2865-2885 de Portland Boulevard which was purchased in 2007 for $2.8 million.
- 1635-1645 King Street East and 150-170 Chemin Duplessis which was purchased in 2007 for $8.8 million.
- 1640-1650 King Street West which was purchased in 2008 for $6.3 million.
- 747-805 King Street East which was purchased in 2008 for $5.1 million.
- 30-66 Jacques-Cartier Boulevard North which was purchased in 2008 for $5.8 million.
- 3705 Industriel Boulevard which was purchased in 2013 for $1.2 million.

The proceeds of the sale, net of brokerage fees and other transaction costs ($1.2 million), were allocated to the repayment of outstanding mortgages on the properties sold ($15 million). Of net proceeds of $14.2 million, approximately $7 million was used to repay other maturing mortgages and the balance was used to reimburse partially the acquisition line of credit. In due course, these funds will be redeployed to acquire properties.

## REAL ESTATE OPERATIONS

### Leasing activities

The following table summarizes changes in available leasable area during the periods ended September 30, 2018 and 2017.

| Periods ended September 30 | Quarter | | Cumulative period (9 months) | |
|---|---|---|---|---|
| (in square feet) | **2018** | 2017 | **2018** | 2017 |
| **Available leasable area at beginning of period** | **517,775** | 562,117 | **453,360** | 472,105 |
| Available leasable area purchased (sold) | **13,518** | (4,769) | **20,332** | (9,594) |
| Area put into redevelopment | **(132,665)** | — | **(132,665)** | — |
| Leasable area of expired leases | **101,097** | 115,813 | **445,751** | 734,292 |
| Leasable area of leases terminated before term | **213,670**(1) | 14,945 | **343,200**(2) | 76,523 |
| Leasable area of renewed leases | **(86,753)** | (73,251) | **(322,685)** | (479,382) |
| Leasable area of new leases signed | **(78,624)** | (112,713) | **(251,205)** | (292,476) |
| Other | **166** | (1,430) | **(7,905)** | (756) |
| **Available leasable area at end of period** | **548,184** | 500,712 | **548,184** | 500,712 |

(1) The discontinuance and bankruptcy of Pharmetics and the early buyout of a remaining lease term explains the early expiry of 168,000 square feet, or 79% of the square feet, during the third quarter.

(2) A tenant of an industrial property in the Cornwall area occupying an area of 91,000 square feet decided to exercise an early lease termination clause on February 28, 2018.

The average rental rate of expired and renewed leases increased 4.4% during the third quarter (2017: 3.71% increase). For the cumulative nine-month period, the average rate increased 2.4% (2017: 4.21%).

### Occupancy rates

The following tables provide occupancy rates by operating segment and geographic sector based on firm lease agreements signed as at the date of this report. Approximately 19,000 square feet of space is currently subject to firm lease agreements for occupancy over the next few months.

| | **September 30, 2018** | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|---|---|
| | **%** | **%** | **%** | **%** | **%** |
| **Operating segment** | | | | | |
| Office | **84.4** | 85.8 | 84.9 | 85.2 | 84.7 |
| Retail | **96.1** | 95.7 | 95.2 | 96.3 | 96.2 |
| Industrial | **89.7** | 89.7 | 89.0 | 94.9 | 90.8 |
| Mixed use | **92.6** | 95.6 | 94.3 | 94.0 | 94.1 |
| **Total portfolio** | **89.7** | 90.1 | 89.3 | 91.4 | 90.0 |

| | **September 30, 2018** | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|---|---|
| | **%** | **%** | **%** | **%** | **%** |
| **Geographic sector** | | | | | |
| Laval and North Shore | **98.6** | 99.0 | 97.7 | 97.7 | 97.7 |
| Island of Montréal | **89.4** | 92.7 | 91.0 | 91.5 | 90.5 |
| Montréal South Shore | **94.2** | 94.7 | 94.6 | 95.1 | 94.6 |
| Québec City and surrounding area | **89.1** | 88.0 | 86.5 | 85.7 | 85.0 |
| Ottawa and surrounding area | **81.1** | 80.9 | 80.7 | 92.6 | 86.4 |
| Sherbrooke and surrounding area | **85.9** | 81.4 | 81.5 | 81.9 | 81.9 |
| Central Ontario | **100.0** | 100.0 | 100.0 | 100.0 | 100.00 |
| | **89.7** | 90.1 | 89.3 | 91.4 | 90.0 |

| | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|---|---|
| | **%** | % | % | % | % |
| **By province** | | | | | |
| Québec | **91.3** | 91.9 | 91.0 | 90.9 | 90.6 |
| Ontario | **83.3** | 83.1 | 83.0 | 93.5 | 88.0 |
| **Total portfolio** | **89.7** | 90.1 | 89.3 | 91.4 | 90.0 |

The overall occupancy rate is down by 0.4% since June 30, 2018 and 0.3% since September 30, 2017. It stood at 89.7% at the end of the third quarter of 2018.

The lower occupancy rate at the end of the third quarter of 2018 was mainly due to two factors: (a) the early lease cancellation on August 18, 2018 of a lease for an approximately 35,000 square feet by Shire in the property located at 2250 Alfred Nobel in Montréal, Québec. The Trust agreed to this lease cancellation to be able to accommodate the growth of a tenant of the property for an area of approximately 9,000 square feet. This transaction reduced the office sector's occupancy rate by 1.2% and the overall occupancy rate by 0.5% as at September 30, 2018; and (b) the decision of an industrial tenant occupying an area of 91,000 square feet to exercise an early lease termination provision on February 28, 2018, causing a decline of 6.5% in the industrial sector's occupancy rate in 2018 and 1.8% in the overall occupancy rate.

The effective occupancy rate as at September 30, 2018, without the effect of the firm lease agreements, is 89.1% (2017: 87.6%). Vacant space totalling approximately 19,000 square feet as at September 30, 2018 is subject to firm lease agreements and will generate additional income in the next few months.

## Retention rate

As at September 30, 2018, 49.6% of the area expiring in 2018 was renewed (2017: 59.1%).

The decrease in the retention rate for the cumulative period was primarily due to the exercising of a lease termination provision on February 28, 2018 by an industrial tenant occupying 91,000 square feet in Cornwall.

## Lease maturity

The following table shows the lease maturity profile for the next five years:

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Office** | | | | | |
| Leasable area (sq. ft.) | 34,036 | 297,194 | 144,500 | 238,873 | 311,105 |
| Average lease rate/square foot ($) | $14.53 | $13.59 | $14.00 | $12.33 | $14.44 |
| % of office portfolio | *1.7%* | *14.5%* | *7.1%* | *11.7%* | *15.2%* |
| **Retail** | | | | | |
| Leasable area (sq. ft.) | 70,882 | 216,482 | 29,409 | 202,160 | 117,027 |
| Average lease rate/square foot ($) | $12.54 | $12.81 | $19.59 | $15.51 | $14.63 |
| % of retail portfolio | *4.9%* | *14.8%* | *2.0%* | *13.9%* | *8.0%* |
| **Industrial** | | | | | |
| Leasable area (sq. ft.) | 26,120 | 36,836 | 30,860 | 568,439 | 145,251 |
| Average lease rate/square foot ($) | $4.49 | $6.87 | $5.53 | $6.04 | $7.31 |
| % of industrial portfolio | *1.7%* | *2.7%* | *2.1%* | *38.0%* | *9.7%* |
| **Mixed use** | | | | | |
| Leasable area (sq. ft.) | 3,629 | 61,234 | 65,272 | 131,277 | 33,401 |
| Average lease rate/square foot ($) | $11.37 | $15.36 | $15.00 | $10.66 | $16.06 |
| % of mixed use portfolio | *0.8%* | *14.0%* | *14.9%* | *30.0%* | *7.6%* |
| **Total portfolio** | | | | | |
| **Leasable area (sq. ft.)** | **134,667** | **611,746** | **270,041** | **1,140,749** | **606,784** |
| **Average lease rate/square foot ($)** | **$11.45** | **$13.09** | **$13.88** | **$9.57** | **$12.86** |
| **% of total portfolio** | ***2.5%*** | ***11.5%*** | ***5.1%*** | ***21.0%*** | ***11.2%*** |

### Top 10 tenants

As at September 30, 2018, BTB managed more than 650 leases, with an average area of approximately 8,000 square feet. The three largest tenants of the Trust are Public Works Canada, West Safety Services Canada and Provigo Distribution Inc., accounting respectively for 6.3%, 2.1% and 1.9% of revenues, generated by a number of leases whose maturities are spread over time. More than 32% of the Trust's total revenues are generated by leases entered into with government agencies (federal, provincial and municipal) and public companies, thus ensuring stable and high-quality cash flows for the Trust's operating activities.

The following table shows the contribution of the Trust's top 10 tenants as a percentage of revenues as at September 30, 2018. This contribution accounts for 20.7% of rental income for the quarter and 20.1% of leased area.

| Client | % of revenue | % of leased area | Leased area (square feet) |
|---|---|---|---|
| Public Works Canada | 6.3 | 3.9 | 205,836 |
| West Safety Canada Inc. | 2.1 | 1.2 | 61,845 |
| Provigo Distribution Inc. (Loblaws) | 1.9 | 2.0 | 107,642 |
| Atis Portes et Fenêtres Corp. | 1.7 | 4.8 | 251,878 |
| Shoppers Realty Inc. | 1.6 | 1.2 | 64,304 |
| Société québécoise des infrastructures (SQI) | 1.5 | 1.4 | 76,003 |
| Strongco | 1.5 | 1.5 | 81,442 |
| Sail Plein Air | 1.4 | 0.9 | 45,496 |
| CISSS Montérégie-Centre | 1.4 | 1.3 | 70,242 |
| Germain Larivière | 1.3 | 1.9 | 101,194 |
| | **20.7** | **20.1** | 1,065,882 |

## OPERATING RESULTS

The following table summarizes financial results for the periods ended September 30, 2018 and 2017. The table should be read in conjunction with our consolidated financial statements and the notes thereto.

| Periods ended September 30 | | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|---|
| (in thousands of dollars) | | **2018** | 2017 | **2018** | 2017 |
| | **Reference** | **$** | $ | **$** | $ |
| Rental income | Page 20 | **23,098** | 18,187[2] | **65,341** | 55,625[2] |
| Operating expenses | Page 21 | **9,768** | 8,143[2] | **29,328** | 25,691[2] |
| Net operating income[1] | Page 21 | **13,330** | 10,044 | **36,013** | 29,934 |
| Net financial expenses | Page 22 | **4,921** | 4,592 | **15,200** | 13,960 |
| Trust administration expenses | Page 22 | **1,191** | 935 | **3,684** | 3,243 |
| Distributions – Class B LP units | Page 37 | **56** | — | **75** | — |
| Transaction costs | Page 24 | **524** | 190 | **593** | 58 |
| Gain on disposal of an item of property and equipment | Page 23 | **—** | — | **(1,192)** | — |
| Gain on write-off of debt | Page 24 | **—** | — | **(133)** | — |
| Fair value adjustment on investment properties | Page 235 | **776** | — | **776** | — |
| Fair value adjustment on Class B LP units | Page 28 | **69** | — | **69** | — |
| **Net income and comprehensive income** | Page 24 | **5,793** | 4,327 | **16,941** | 12,673 |

(1) Non-IFRS financial measure.
(2) Adjusted to reflect the retroactive implementation of IFRS 15. See page 12.

### Significant event

On August 16, 2018, the Trust has agreed to cancel a lease with Shire, a tenant occupying approximately 35,000 square feet in an office building in Technoparc St-Laurent, in consideration of the payment of a penalty of $1,477. In accordance with IFRS accounting principles, the full amount was recognized as rental income during the quarter. This transaction enabled the Trust to meet the expansion requirement of an existing tenant that leased, in addition to its current space, an area of approximately 9,000 of the 35,000 square feet left vacant by Shire. This non-recurring revenue increased net income and comprehensive income, distributable income, quarterly FFO and AFFO per unit by approximately 2.6¢.

## Rental income

BTB disposed of five properties during the nine-month period. However, the contribution of acquisitions completed in the fourth quarter of 2017 and the current quarter, and revenue from the $1,477 lease cancellation agreement, largely offset the shortfall generated by the properties sold. BTB's rental income increased by $4,911 in the third quarter, up 27.0% from the same quarter of 2017.

In the third quarter of 2018, adjustments to rent payable of $249 (2017: $94) were recorded on a straight-line basis. For the nine-month period, these adjustments totalled $432 (2017: $261).

BTB also recorded amortization of $1,158 (2017: $624) as a reduction in rental income, which represents amortization of lease incentives granted to tenants. For the nine-month period, these adjustments totalled $2,615 (2017: $1,813).

## Operating expenses

BTB recorded an increase in operating expenses of $1,625, or 20.0%, between the third quarter of 2018 and the third quarter of 2017. The increase resulted from acquisitions completed during the fourth quarter of 2017 and during 2018.

The following table shows the breakdown of operating expenses for the periods ended September 30, 2018 and 2017.

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Operating expenses | | | | |
| Maintenance, repairs and other operating costs | **3,151** | 2,675 | **9,554** | 8,635 |
| Property taxes and public utilities | **6,617** | 5,468[1] | **19,774** | 17,056[1] |
| **Total operating expenses** | **9,768** | 8,143 | **29,328** | 25,691 |
| ***% of rental income*** | ***42.3*** | *44.8* | ***44.9*** | *46.2* |

(1) Adjusted to reflect the retroactive implementation of IFRS 15 – see page 12.

As a percentage of rental income, operating expenses in the third quarter of 2018 decreased by 2.5% to 42.3%, and by 1.3% to 44.9% for the cumulative period.

## Net operating income

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative period (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Net operating income[1] | **13,330** | 10,044 | **36,013** | 29,934 |
| ***% of rental income*** | ***57.7*** | *55.2* | ***55.1*** | *53.8* |

(1) Non-IFRS financial measure.

Net operating income is reduced by non-cash rental income adjustments. Before these adjustments, net operating income was as follows:

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Net operating income | **13,330** | 10,044 | **36,013** | 29,934 |
| Straight-line rental income adjustments | **(249)** | (94) | **(432)** | (261) |
| Adjustments related to amortization of lease incentives | **1,158** | 623 | **2,615** | 1,812 |
| **Net operating income before rental income adjustments[1]** | **14,239** | 10,573 | **38,196** | 31,485 |
| ***% of rental income on the basis of in-place leases*** | ***59.3*** | *56.5* | ***56.6*** | *55.1* |

(1) Non-IFRS financial measure.

## Financial expenses

The following table shows the breakdown of financial expenses for the periods ended September 30, 2018 and 2017:

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Interest expense on mortgage loans payable | **4,585** | 3,651 | **12,862** | 10,887 |
| Interest expense on debentures | **874** | 874 | **2,622** | 2,622 |
| Interest expense on acquisition line of credit | **162** | 114 | **622** | 146 |
| Interest expense on operating line of credit and other interest expenses | **36** | 41 | **130** | 87 |
| Interest income | **(19)** | (6) | **(62)** | (33) |
| **Net interest expenses** | **5,638** | 4,674 | **16,174** | 13,709 |
| Accretion of effective interest | **256** | 258 | **780** | 754 |
| Accretion of non-derivative liability component of convertible debentures | **12** | 11 | **36** | 33 |
| **Net financial expenses before following item:** | **5,906** | 4,943 | **16,990** | 14,496 |
| Fair value adjustment on derivative financial instruments (debenture conversion options and interest rate swap) | **(985)** | (351) | **(1,790)** | (536) |
| **Net financial expenses** | **4,921** | 4,592 | **15,200** | 13,960 |

Net interest expenses increased by $964 during the third quarter of 2018 compared to the same period of 2017 and $2,465 for the cumulative period, mainly due to the financing of recent acquisitions which contributed to a $1,005 increase ($2,214 for the cumulative period) in interest expense on mortgage loans payable and the use of the line of credit for these acquisitions. Offsetting disposals generated an immaterial decrease for the quarter.

Net financial expenses can be allocated among interest expenses amounting to $5,638 for the quarter (2017: $4,674) and $16,174 for the nine-month period (2017: $13,709) and non-monetary items. Non-monetary items include the accretion of effective interest and the liability component of convertible debentures and fair value adjustments on financial instruments. BTB recognized an increase in the value of derivative financial instruments of $985 (2017: $351 increase) for the quarter and $1,790 (2017: $536) for the cumulative period. The increase, which generated the equivalent in income recorded as a reduction of financial expenses, was due to rising interest rates in Canadian markets over the last few months.

As at September 30, 2018, the average weighted contractual rate of interest on mortgage loans payable was 3.89%, 6 basis points higher than the rate in effect as at September 30, 2017. Interest rates on first-ranking mortgage financings ranged from 2.77% to 6.80% as at September 30, 2018. The weighted average term of financing in place as at September 30, 2018 was 5.5 years (5.8 years as at September 30, 2017).

## Trust administration expenses

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Administrative expenses | **1,140** | 851 | **3,395** | 2,988 |
| Amortization | **—** | 13 | **5** | 43 |
| Unit-based compensation | **51** | 71 | **284** | 212 |
| **Trust administration expenses** | **1,191** | 935 | **3,684** | 3,243 |

## Fair value adjustment on investment properties

Under IAS 40, the Trust accounts for its investment properties at fair value and recognizes the gain or loss arising from a change in the fair value in profit or loss for the periods in which it arises.

The fair value of investment properties is determined using the discounted cash flow method, the capitalized net operating income method or the comparable method, which are generally accepted valuation methods.

Management receives quarterly capitalization rate and discount rate data from external chartered valuators and independent experts. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region. The Trust utilizes capitalization and discount rates within ranges provided by external valuators. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next, or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

The following tables highlight the significant assumptions used in the modelling process for both internal and external appraisals:

| | Retail | Office | Industrial | Mixed use |
|---|---|---|---|---|
| **As at September 30, 2018** | | | | |
| Capitalization rate | 6.25% – 10.00% | 6.25% – 8.50% | 6.50% – 9.75% | 5.00% – 7.50% |
| Terminal capitalization rate | 6.25% – 8.00% | 6.50% – 7.75% | 7.00% – 9.50% | 5.25% – 7.50% |
| Discount rate | 6.50% – 8.75% | 7.00% – 8.75% | 7.75% – 10.50% | 6.25% – 8.50% |
| **As at September 30, 2017** | | | | |
| Capitalization rate | 6.25% – 10.00% | 6.50% – 8.50% | 6.50% – 9.75% | 6.75% – 7.50% |
| Terminal capitalization rate | 6.75% – 8.25% | 6.50% – 8.75% | 7.00% – 7.75% | 7.00% – 7.75% |
| Discount rate | 7.25% – 8.75% | 7.25% – 9.25% | 7.50% – 8.00% | 7.50% – 8.25% |

The weighted average capitalization rate for the entire portfolio as at September 30, 2018 was 6.91% (September 30, 2017: 7.18%), down 14 basis points since December 31, 2017 and 27 basis points since September 30, 2017.

Management estimated that a $776 fair value adjustment on the real estate portfolio was required to adequately represent its fair market value as at September 30, 2018 and thereby adequately represent the selling price of properties sold subsequent to quarter end.

As at September 30, 2018, BTB has estimated that a 0.25% change in the capitalization rate applied to the overall portfolio would change the fair value of the investment properties by approximately $29.7 million.

### Gain on disposal of an item of property and equipment

On February 1, 2018, the Trust disposed of the property located at “2155 Crescent Street” in Montreal for $3,150. As the Trust’s head office was located in this property, the sale was classified as an item of property and equipment rather than as an investment property. It was recorded in assets at its original cost and amortized over its estimated useful life of 40 years. The Trust realized a net gain of $1,192 on disposal of this property.

### Gain on write-off of debt

Following the sale of two investment properties in 2015, the Trust committed to the purchaser to pay the rents on vacant spaces for several years and had accordingly recorded a liability. In March 2018, the parties agreed to terminate the Trust’s commitment. The Trust wrote off the residual debt and realized a $133 gain.

### Transaction costs

On May 30, 2018, the Trust acquired a 25% residual interest in Complexe Lebourgneuf – Phase II. The transaction was accounted for as a business combination and costs of $69 were expensed.

On August 16, the sale of the property “3036-3094 Chemin Chambly” gave rise to mortgage cancellation fees and brokerage fees totalling $524.

### Net income and comprehensive income

BTB generated net income of $5.8 million for the third quarter of 2018, up $1.5 million from $4.3 million in the third quarter of 2017. Net income stood at $16.9 million for the cumulative period, up $4.3 million from the same period of 2017. The increase in net income and comprehensive income for the quarter and the nine-month period was due to the combination of the above-mentioned items.

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Net income and comprehensive income** | **5,793** | 4,327 | **16,941** | 12,673 |
| Per unit | **10.4¢** | 10.1¢ | **33.0¢** | 29.8¢ |

### Adjusted net income and comprehensive income

Net income and comprehensive income fluctuate from one quarter to another based on certain highly volatile monetary items. Consequently, the fair value of derivative financial instruments and the fair value of the real estate portfolio fluctuate based on the stock market volatility of BTB units, the forward interest rate curve and the discount and capitalization rates of the real estate portfolio.

The following table presents adjusted net income and comprehensive income before these volatile non-monetary items.

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Net income and comprehensive income** | **5,793** | 4,327 | **16,941** | 12,673 |
| Volatile non-monetary items | | | | |
| ± Fair value adjustment on derivative financial instruments | **(985)** | (351) | **(1,790)** | (536) |
| ± Fair value adjustment on investment properties | **776** | – | **776** | – |
| **Adjusted net income and comprehensive income[1]** | **5,584** | 3,976 | **15,927** | 12,137 |
| Per unit | **10.0¢** | 9.3¢ | **31.0¢** | 28.5¢ |

(1) Non-IFRS financial measure.

This table shows an increase of 40.4% in adjusted net income for the quarter and 31.2% for the cumulative period, before the non-monetary items mentioned above. However, quarterly adjusted net income per unit increased 7.5% (5.3% increase for the cumulative period).

## OPERATING RESULTS – SAME-PROPERTY PORTFOLIO

### Same-property portfolio

The same-property portfolio includes all the properties owned by BTB as at January 1, 2017 and still owned as at September 30, 2018, but does not include the financial spin-offs of acquisitions and developments completed in 2017 and 2018, nor the results of properties subsequently sold during the same period.

The following table summarizes the results of the same-property portfolio.

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | | Cumulative (9 months) | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | *Δ %* | **2018** | 2017 | *Δ %* |
| | **$** | $ | | **$** | $ | |
| Rental income | **17,407** | 16,406 | 6.1 | **52,850** | 50,503 | 4.6 |
| Operating expenses | **8,072** | 6,908 | 16.8 | **24,793** | 21,876 | 13.3 |
| Net operating income[1] | **9,335** | 9,498 | (1.7) | **28,057** | 28,627 | (2.0) |
| Interest expense on mortgage loans payable | **3,371** | 3,397 | (0.8) | **10,085** | 10,176 | (0.9) |
| **Net property income[1]** | **5,964** | 6,101 | | **17,972** | 18,451 | |
| **Decrease in net property income from the same-property portfolio** | ***2.2%*** | | | ***2.6%*** | | |

(1) Non-IFRS financial measure.

Rental income of the same-property portfolio was up by 6.1%, while net operating income and net property income were down by 1.7% and 2.2%, respectively, for the third quarter of 2018 compared to the same period of 2017.

## DISTRIBUTABLE INCOME AND DISTRIBUTIONS

The following table shows the calculation of distributable income.

| Periods ended September 30 | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| (in thousands of dollars) | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Net income (loss) and comprehensive income (IFRS)** | **5,793** | 4,327 | **16,941** | 12,673 |
| + Fair value adjustment on investment properties | **776** | — | **776** | — |
| + Amortization of property and equipment | **18** | 37 | **64** | 117 |
| - Gain on disposal of property and equipment | **—** | — | **(1,192)** | — |
| - Gain on write-off of debt | **—** | — | **(133)** | — |
| + Unit-based compensation expense | **51** | 71 | **284** | 212 |
| + Accretion of the liability component of convertible debentures | **12** | 11 | **36** | 33 |
| ± Fair value adjustment on derivative financial instruments | **(985)** | (351) | **(1,790)** | (536) |
| + Fair value adjustment on Class B LP units | **69** | – | **69** | – |
| + Amortization of lease incentives | **1,158** | 624 | **2,615** | 1,813 |
| - Straight-line rental income adjustment | **(249)** | (94) | **(432)** | (261) |
| + Accretion of effective interest | **256** | 258 | **780** | 754 |
| + Transaction costs | **524** | — | **593** | — |
| + Distributions -Class B LP units | **56** | — | **75** | — |
| **Distributable income[(1)]** | **7,479** | 4,883 | **18,686** | 14,805 |

(1) Non-IFRS financial measures.

### Distributions and per unit data

| Periods ended September 30 | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| (in thousands of dollars, except for per unit data) | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Distributions** | | | | |
| Cash distributions | **5,105** | 3,920 | **14,198** | 11,776 |
| Cash distributions – Class B LP units | **56** | — | **75** | — |
| Distributions reinvested under the distribution reinvestment plan | **682** | 562 | **2,022** | 1,631 |
| **Total distributions to unitholders** | **5,843** | 4,482 | **16,295** | 13,407 |
| Percentage of reinvested distributions | ***11.7%*** | *12.5%* | ***12.4%*** | *12.2%* |
| **Per unit data [(1)]** | | | | |
| Distributable income | **13.4¢** | 11.4¢ | **36.4¢** | 34.8¢ |
| Distributions | **10.5¢** | 10.5¢ | **31.5¢** | 31.5¢ |
| Payout ratio [(2)] | **78.4%** | *91.8%* | **86.5%** | *90.6%* |
| Cash payout ratio[(3)] | ***69.0%*** | *80.3%* | ***76.4%*** | *79.5%* |

(1) Including Class B LP units.
(2) The payout ratio corresponds to distributions per unit divided by distributable income per unit.
(3) The cash payout ratio corresponds to cash distributions divided by distributable income.

Distributable income for the third quarter increased by $2,596, from $4,883 to $7,479, between 2017 and 2018. Distributable income per unit for the third quarter of 2018 was 13.4¢, up 17.5% from 11.4¢ in 2017. These increases are derived mainly from the non-recurring revenue of $1,477 from the Shire lease cancellation penalty payment. For the cumulative period, distributable income was up $3,881 or 26.2%.

Distributions to unitholders totalled 10.5¢ per issued unit for each quarter of 2018 and 2017.

The payout ratio for distributable income was 78.4% in the third quarter of 2018 compared to 91.8% in the third quarter of 2017, and 86.5% for the cumulative period compared to 90.6% in 2017.

The following table shows the reconciliation of distributable income (non-IFRS financial measure) and net cash flows from operating activities presented in the financial statements.

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Net cash flows from operating activities (IFRS)** | **12,484** | 10,161 | **29,029** | 24,327 |
| - Net gain on disposal of a property | **—** | (190) | **—** | (58) |
| + Distributions – Class B LP units | **56** | — | **75** | — |
| ± Net change in non-cash operating items | **573** | (414) | **5,683** | 4,245 |
| - Net interest expense | **(5,638)** | (4,674) | **(16,174)** | (13,709) |
| + Other items | **4** | — | **73** | — |
| **Distributable income** | **7,479** | 4,883 | **18,686** | 14,805 |

The following table enables readers to assess the performance of distributed funds and reconcile them with net cash flows and net income.

| 9-month periods ended September 30 and 12-month periods ended December 31<br>(in thousands of dollars) | **2018**<br>**(9 months)** | 2017<br>(9 months) | 2016<br>(9 months) | 2017<br>(12 months) | 2016<br>(12 months) |
|---|---|---|---|---|---|
| | **$** | $ | $ | $ | $ |
| Net cash flows from operating activities (IFRS) | **29,029** | 24,327 | 26,600 | 38,448 | 39,850 |
| - Interest paid | **16,157** | 13,547 | 15,811 | (18,593) | (20,630) |
| Net cash flows from operating activities | **12,872** | 10,780 | 10,789 | 19,855 | 19,220 |
| Net income | **15,614** | 12,673 | 12,955 | 28,171 | 22,085 |
| Total distributions | **16,295** | 13,407 | 12,001 | 18,486 | 16,443 |
| Surplus (deficit) of net cash flows from operating activities compared to total distributions | **(3,423)** | (2,627) | (1,212) | 1,369 | 2,777 |
| Surplus (deficit) of net income over total distributions | **(681)** | (734) | 954 | 9,685 | 5,642 |

The Trust presented distributions in excess of net cash flows from operating activities (IFRS) of $3,423, net of interest paid for the nine-month period ended September 30, 2018 (2017: ($2,627) and 2016: ($1,212)). The surplus distributions resulted from the seasonality of activities for the period, specifically winter expenses and property taxes, most of which are paid in the first nine months of the year but recovered from tenants over a 12-month period.

The Trust uses authorized lines of credit totalling $22 million to finance these surplus distributions. During the year ended December 31, 2017, the Trust presented a surplus of net cash flows from operating activities of $1,369 (2016: $2,777), despite the surplus distributions during the first three quarters. The Trust is confident that the same conditions will prevail at the end of fiscal 2018, that it will present adequate coverage of net cash flows over total distributions, and intends in this way to maintain the current level of distributions.

## Distribution reinvestment plan

In the third quarter of 2018, 11.7% of distributions (2017: 12.5%) were reinvested under the distribution reinvestment plan implemented by BTB in 2011. Approximately $2.0 million (2017: $1.6 million) of the Trust's cash has thereby been preserved through unit conversions since the beginning of the year.

## FUNDS FROM OPERATIONS (FFO)

The following table provides a reconciliation of net income and comprehensive income established according to IFRS and FFO for the periods ended September 30, 2018 and 2017:

| Periods ended September 30 (in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017[5] | **2018** | 2017[5] |
| | **$** | $ | **$** | $ |
| **Net income and comprehensive income (IFRS)** | **5,793** | 4,327 | **16,941** | 12,673 |
| + Fair value adjustment on investment properties | **776** | — | **776** | — |
| + Fair value adjustment on Class B LP units | **69** | — | **69** | — |
| - Gains on disposal of property and equipment | **—** | — | **(1,192)** | — |
| + Amortization of a property recognized at cost | **—** | 6 | **3** | 22 |
| + Amortization of lease incentives | **1,158** | 624 | **2,615** | 1,813 |
| ± Fair value adjustment on derivative financial instruments | **(985)** | (351) | **(1,790)** | (536) |
| + Leasing payroll expenses | **129** | 106 | **445** | 367 |
| + Distributions -Class B LP units | **56** | – | **75** | – |
| **FFO[1]** | **6,996** | 4,712 | **17,942** | 14,339 |
| **FFO per unit [2]** | **12.6¢** | 11.0¢ | **35.0¢** | 33.7¢ |
| FFO payout ratio[3] | ***83.3%*** | *95.5%* | ***90.0%*** | *93.5%* |
| FFO cash payout ratio[4] | ***73.8%*** | *83.2%* | ***79.6%*** | *82.1%* |

(1) Non-IFRS financial measure.
(2) Including Class B LP units.
(3) The FFO payout ratio corresponds to distributions per unit divided by FFO per unit.
(4) The FFO cash payout ratio corresponds to cash distributions divided by FFO.
(5) Restated to reflect the White Paper recommendations.

For the third quarter of 2018, FFO per unit were 12.6¢, compared to 11.0¢ in 2017, a 14.5% increase. The payout ratio stood at 83.3% for the third quarter of 2018 compared to 95.5% for the same quarter of 2017.

The following table provides a reconciliation of FFO (non-IFRS financial measure) and net cash flows from operating activities presented in the financial statements.

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Cash flows from operating activities (IFRS)** | **12,484** | 10,161 | **29,029** | 24,327 |
| + Straight-line rental income adjustment | **249** | 94 | **432** | 261 |
| - Gain on disposal of a property | **—** | (190) | **—** | (58) |
| + Amortization of a property recognized at cost | **—** | 6 | **3** | 22 |
| + Leasing payroll expenses | **129** | 106 | **445** | 367 |
| + Gain on write-off of debt | **—** | — | **133** | — |
| + Transaction costs | **(524)** | — | **(524)** | — |
| + Distributions – Class B LP units | **56** | — | **75** | — |
| ± Net change in non-cash operating items | **573** | (414) | **5,683** | 4,245 |
| - Unit-based compensation expenses | **(51)** | (71) | **(284)** | (212) |
| - Net interest expense | **(5,638)** | (4,674) | **(16,174)** | (13,709) |
| - Accretion of the liability component of convertible debentures | **(12)** | (11) | **(36)** | (33) |
| - Accretion of effective interest | **(256)** | (258) | **(780)** | (754) |
| - Amortization of other property and equipment | **(18)** | (37) | **(64)** | (117) |
| ± Other items | **4** | — | **4** | — |
| **FFO[1]** | **6,996** | 4,712 | **17,942** | 14,339 |

(1) Non-IFRS financial measure.

## ADJUSTED FUNDS FROM OPERATIONS (AFFO)

The following table provides a reconciliation of FFO and AFFO for the periods ended September 30, 2018 and 2017:

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **FFO** | **6,996** | 4,712 | **17,942** | 14,339 |
| ± Straight-line rental income adjustment | **(249)** | (94) | **(432)** | (261) |
| + Accretion of effective interest | **256** | 258 | **780** | 754 |
| + Accretion of the liability component of convertible debentures | **12** | 11 | **36** | 33 |
| + Amortization of other property and equipment | **18** | 31 | **61** | 95 |
| + Unit-based compensation expenses | **50** | 71 | **283** | 212 |
| - Provision for non-recoverable maintenance expenditures | **(432)** | (350) | **(1,277)** | (1,072) |
| - Provision for unrecovered rental fees | **(325)** | (313) | **(975)** | (929) |
| **AFFO**(1) | **6,326** | 4,326 | **16,418** | 13,171 |
| **AFFO per unit**(2) | **11.4¢** | 10.1¢ | **32.0¢** | 31.0¢ |
| AFFO payout ratio(3) | ***92.1%*** | *104.0%* | ***98.4%*** | *101.6%* |
| AFFO cash payout ratio(4) | ***81.6%*** | *90.8%* | ***86.9%*** | *89.4%* |

(1) Non-IFRS financial measure.
(2) Including Class B LP units.
(3) The AFFO payout ratio corresponds to distributions per unit divided by AFFO per unit.
(4) The AFFO cash payout ratio corresponds to cash distributions divided by AFFO.

AFFO per unit amounted to 11.4¢ in the third quarter of 2018 compared to 10.1¢ in 2017, a 12.9% increase. The AFFO payout ratio stood at 92.1% at the end of the third quarter of 2018, compared to 104.0% at the end of the third quarter of 2017, an 11.9% improvement.

In calculating AFFO, the Trust deducts a provision for non-recoverable maintenance expenditures to take account of capital expenditures required to keep properties in good condition and total rental income, based on a review of industry practices and our expenditure forecasts for the next few years.

The following table compares the amount of the provision for non-recoverable maintenance expenditures to expenditures actually incurred during the current comparative period and in the last few years.

| Periods ended<br>(in thousands of dollars) | **September 30, 2018 (9 months)** | September 30, 2017 (9 months) | December 31, 2017 (12 months) | December 31, 2016 (12 months) |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| Provision for non-recoverable maintenance expenditures | **1,277** | 1,072 | 1,467 | 1,462 |
| Non-recoverable maintenance expenditures | **1,116** | 2,230 | 2,876 | 1,942 |

The Trust intends to achieve a balance between actual spending and the calculated provisions over the long term. Management suggests changes to the provision calculation bases, as required.

For the cumulative nine-month period of 2018, the provision for non-recoverable maintenance expenditures exceeded actual expenditures. However, for fiscal 2017, actual expenditures were substantially higher than the provision as significant amounts were spent on preparing tenant fit-outs following a decline in the occupancy rate.

The following table provides a reconciliation of AFFO (non-IFRS financial measure) and net cash flows from operating activities presented in the financial statements.

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Net cash flows from operating activities (IFRS)** | **12,484** | 10,161 | **29,029** | 24,327 |
| + Leasing payroll expenses | **129** | 106 | **445** | 367 |
| + Gain on write-off of debt | **—** | — | **133** | — |
| + Transaction costs | **(524)** | — | **(524)** | — |
| + Distributions – Class B LP units | **56** | — | **75** | — |
| ± Net change in non-cash operating items | **573** | (414) | **5,683** | 4,245 |
| - Net interest expense | **(5,638)** | (4,674) | **(16,174)** | (13,709) |
| - Provision for maintenance expenditures | **(432)** | (350) | **(1,277)** | (1,072) |
| - Provision for rental fees | **(325)** | (313) | **(975)** | (929) |
| - Other items | **3** | — | **3** | — |
| **Adjusted funds from operations** | **6,326** | 4,516 | **16,418** | 13,229 |

## SEGMENTED INFORMATION

The Trust's operations are derived from four categories of properties located in Québec and Ontario. The following tables present each category's contribution to revenues and net operating income for the periods ended September 30, 2018 and 2017.

| Quarter ended September 30<br>(in thousands of dollars) | Retail | | Office | | Industrial | | General purpose | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Quarter ended September 30, 2018** | | | | | | | | | |
| Investment properties | **267,000** | ***32.7*** | **344,673** | ***42.1*** | **118,829** | ***14.4*** | **88,873** | ***10.8*** | **819,375** |
| Rental income from properties | **6,889** | ***29.8*** | **11,091** | ***48.0*** | **2,761** | ***12.0*** | **2,357** | ***10.2*** | **23,098** |
| Net operating income(1) | **4,379** | ***32.9*** | **5,474** | ***41.1*** | **2,206** | ***16.5*** | **1,271** | ***9.5*** | **13,330** |
| **Quarter ended September 30, 2017** | | | | | | | | | |
| Investment properties | 193,931 | *29.2* | 292,692 | *39.5* | 117,839 | *17.7* | 59,471 | *8.6* | 663,933 |
| Rental income from properties | 5,177 | *28.5* | 8,243 | *45.3* | 2,888 | *15.9* | 1,879 | *10.3* | 18,187 |
| Net operating income(1) | 3,205 | *31.9* | 3,920 | *39.0* | 1,936 | *19.3* | 983 | *9.8* | 10,044 |

(1) Non-IFRS financial measure.

| Periods ended September 30<br>(in thousands of dollars) | Retail | | Office | | Industrial | | General purpose | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Period ended September 30, 2018** | | | | | | | | | |
| Rental income from properties | **19,339** | ***29.6*** | **32,326** | ***49.5*** | **7,479** | ***11.4*** | **6,197** | ***9.5*** | **65,341** |
| Net operating income(1) | **11,732** | ***32.6*** | **15,413** | ***42.8*** | **5,683** | ***15.8*** | **3,185** | ***8.8*** | **36,013** |
| **Period ended September 30, 2017** | | | | | | | | | |
| Rental income from properties | 15,115 | *27.2* | 25,362 | *45.6* | 9,173 | *16.5* | 5,975 | *10.7* | 55,625 |
| Net operating income (1) | 9,032 | *30.2* | 11,551 | *38.6* | 6,226 | *20.8* | 3,125 | *10.4* | 29,934 |

(1) Non-IFRS financial measure.

## FINANCIAL POSITION

The following table presents a summary of the Trust's balance sheet as at September 30, 2018 and December 31, 2017. It should be read in conjunction with the Trust's consolidated financial statements and the notes thereto.

| (in thousands of dollars) | Reference | September 30, 2018 | December 31, 2017 |
|---|---|---|---|
| | | **$** | $ |
| **Assets** | | | |
| Investment properties | Page 30 | **819,375** | 751,110 |
| Amounts receivable from tenants and other receivables | Page 32 | **3,523** | 4,212 |
| Other assets | Page 33 | **8,882** | 5,150 |
| Cash and cash equivalents | Page 33 | **2,136** | 1,918 |
| **Total assets** | | **833,916** | 762,390 |
| **Liabilities** | | | |
| Mortgage loans payable | Page 33 | **468,328** | 428,382 |
| Convertible debentures | Page 35 | **48,579** | 48,183 |
| Bank loans | Page 35 | **15,900** | 18,130 |
| Class B LP units | Page 37 | **2,560** | — |
| Accounts payable and other liabilities | Page 37 | **19,452** | 18,748 |
| **Total liabilities** | | **554,819** | 513,443 |
| **Equity** | | | |
| Unitholders' equity | Page 37 | **279,097** | 248,947 |
| **Total liabilities and equity** | | **833,916** | 762,390 |

The main changes in the balance sheet as at September 30, 2018 compared to the balance sheet as at December 31, 2017 reflect the acquisition of investment properties and mortgage financing related to these transactions.

## ASSETS

### Investment properties

Over the years, BTB has fuelled its growth through high-quality property acquisitions based on strict selection criteria, while maintaining an appropriate allocation among four activity segments: office, retail, industrial and mixed use properties.

The real estate portfolio consists of direct interests in wholly-owned investment properties and the Trust's share of the assets, liabilities, revenues and expenses of three jointly-controlled investment properties.

The fair value of investment properties stood at $819 million as at September 30, 2018 compared to $664 million as at September 30, 2017 and $751 million as at December 31, 2017.

### Acquisitions

In February 2018, BTB purchased a retail property located in the city of Delson, Québec, for a consideration of $1.865 million.

In May 2018, the Trust acquired a 25% residual interest in the Complexe Leborgneuf Phase II property, located in Québec City, for $7.5 million. The net consideration after assumption of the mortgage debt was paid through the issuance of 532,265 Class B LP units priced at $4.68 per unit.

In July 2018, the Trust purchased a mixed-use property in downtown Montréal for $25.2 million. The Trust moved its head office to this property in October 2018.

In July 2018, the Trust purchased a shopping centre located in Lévis, Québec, for $42.6 million.

### Disposals

In January 2018, the Trust sold the property located at 1863-1865 Autoroute Transcanadienne in Dorval, Québec, for sale proceeds totalling $5.650 million.

In February 2018, the Trust sold the following properties:

- 2153-2155 Crescent Street in Montreal, Quebec, for sale proceeds totalling $3.150 million. Until October 2018, this property housed the Trust's head office.
- 1100 and 1108-1136 Saint-Joseph Blvd. in Drummondville, Quebec, for sale proceeds totalling $3.075 million.
- 2905 Marleau in Cornwall, Ontario, for sale proceeds totalling $490.

In July 2018, the Trust disposed of a retail property under redevelopment located in Thetford Mines, Québec. The property, known as "Promenade St-Noël" was fully vacant and was sold for $475.

In August 2018, the Trust sold a property located at 3036-3094 Chemin Chambly in Longueuil, Québec, for sale proceeds totalling $5.65 million.

## Summary by operating segment

| As at September 30 | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Number of properties** | **Leasable area (sq. ft.)** | **%** | **Number of properties** | **Leasable area (sq. ft.)** | **%** |
| Office | **28** | **2,042,816** | ***38.5*** | 27 | 1,920,548 | *38.4* |
| Retail | **17** | **1,457,669** | ***27.5*** | 17 | 1,180,683 | *23.6* |
| Industrial | **18** | **1,364,613** | ***25.7*** | 19 | 1,499,783 | *29.9* |
| Mixed use | **6** | **437,152** | ***8.3*** | 4 | 406,650 | *8.1* |
| Subtotal | **69** | **5,302,250** | ***100.0*** | 67 | 5,007,664 | *100.0* |
| Properties under redevelopment | **2** | **208,005** | | 3 | 173,665 | |
| **Total** | **71** | **5,510,255** | | 70 | 5,181,329 | |

## Subsequent disposals

On October 18, 2018, the Trust disposed of the following six properties located in Sherbrooke, Québec, for $30.5 million, after taking into account closing adjustments. The Trust thereby disposed of virtually all of its properties in the Sherbrooke area, namely:

- 2865-2885 de Portland Boulevard which was purchased in 2007 for $2.8 million.
- 1635-1645 King Street East and 150-170 Chemin Duplessis which was purchased in 2007 for $8.8 million.
- 1640-1650 King Street West which was purchased in 2008 for $6.3 million.
- 747-805 King Street East which was purchased in 2008 for $5.1 million.
- 30-66 Jacques-Cartier Boulevard North which was purchased in 2008 for $5.8 million.
- 3705 Industriel Boulevard which was purchased in 2013 for $1.2 million.

## Investments in investment properties held

BTB invests in capital improvement projects to preserve the quality of infrastructure and services provided to tenants. These disbursements include value-maintenance investments corresponding to expenditures required to keep properties in their current operating condition, as well as property improvement and redevelopment projects intended to increase leasable area, occupancy rates or quality of space available for rental. In some cases, capital expenditures may be recovered from rent.

Capital expenditures for the quarter ended September 30, 2018 totalled $1,483, compared to $1,368 for the same quarter of 2017, of which $1,051 was recoverable (2017: $263). Capital expenditures do not include repair and maintenance costs. Capital expenditures vary from one quarter to another depending on the activities required or planned for each property.

Upon the signing of several leases, the Trust makes disbursements for leasehold improvements and incentives applicable to the leased areas to meet the specific needs of tenants, as well as leasing fees that are paid to independent brokers. These disbursements totalled $1,932 for the third quarter compared to $1,647 for the same quarter of 2017. The leasing fees and leasehold improvements apply to both new tenants and tenants whose leases are renewed for all properties. The amount of leasing fees and leasehold improvements varies depending on the renewal schedule, vacancy rates and tenancy profile.

The following table summarizes expenditures in maintenance capital expenditures, as well as incentives and leasing fees, for the periods ended September 30, 2018 and 2017.

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Recoverable maintenance capital expenditures | **1,051** | 263 | **1,721** | 603 |
| Non-recoverable maintenance capital expenditures | **432** | 1,005 | **1,116** | 2,230 |
| **Total maintenance capital expenditures** | **1,483** | 1,368 | **2,837** | 2,833 |
| Leasing fees and leasehold improvements | **1,932** | 1,647 | **3,968** | 4,542 |
| **Total** | **3,415** | 3,015 | **6,805** | 7,375 |

The following table shows changes in the fair value of investment properties during the periods ended September 30, 2018 and 2017.

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| **Balance, beginning of period** | **753,695** | 642,305 | **751,110** | 645,485 |
| Additions: | | | | |
| Acquisitions | **70,029** | 23,593 | **79,434** | 23,593 |
| Dispositions | **(6,079)** | (4,450) | **(15,294)** | (11,450) |
| Capital expenditures net of grants | **1,483** | 1,368 | **2,837** | 2,833 |
| Leasing fees and leasehold improvements | **1,932** | 1,647 | **3,968** | 4,542 |
| Gain on disposal of a property | **—** | — | **—** | 482 |
| Other non-monetary changes | **(1,685)** | (530) | **(2,680)** | (1,552) |
| **Balance, end of period** | **819,375** | 663,933 | **819,375** | 663,933 |

## Amounts receivable from tenants and other receivables

Amounts receivable from tenants and other receivables decreased from $4,212 as at December 31, 2017 to $3,621 as at September 30, 2018. These amounts are summarized below:

| (in thousands of dollars) | **September 30, 2018** | December 31, 2017 | September 30, 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Amounts receivable from tenants | **2,277** | 2,721 | 3,190 |
| Allowance for doubtful accounts | **(491)** | (460) | (424) |
| | **1,786** | 2,261 | 2,766 |
| Operating expenses to be recovered | **162** | 457 | — |
| Balance of sale receivable | **—** | 600 | 600 |
| Other receivables | **1,575** | 894 | 637 |
| **Amounts receivable from tenants and other receivables** | **3,523** | 4,212 | 4,003 |

### Other assets

Other assets include property and equipment net of accumulated depreciation required for the Trust's operations, prepaid expenses and derivative financial instruments in debit positions. They are summarized below:

| (in thousands of dollars) | **September 30, 2018** | December 31, 2017 | September 30, 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Property and equipment | **882** | 3,335 | 3,313 |
| Accumulated depreciation | **(723)** | (1,235) | (1,198) |
| | **159** | 2,100 | 2,115 |
| Prepaid expenses | **5,064** | 1,175 | 3,953 |
| Derivative financial instruments | **3,160** | 1,370 | 779 |
| Other items | **499** | 505 | 748 |
| **Other assets** | **8,882** | 5,150 | 7,595 |

The decline in value of property and equipment is due to the sale of the building housing the Trust's head office. The increase in value of prepaid expenses reflects the payment of municipal and school taxes, most of which are paid in the first half of the calendar year.

| (in thousands of dollars) | **September 30, 2018** | December 31, 2017 | September 30, 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Cash and cash equivalents | | | |
| Free cash flow | **2,136** | 1,918 | 3,235 |
| Restricted cash | **—** | — | 50 |
| | **2,136** | 1,918 | 3,285 |

## CAPITAL RESOURCES

### Long-term debt

The following table shows the balances of BTB's indebtedness as at September 30, 2018, including mortgage loans payable and convertible debentures, based on year of maturity and corresponding weighted average contractual interest rates:

| As at September 30, 2018<br>(in thousands of dollars) | **Balance of convertible debentures** | **Balance of mortgages payable** | **Weighted average contractual interest rate** |
|---|---|---|---|
| | **$** | **$** | **%** |
| **Year of maturity** | | | |
| 2018 | — | 24,168 | 3.86 |
| 2019 | — | 63,931 | 4.26 |
| 2020 | 49,700 | 46,206 | 5.67 |
| 2021 | — | 63,327 | 3.44 |
| 2022 | — | 40,256 | 3.52 |
| 2023 and thereafter | — | 232,398 | 3.91 |
| **Total** | **49,700** | **470,286** | **4.19** |

### Weighted average contractual interest rate

As at September 30, 2018, the weighted average contractual interest rate of the Trust's long-term debt stood at 4.19%, i.e. 3.89% for mortgages payable and 7.03% for convertible debentures.

### Mortgage loans payable

As at September 30, 2018, the Trust's mortgage loans payable amounted to $470.3 million compared to $386.3 million as at September 30, 2017, before deferred financing costs and valuation adjustments, a net increase of $84 million following the financing of acquisitions completed in 2017, certain refinancings and principal repayments on monthly payments and disposals.

The following table summarizes changes in mortgage loans payable during the periods ended September 30, 2018:

| Periods ended September 30, 2018<br>(in thousands of dollars) | Quarter<br>$ | Cumulative (9 months)<br>$ |
|---|---|---|
| **Balance at beginning of the period** | **430,399** | **430,603** |
| Mortgage loans contracted | **46,080** | **68,159** |
| Balance repaid at maturity or upon disposal | **(3,087)** | **(16,003)** |
| Monthly principal repayments | **(3,106)** | **(12,473)** |
| **Balance as at September 30, 2018** | **470,286** | **470,286** |

Note: Before unamortized financing costs and valuation adjustments.

The weighted average interest rate on mortgage loans contracted was 4.48% for the quarter and 4.38% for the cumulative period. As at September 30, 2018, the weighted average interest rate was 3.89% compared to 3.83% for mortgage loans on the books as at September 30, 2017, an increase of 6 basis points. As at September 30, 2018, except for four loans with a cumulative balance of $ 39.0 million, all mortgages payable bear interest at fixed rates ($367 million) or are coupled with an interest rate swap ($63.7 million).

The weighted average term of existing mortgage financings was 5.5 years as at September 30, 2018. It was 5.8 years as at September 30, 2017, a decrease of 0.3 (four months) in one year.

BTB spreads the terms of its mortgages over many years in order to mitigate the risk associated with renewing them.

Except for one property under redevelopment valued at $0.3 million, and three properties partially securing the acquisition and operating lines of credit as at September 30, 2018, all of the Trust's other properties were subject to mortgages as at September 30, 2018. Unamortized loan financing costs totalled $2,850 and are amortized under the effective interest method over the term of the loans.

The following table, as at September 30, 2018, shows future mortgage loan repayments for the next few years:

| As at September 30, 2018<br>(in thousands of dollars) | Principal repayment | Balance at maturity | Total | % of total |
|---|---|---|---|---|
| | $ | $ | $ | |
| **Maturity** | | | | |
| 2018 (3 months) | 3,422 | 24,011 | 27,433 | 5.8 |
| 2019 | 11,211 | 62,042 | 73,253 | 15.6 |
| 2020 | 11,028 | 44,313 | 55,341 | 11.8 |
| 2021 | 10,255 | 33,687 | 43,942 | 9.3 |
| 2022 | 8,662 | 58,563 | 67,225 | 14.3 |
| 2023 and thereafter | 45,593 | 157,499 | 203,092 | 43.2 |
| **Total** | **90,171** | **380,115** | **470,286** | **100.0** |
| + Valuation adjustments on assumed loans | | | **892** | |
| - Unamortized financing costs | | | **(2,850)** | |
| **Balance as at September 30, 2018** | | | **468,328** | |

### Convertible debentures

| (in thousands of dollars) | Series E(1) (3) | Series F(2) (3) | Total |
|---|---|---|---|
| Par value | 23,000 | 26,700 | |
| Contractual interest rate | 6.90% | 7.15% | |
| Effective interest rate | 7.90% | 8.47% | |
| Date of issuance | February 2013 | December 2015 | |
| Per-unit conversion price | $6.15 | $5.65 | |
| Date of interest payment | March 31 and September 30 | June 30 and December 31 | |
| Maturity date | March 2020 | December 2020 | |
| **Balance as at September 30, 2018** | **22,597** | **25,982** | **48,579** |

(1) Redeemable by the Trust, under certain conditions, as of March 31, 2018, but before March 31, 2020, to a price equal to their principal amount plus accrued, unpaid interest.

(2) Redeemable by the Trust, under certain conditions, as of December 31, 2018, but before December 31, 2019, at a redemption price equal to their initial principal amount plus accrued, unpaid interest, provided that the unit market price is at least 125% of the Series F conversion price and, as of December 31, 2019, but before December 31, 2020, at a redemption price equal to their principal amount plus accrued and unpaid interest.

(3) The Trust may, at its option and under certain conditions, elect to satisfy its obligation to pay the principal amount of the Series E and F debentures by issuing freely tradable units to Series E and F debenture holders.

### Bank loan – operating credit facility

BTB has an operating credit facility of $3 million with a Canadian chartered bank. The facility bears interest at the bank's base rate, plus 0.75%. As at September 30, 2018, $900 of the operating credit facility had been used.

### Bank loans – acquisition credit facility

BTB has an acquisition credit facility of $15 million with a Canadian chartered bank. The credit facility is partially secured by a first-ranking collateral mortgage on three properties, a second-ranking collateral mortgage on three properties, and a third-ranking mortgage on one property. The facility bears interest at the bank's base rate, plus 3.25%. As at September 30, 2018, $15 million of the acquisition credit facility had been used.

These credit facilities are secured by a first-ranking collateral mortgage on two properties and a second-ranking collateral mortgage on six properties.

### Debt ratio

Under the terms of its trust agreement, the Trust cannot contract a mortgage loan if, after having contracted the said loan, the total debt exceeds 75% of the gross carrying amount of the Trust. When establishing this calculation, the convertible debentures are not considered in the calculation of total indebtedness. Moreover, also under its trust agreement, in case of default with respect to this condition, the Trust has 12 months from the date of recognizing this default to perform the transactions necessary to remedy the situation.

The following table presents the Trust's debt ratios as at September 30, 2018, December 31, 2017 and September 30, 2017.

| (in thousands of dollars) | **September 30, 2018** | December 31, 2017 | September 30,2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Free cash flow | **(2,136)** | (1,918) | (3,235) |
| Mortgage loans payable (1) | **470,286** | 430,603 | 386,264 |
| Convertible debentures (1) | **49,700** | 49,700 | 49,700 |
| Acquisition credit facility | **15,000** | 16,650 | 14,460 |
| **Total long-term debt less free cash flow** | **532,850** | 495,035 | 447,189 |
| Gross book value of the Trust less free cash flow | **834,639** | 761,707 | 680,014 |
| Mortgage debt ratio (excluding convertible debentures and acquisition credit facility) | ***56.3%*** | *56.5%* | *56.8%* |
| Debt-equity ratio – convertible debentures | ***6.0%*** | *6.5%* | *7.3%* |
| Debt-equity ratio – acquisition line of credit | ***1.8%*** | *2.2%* | *2.1%* |
| Total debt ratio | ***63.8%*** | *65.0%* | *65.8%* |

(1) Gross amounts.

According to the table above, the mortgage debt ratio, excluding the convertible debentures and acquisition credit facility as at September 30, 2018, amounted to 56.3%, down 0.2% from December 31, 2017 and 0.5% from September 30, 2017. Including the convertible debentures and the acquisition credit facility, the overall debt ratio stood at 63.8%, down 1.2% from December 31, 2017 and 2.0% from September 30, 2017.

The Trust seeks to finance its acquisitions with mortgage debt ratios of 60% to 65% because the cost of financings is lower than the capital cost of the Trust's equity.

## Interest coverage ratio

For the quarter ended September 30, 2018, the interest coverage ratio stood at 2.36, up 21 basis points from the third quarter of 2017.

| Periods ended September 30<br>(in thousands of dollars, except for the ratios) | **Quarter** | | **Cumulative (9 months)** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Net operating income | **13,330** | 10,044 | **36,013** | 29,984 |
| Interest expense, net of interest income(1) | **5,638** | 4,674 | **16,174** | 13,709 |
| Interest coverage ratio | ***2.36*** | *2.15* | ***2.23*** | *2.19* |

(1) Interest expense excludes accretion of effective interest, accretion of non-derivative liability component of convertible debentures and the fair value adjustment on derivative financial instruments.

## Class B LP units

| Periods ended September 30, 2018 | **Quarter** | | **Cumulative (9 months)** | |
|---|---|---|---|---|
| | **Units** | $ | **Units** | $ |
| Class B LP units outstanding, beginning of period | **532,265** | 2,491 | **—** | — |
| Class B LP units issued | **—** | — | **532,265** | 2,491 |
| Fair value adjustment | **—** | 69 | **—** | 69 |
| **Class B LP units outstanding, end of period** | **532,265** | 2,560 | **532,265** | 2,560 |

The Class B LP units are exchangeable at any time, at the option of the holder, for an equal number of units of BTB. They are entitled to distributions equal to distributions declared on the units. Distributions paid on Class B LP units are recorded in operating income when declared. Distributions declared are adjusted in calculating distributable income, FFO and AFFO.

The Class B LP units were issued on May 30, 2018 in payment for the acquisition of the net amount of the residual 25% portion of Complexe Lebourgneuf – Phase II in Québec City. The holders of these units were entitled to a $56 distribution during the quarter and $75 for the cumulative period.

## Accounts payable and other liabilities

| (in thousands of dollars) | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Trade and other payables | **16,925** | 16,034 | 12,770 |
| Surplus of recoveries over billable amounts | **—** | — | 393 |
| Distributions payable | **1,931** | 1,695 | 1,495 |
| Unit-based compensation | **596** | 498 | 391 |
| Operating expenses to be reimbursed | **—** | 521 | — |
| **Accounts payable and other liabilities** | **19,452** | 18,748 | 15,049 |

## Unitholders' equity

Unitholders' equity consists of the following:

| (in thousands of dollars) | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Trust units | **273,544** | 244,115 | 219,555 |
| Cumulative profit | **109,429** | 92,488 | 76,990 |
| Cumulative distributions to unitholders | **(103,876)** | (87,656) | (82,577) |
| **Unitholders' equity** | **279,097** | 248,947 | 213,948 |

## Distribution reinvestment plan

The Trust has a distribution reinvestment plan under which unitholders may elect to receive distributions in units, with a 3% discount on their market value. Under the program, 148,697 units were issued during the third quarter of 2018 (2017: 125,271 units) and 448,080 units were issued since the beginning of the year (2017: 358,580 units).

## Units outstanding

The following table summarizes units issued during the reporting quarters and the weighted number of units for the same quarters.

| Periods ended September 30 | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| (in number of units) | **2018** | 2017 | **2018** | 2017 |
| **Units outstanding, beginning of quarter** | **55,013,155** | 42,598,779 | **48,423,118** | 42,342,373 |
| Units issued | | | | |
| Initial public offering | **—** | — | **6,250,250** | — |
| Distribution reinvestment plan | **148,697** | 125,271 | **448,080** | 358,580 |
| Awards - employee unit purchase plan | **—** | — | **9,691** | 9,062 |
| Awards - restricted unit compensation plan | **—** | — | **30,713** | 14,035 |
| **Units outstanding, end of quarter** | **55,161,852** | 42,724,050 | **55,161,852** | 42,724,050 |
| Weighted average number of units outstanding | **55,088,713** | 42,661,885 | **51,069,501** | 42,541,309 |
| Weighted average number of Class B LP units and units outstanding | **55,620,978** | 42,661,885 | **51,311,263** | 42,541,309 |

## Unit options

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 may not exceed 10% of the total number of issued and outstanding units. The trustees have and will set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the quoted market price of the units, as determined under a related agreement. The options have a maximum term of five years from the date of grant. The purpose of granting unit options is to encourage the holder to acquire an ownership interest that increases over time and provides a financial incentive for the holder to consider the long-term interests of BTB and its unitholders. As at September 30, 2018, there were no unit options outstanding.

### Deferred unit compensation plan

The Trust has implemented a deferred unit compensation plan for its trustees and certain executive officers. Under this plan, beneficiaries may elect to receive their compensation in cash, deferred units or a combination of both.

The following table summarizes deferred units outstanding during the periods ended September 30, 2018 and 2017.

| Periods ended September 30<br>(in number of units) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Deferred units outstanding, beginning of period** | **31,586** | 8,145 | **12,330** | 4,233 |
| Deferred units issued | **2,557** | 2,045 | **21,813** | 5,957 |
| **Deferred units outstanding, end of period** | **34,143** | 10,190 | **34,143** | 10,190 |

### Restricted unit compensation plan

Under this plan, beneficiaries are awarded restricted units that become fully vested over a period of up to three years. The purpose of the plan is to encourage senior officers and selected employees to achieve the Trust's long-term growth objectives and align their interests with the interests of unitholders. The plan is also an executive retention tool.

The following table summarizes restricted units outstanding during the periods ended September 30, 2018 and 2017.

| Periods ended September 30<br>(in number of units) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Restricted units outstanding, beginning of period** | **153,066** | 115,628 | **115,628** | 77,673 |
| Restricted units issued | **—** | — | **72,819** | 51,990 |
| Restricted units cancelled | **(14,147)** | — | **(18,815)** | — |
| Restricted units settled | **—** | — | **(30,713)** | (14,035) |
| **Restricted units outstanding, end of period** | **138,919** | 115,628 | **138,919** | 115,628 |

### 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, a maximum of 3% to 7% of their base salary depending on their years of experience with the Trust. For each two units purchased by an employee, the Trust shall issue one unit from treasury. During the quarter ended September 30, 2018, no units were issued (2017: nil).

### Off-balance sheet arrangements and contractual commitments

BTB does not have any other off-balance sheet arrangements or commitments that have or are likely to have an impact on its operating results or financial position, specifically its cash position and sources of financing, except for the following commitment: in October 2018, the Trust became party to a firm contract under which it undertook to sell six investment properties for a consideration of approximately $30.5 million. The transaction should close in the fourth quarter of 2018.

As at September 30, 2018, the Trust was in compliance with all the covenants to which it was subject except for one loan. For this loan, the Trust does not meet the debt service coverage ratio, which must be at least 1.3. The balance of the loan as at September 30, 2018 was $5,754. The fair value of the mortgaged properties at the same date was $11,232. The Trust has always met the other loan provisions and has never been late on a monthly payment. The breach of the covenant is due to the low occupancy rate of this property. The Trust believes that this default will be corrected in the normal course of business before March 31, 2019. The Trust obtained a waiver from the mortgage lender expiring on March 31, 2019.

## SUSTAINABLE DEVELOPMENT

In line with the principles of sustainable development, BTB incorporates environmental and social considerations into its business practices. Under BTB's Social Responsibility and Sustainable Development Policy, property is managed and operated so as to integrate sustainable development values into the Trust's activities, protect the health and well-being of employees and the communities where it operates, involve key shareholders in managing its environmental footprint, and demonstrate a commitment to transparency and continuous improvement of sustainability practices.

Ongoing improvement of properties through investment in environmental projects, among other things, is a top priority for BTB. The tangible results of BTB's responsible behaviour include BOMA BEST certification for 26 portfolio properties, publication of the Social Responsibility and Sustainable Development Policy, a sustainable development good practices guide for tenants, benchmarking of the real estate portfolio's energy performance, a partnership with a social reintegration organization for parking lot clean-up, development of Sentinelle client service and preventive maintenance software, and environmental risk management.

As mentioned above, BTB Real Estate Investment Trust contributes to sustainable development and is committed to mobilizing employees, tenants and suppliers to make it a reality. The Trust believes that its commitment to reduce its environmental footprint should be reflected not only across property operation, maintenance and management, but in everything it does. Accordingly, since September 2015, 26 properties in BTB's portfolio have received various levels of BOMA BEST certification, including Gold (2), Silver (3), Bronze (5) and Certified (16). This prestigious certification recognizing BTB's excellence in environmental property management was awarded by the Association des propriétaires et administrateurs d'immeubles - BOMA Québec, a leader in the real estate industry since 1927.

In future, BTB plans to continue improving the environmental footprint of its properties. Major projects, such as the Halles St-Jean energy efficiency project in St-Jean-sur-Richelieu, are in the works to optimize overall equipment performance and upgrade buildings. BTB also expects to keep its BOMA BEST certifications and achieve the highest level of performance for certain properties.

## INCOME TAXES

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. The trustees intend to distribute or allocate all of the taxable income to its unitholders and to deduct these distributions for income tax purposes.

A special tax regime applies to trusts that are considered specified investment flow-through (SIFT) entities as well as those individuals who invest in SIFT entities. Under this regime, SIFT entities must generally pay taxes on their income at rates that are close to those of companies. In short, a SIFT entity is an entity (including a trust) that resides in Canada, whose investments are listed on a stock exchange or other public market and that holds one or more non-portfolio properties.

However, for a given taxation year, BTB is not considered a SIFT entity and is therefore not subject to SIFT rules if, during that year, it constitutes a real estate investment trust (REIT).

Generally, to qualify as a REIT, a trust must be resident in Canada and meet the following conditions all year long: (i) the total fair market value of all the "non-portfolio properties" that are "qualified REIT properties" held by the trust is at least 90% of the total fair market value at that time of all the "non-portfolio assets" held by the trust (ii) not less than 90% of its "gross REIT revenue" for the taxation year is from one or more of the following sources: rent from "real or immovable properties," interest, disposals of "real or immovable properties" that are capital properties, dividends, royalties and disposals of "eligible resale properties" (iii) not less than 75% of its "gross REIT revenue" for the taxation year comes from one or more of the following sources: rent from "real or immovable properties," interest from mortgages on "real or immovable properties," and disposals of "real or immovable properties" that are capital properties (iv) at each time in the taxation year, an amount that is equal to 75% or more of the equity value of the trust at that time, is the amount that is the total fair market value of all properties held by the trust, each of which is "real or immovable property" which is a capital property, an "eligible resale property," an indebtedness of a Canadian corporation represented by a banker's acceptance, cash or, generally, an amount receivable from the Government of Canada or from certain other public agencies; and (v) the investments that are made therein are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

As at September 30, 2018, BTB met all of these conditions and qualified as a REIT. As a result, the SIFT trust tax rules do not apply to BTB. BTB's management intends to take the necessary steps to meet the conditions for the REIT Exception on an ongoing basis in the future.

Nonetheless, there is no guarantee that BTB will continue to meet all the required conditions to be eligible for the REIT exception for 2018 or any other subsequent year.

## TAXATION OF UNITHOLDERS

For Canadian unitholders, distributions are qualified as follows for taxation purposes:

| Periods ended September 30 | **2018** | 2017 |
|---|---|---|
| | ***%*** | *%* |
| Taxable as other income | **–** | – |
| Tax deferred | ***100*** | *100* |
| **Total** | ***100*** | *100* |

## ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates are based on historical experience and other assumptions that are considered reasonable under given circumstances. The result of the continual review of these estimates is the basis for exercising judgment on the carrying amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from these estimates. Critical judgments made by BTB in applying significant accounting policies, the most significant of which is the fair value of investment properties, are described in Note 2 to the consolidated financial statements.

The Trust used the income approach to determine fair value. Fair value is estimated by capitalizing the cash flow that a property can reasonably be expected to produce over its remaining economic life. The income approach is based on two methods: the overall capitalization rate method, whereby net operating income is capitalized at the requisite overall capitalization rate, or the discounted cash flow method, whereby cash flows are projected over the expected term of the investment plus a terminal value discounted using an appropriate discount rate.

## NEW ACCOUNTING POLICIES

### (a) New accounting policy

#### (i) Class B LP units

The Class B LP units issued by one of the Trust's limited partnerships under control, are classified as "financial liabilities", as they are exchangeable into Units of the Trust on a one-for-one basis at any time at the option of the holder. Class B LP units are measured at fair value and presented as part of the liabilities in the statement of financial position, with changes in fair value recorded in the statement of comprehensive income. The fair value of the Class B LP units is determined with reference to the market price of the Units on the date of measurement. Distributions on Class B LP units are recognized in the statement of comprehensive income when declared.

### (b) Change in accounting policy

On January 1, 2018, the Trust implemented IFRS 9, Financial Instruments ("IFRS 9"), IFRS 15, Revenue from Contracts with Customers ("IFRS 15") and amendment to IAS 40, Investment Property ("IAS 40"). The impacts on implementation of IFRS 9, IFRS 15 and IAS 40 are described below.

#### (i) 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, including impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

*Classification and Measurement*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: amortized costs or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

| Asset/Liability | Classification under IAS 39 | Classification under IFRS 9 |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Restricted cash | Loans and receivables | Amortized cost |
| Receivables | Loans and receivables | Amortized cost |
| Deposits | Loans and receivables | Amortized cost |
| Mortgage loans payable | Other financial liabilities | Amortized cost |
| Convertible debentures | Other financial liabilities | Amortized cost |
| Bank loans | Other financial liabilities | Amortized cost |
| Trade and other payables | Other financial liabilities | Amortized cost |
| Distribution payable to unitholders | Other financial liabilities | Amortized cost |
| Derivative financial instruments | Fair value through profit and loss | Fair value through profit and loss |

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

*Impairment*

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at FVOCI, except for investments in equity instruments.

The Trust adopted the practical expedient to determine ECL on receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL model applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a material impact on receivables of the Trust.

Impairment losses, if incurred, would be recorded in the Trust administration expenses in the consolidated statement of comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statement of comprehensive income. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

**(ii) 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 adoption of the new standard did not have a material impact on the financial statements except for the presentation on a gross basis of property tax recoveries and property tax expenses related to certain single tenants who paid property taxes directly on behalf of the Trust. For the three and six month period ended September 30, 2018, the presentation on a gross basis instead of on a net basis results in an additional amount of $752 and $2,256 respectively (for the three months and period ended September 30, 2017 - $680 and $2,043 respectively) in property tax recoveries presented as revenues, offset by an increase in property tax expenses of the same amount thereby generating no incremental net operating income. The Trust's most material revenue stream is base rental revenue, which is outside the scope of IFRS 15. The recovery of costs related to the provision of services is considered within the scope of IFRS 15 and the Trust has concluded that the pattern of revenue recognition remains unchanged. IFRS 15 required the Trust to disclose revenue recognized from contracts with customers separately from other sources of revenue, including those included within gross leases (see additional disclosing in note 16).

**(iii) IAS 40**

In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018. The Trust adopted the amendments to IAS 40 in its current financial statements. The implementation of the amendments did not have a significant impact on the financial statements.

**(c) 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 ended December 31, 2018, and have not been applied in preparing these consolidated financial statements.

**(iv) 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 is currently being assessed.

## RISKS AND UNCERTAINTIES

Numerous risks and uncertainties could cause BTB's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Risk Factors" section of BTB's 2017 Annual Information Form for the year ended December 31, 2017, which is hereby incorporated by reference. Such risks and uncertainties include:

- Access to Capital and to Debt Financing
- Interest Rate Increases
- Ownership of Immovable Property
- Competition and Rising Property Prices
- Availability of Immovable Property for Acquisition
- Development Programs
- Recruitment and Retention of Employees and Executives
- Government Regulation
- Limit on Activities Under the Trust Agreement
- Tax Regulations
- Fluctuations in Cash Distributions
- Reliance on Single or Anchor Tenants
- Potential Unitholder Liability
- Conflicts of Interest

- Market Price of Units
- Legal Rights Relating to Units
- Dilution
- Environmental Matters
- Legal Risks
- General Uninsured Losses
- Retail Industry

BTB has not identified any significant changes to the risks and uncertainties to which it is exposed in its business.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of BTB are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as those terms are defined in Canadian Securities Administrators Multilateral Instrument 52-109.

Evaluations are performed regularly to assess the effectiveness of DC&P, including this MD&A and the consolidated financial statements. Based on these evaluations, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer concluded that the DC&P were effective as at September 30, 2018, and that the current controls and procedures provide reasonable assurance that material information about BTB is made known to them during the quarter in which these filings are being prepared.

Evaluations are also performed to assess the effectiveness of ICFR. Based on those evaluations, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of BTB concluded that ICFR was effective as at September 30, 2018, and, more specifically, that the financial reporting is reliable and that the consolidated financial statements have been prepared for financial reporting purposes in accordance with IFRS.

During the third quarter of 2018, management made no changes to internal control over financial reporting that materially affected, or are likely to materially affect, internal control over financial reporting.

# APPENDIX 1 – PERFORMANCE INDICATORS

- **Net operating income of the same-property portfolio**, which provides an indication of the profitability of existing portfolio operations and BTB's ability to increase its revenues, reduce its operating costs and generate organic growth;
- **Distributable income per unit**, which enables investors to determine the stability of distributions;
- **Funds from operations (FFO) per unit**, which provide an indication of BTB's ability to generate cash flow;
- **Adjusted funds from operations (AFFO) per unit**, which takes into account other non-cash items as well as investments in rental fees and capital expenditures, and which may vary substantially from one year to the next;
- The **payout ratios,** which enable investors to assess the stability of distributions against distributable income, FFO and AFFO;
- The **debt-equity ratio**, which is used to assess BTB's financial integrity and its capacity for additional acquisitions;
- The **interest coverage ratio**, which is used to measure BTB's ability to use operating income to pay interest on its debt using its operating revenues;
- The **occupancy rate**, which provides an indication of the optimization of rental space and the potential revenue gain from the Trust's property portfolio;
- The **retention rate,** which is used to assess the Trust's ability to renew leases and retain tenants;
- The **increase in average rate of renewed leases**, which measures organic growth and the Trust's ability to increase its rental income.

# APPENDIX 2 – DEFINITIONS

### Class B LP Units

Class B LP units means the Class B LP limited partnership units of BTB LP, which are exchangeable for units, on a one for one basis.

### Rental income

Rental income includes all amounts earned from tenants related to lease agreements, including basic rent and additional rent from operating expense recoveries. It also includes other service charges for parking and storage, lease termination revenues and straight-line rent adjustments.

Some of the Trust's leases include clauses providing for the recovery of rental income based on amounts that increase every few years. These increases are negotiated when the leases are signed. Under IFRS, these increases must be recognized on a straight-line basis over the terms of the leases.

### Operating expenses

Operating expenses are expenses directly related to real estate operations and are generally charged back to tenants as provided for in the contractual terms of the leases. Operating expenses include property taxes and public utilities, costs related to indoor and outdoor maintenance, heating, ventilation and air conditioning, elevators, insurance, janitorial services and management and operating fees. The amount of operating expenses that BTB can recover from its tenants depends on the occupancy rate of the properties and the nature of the existing leases containing clauses regarding the recovery of expenses. Most of BTB's leases are net rental leases under which tenants are required to pay their share of the properties' operating expenses. BTB pays particular attention to compliance with existing leases and the recovery of these operating expenses.

### Net operating income

Net operating income is used in the real estate industry to measure operational performance. BTB defines it as rental income from properties, less the combined operating expenses of investment properties. This definition may differ from that of other issuers and accordingly, BTB's net operating income may not be comparable to the net operating income of other issuers.

### Financial expenses

Financial expenses arise from the following loans and financings:

- Mortgage loans payable contracted or assumed totalling approximately $470.3 million as at September 30, 2018, compared to $386.3 million as at September 30, 2017.
- Series E and F convertible debentures for a total par value of $49.7 million.
- Operating and acquisition lines of credit used as needed.
- Financing costs on mortgages, convertible debentures and other loans netted against the related debt and amortized on an effective interest basis over the expected life of the debt.

### Administration expenses

Trust administration expenses include administrative costs such as payroll expenses and professional fees associated with executive and administrative staff, the compensation plan for trustees, legal and auditing services, expenses related to listed fund status, insurance costs, office expenses and bad debts and related legal fees. Trust administration expenses include amortization of the head office building and property and equipment, as well as unit-based compensation, a non-monetary item that affects the volatility of administrative expenses from quarter to quarter.

### Fair value adjustment on investment properties

Under IAS 40, the Trust accounts for its investment properties at fair value and recognizes the gain or loss arising from a change in the fair value in profit or loss for the quarters in which it arises.

The fair value of investment properties is determined using the discounted cash flow method, the capitalized net operating income method or the comparable method, which are generally accepted valuation methods.

Management receives quarterly capitalization rate and discount rate data from external chartered valuators and independent experts. The capitalization rate reports provide a range of rates for various geographic regions and for various types and qualities of properties within each region. The Trust utilizes capitalization and discount rates within ranges provided by external valuators. To the extent that the externally-provided capitalization rate ranges change from one reporting quarter to the next, or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

### Same-property portfolio

The same-property portfolio includes all the properties owned by BTB as at January 1, 2017 and still owned as at September 30, 2018, but does not include the financial impacts from disposals, acquisitions and developments completed in 2017 and 2018, as well as the results of subsequently sold properties.

### Net property income from the same-property portfolio

Net property income from the same-property portfolio provides an indication of the profitability of existing portfolio operations and BTB's ability to increase its revenues and reduce its costs. It is defined as rental income from properties from the same-property portfolio, less operating expenses and interest on mortgage financing of the same portfolio.

### Distributable income

The notion of "distributable income" does not constitute financial information as defined by IFRS. It is, however, a measurement that is frequently used by investors in real estate trusts. In our opinion, distributable income is an effective tool for assessing the Trust's performance. We define distributable income as net income determined under IFRS, before fair value adjustments of investment properties and derivative financial instruments, accretion of the liability component of convertible debentures, rental income arising from the recognition of leases on a straight-line basis, the amortization of lease incentives, the accretion of effective interest and certain other non-cash items.

### Funds from operations (FFO)

The notion of funds from operations ("FFO") does not constitute financial and accounting information as defined by IFRS. It is, however, a measurement that is frequently used by real estate companies and real estate investment trusts. The following is a list of some of the adjustments to net income, calculated according to IFRS:

- Fair value adjustment on investment properties;
- Amortization of properties that continue to be recognized at acquisition cost (Trust's head office);
- Amortization of lease incentives;
- Fair value adjustment on derivative financial instruments;
- Leasing payroll expenses (starting in 2016).

Our calculation method is consistent with the method recommended by REALpac, but may differ from measures used by other real estate investment trusts. Consequently, this method may not be comparable to methods used by other issuers.

### Adjusted funds from operations (AFFO)

The notion of adjusted funds from operations ("AFFO") is widely used by real estate companies and real estate investment trusts. It is an additional measure to assess the Trust's performance and its ability to maintain and increase distributions in the long term. However, AFFO is not a financial or accounting measure prescribed by IFRS. The method of computing may differ from those used by other companies or real estate investment trusts and may not be used for comparison purposes.

BTB defines AFFO as its FFO, adjusted to take into account other non-cash items that impact comprehensive income and do not enter into the calculation of FFO, including:

- Straight-line rental income adjustment;
- Accretion of effective interest following amortization of financing expenses;
- Accretion of the liability component of convertible debentures;
- Amortization of other property and equipment;
- Unit-based compensation expenses.

Furthermore, the Trust deducts a provision for non-recoverable maintenance expenditures in calculating AFFO. The Trust allocates significant amounts to the regular maintenance of its properties in an attempt to reduce capital expenses as much as possible. The allocation for non-recoverable maintenance expenditures is calculated on the basis of 2% of rental revenues.

The Trust also deducts a provision for rental fees in the amount of approximately 25¢ per square foot on an annualized basis. Even though quarterly rental fee disbursements vary significantly from one quarter to another, management considers that this provision fairly presents, in the long term, the average disbursements not recovered directly in establishing the rent that the Trust will undertake. These disbursements consist of inducements paid or granted when leases are signed that are generally amortized over the term of the lease and are subject to an equivalent increase in rent per square foot, and of brokerage commissions and leasing payroll expenses.

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