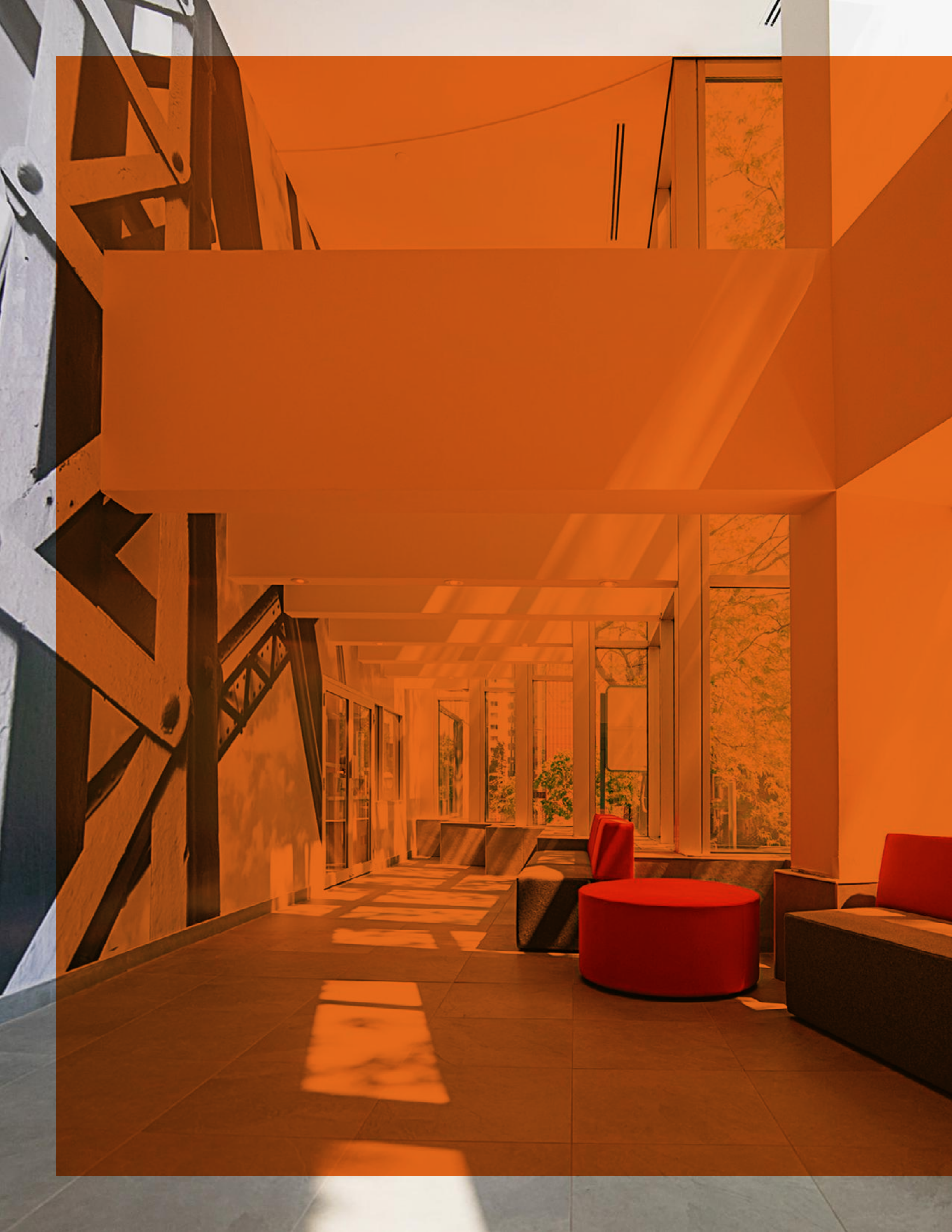
# Our tenants, clients above all

BTB

Interim Management
Discussion and Analysis
Quarter Ended September 30th, 2019



# Interim Management Discussion and Analysis

Quarter Ended September 30, 2019

## Table of Contents

# 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, 2019 compared to the same quarter of 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 interim MD&A dated November 8, 2019 should be read together with the unaudited condensed consolidated interim financial statements and accompanying notes for the quarter ended September 30, 2019. 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, 2019 and 2018. Additional information about the Trust, including the 2018 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 reviewed the contents of this interim Management Discussion and Analysis and the quarterly financial statements and the Trust's Board of Trustees have approved them.

# 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 2019. The FFO calculations for the cumulative period and prior periods 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.

# 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 as of September 30, 2019, it owns 66 retail, office and industrial properties located in primary and secondary markets. BTB is an important property owner in the province of Québec and in eastern Ontario. The units and Series E (delisted on November 1st, 2019), F and G convertible debentures are traded on the Toronto Stock Exchange under the symbols "BTB.UN", "BTB.DB.E", "BTB.DB.F" and "BTB.DB.G", respectively.

Most of the Trust's properties are internally managed, where 63 of the Trust's 66 properties held as at September 30, 2019 are entirely managed by the Trust's employees. Management's objective is, when favourable circumstances prevail, to internally manage the Trust's remaining properties, 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, 2019(1)** | 66 | 5,650,130 | 886,648 |

(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 return 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 tenant quality, superior locations, low potential lease turnover 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 of its 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 Third Quarter Ended September 30, 2019

- 3.8% increase in rental income;
- 23.7% increase in adjusted net income;
- Increase of 13.0% in recurring distributable[(1)] income, 11.7% in recurring FFO[(1)] and 13.3% in recurring AFFO[(1)];
- Improvement of payout ratio on recurring distributable income to 96.8% and recurring FFO payout ratio to 97.2%;
- Increase in occupancy rate to 93.6%;
- Increase in the average rate of renewed leases of 5.3% for the quarter and 6.4% after nine months;
- Tenant retention rate of 75.3% after nine months.

(1) Non-IFRS financial measures.

### Sale of properties

- On August 14, 2019, the Trust disposed of the property located at 3885 Harvey Boulevard in Saguenay, Québec, for $4.4 million.

### Subsequent transaction

- Closing of an issuance of Series G convertible debentures for total proceeds of $24 million at an interest rate of 6.00%. The net proceeds were mainly used to redeem the Series E convertible debentures in the amount of $23 million, bearing an interest rate of 6.90%, taking effect on November 1, 2019.

### Summary of significant items as at September 30, 2019

- 66 properties
- Approximately 5.7 million square feet of leasable area
- Total asset value: $905 million
- Market capitalization: $295 million

# Selected Financial Information

The following table presents highlights and selected financial information for the periods ended September 30, 2019 and 2018:

| Periods ended September 30,<br>(in thousands of dollars, except for ratios and per unit data) | | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| | **Reference (page)** | **$** | $ | **$** | $ |
| **Financial information** | | | | | |
| Rental income | 24 | **23,973** | 23,098 | **68,044** | 65,341 |
| Net operating income[1] | 24 | **13,476** | 13,330 | **36,723** | 36,013 |
| Net income and comprehensive income | 27 | **5,632** | 5,793 | **10,329** | 16,941 |
| Adjusted net income | 27 | **5,813** | 4,700 | **14,073** | 15,105 |
| Net property income from the same-property portfolio[1] | 28 | **6,928** | 5,946 | **18,981** | 17,963 |
| Recurring distributable income[1] | 28 | **6,780** | 6,001 | **17,597** | 17,208 |
| Distributions | 29 | **6,563** | 5,843 | **18,557** | 16,295 |
| Recurring funds from operations (FFO)[1] | 30 | **6,747** | 6,043 | **16,869** | 17,058 |
| Recurring adjusted funds from operations (AFFO)[1] | 31 | **6,087** | 5,373 | **15,582** | 15,537 |
| Cash flows from operating activities | 33 | **9,875** | 12, 540 | **29,988** | 29,104 |
| Total assets | 35 | | | **905,376** | 833,916 |
| Investment properties | 36 | | | **886,648** | 819,375 |
| Mortgage debt | 38 | | | **494,785** | 468,328 |
| Convertible debentures | 40 | | | **49,145** | 48,579 |
| Mortgage debt ratio | 40 | | | ***55.0%*** | *56.3%* |
| Debt-equity ratio – convertible debentures | 40 | | | ***5.5%*** | *6.0%* |
| Debt-equity ratio – acquisition line of credit | 40 | | | ***1.1%*** | *1.8%* |
| Total debt ratio | 40 | | | ***61.4%*** | *63.8%* |
| Weighted average interest rate on mortgage debt | 38 | | | ***3.92%*** | *3.89%* |
| Unitholders' equity | 42 | | | **320,110** | 279,097 |
| Market capitalization | | | | **294,671** | 265,329 |
| **Financial information per unit** | | | | | |
| Units outstanding (000) | 42 | | | **62,036** | 55,162 |
| Class B LP units outstanding (000) | 41 | | | **532** | 532 |
| Weighted average number of units outstanding (000) | 42 | **61,944** | 55,089 | **58,073** | 51,070 |
| Weighted average number of units and Class B LP units outstanding (000) | 42 | **62,476** | 55,621 | **58,605** | 51,311 |
| Net income and comprehensive income | 27 | **9.0¢** | 10.4¢ | **17.6¢** | 33.0¢ |
| Adjusted net income | 27 | **9.3¢** | 8.5¢ | **24.0¢** | 28.8¢ |
| Recurring distributable income[1] | 28 | **10.9¢** | 10.8¢ | **30.0¢** | 32.8¢ |
| Distributions | 29 | **10.5¢** | 10.5¢ | **31.5¢** | 31.5¢ |
| Payout ratio on recurring distributable income[1] | 29 | ***96.8%*** | *97.3%* | ***104.9%*** | *96.0%* |
| Recurring FFO[1] | 30 | **10.8¢** | 10.9¢ | **28.8¢** | 32.5¢ |
| Payout ratio on recurring FFO[1] | 30 | ***97.2%*** | *96.6%* | ***109.4%*** | *96.8%* |
| Recurring AFFO[1] | 31 | **9.7¢** | 9.7¢ | **26.6¢** | 29.6¢ |
| Payout ratio on recurring AFFO[1] | 31 | ***107.8%*** | *108.7%* | ***118.5%*** | *106.4%* |
| Unitholders' equity | 42 | | | **5.16** | 5.06 |
| Market price | | | | **4.75** | 4.81 |
| **Tax on distributions** | | | | | |
| Revenue | 45 | | *0.0%* | ***0.0%*** | *0.0%* |
| Tax deferral | 45 | | *100%* | ***100%*** | *100%* |
| **Operational information** | | | | | |
| Number of properties | 20 | | | **66** | 71 |
| Leasable area (thousands of sq. ft.) | 20 | | | **5,650** | 5,510 |
| Occupancy rate | 21 | | | ***93.6%*** | *89.7%* |
| Retention rate | 20 | | | ***75.3%*** | *49.6%* |
| Increase in average lease renewal rate | 20 | ***5.3%*** | *4.4%* | ***6.4%*** | *2.4%* |

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

# Summary of the Third Quarter 2019

### Occupancy rate

In the third quarter of 2019, the committed occupancy rate increased by 3.9%, from 89.7% as at September 30, 2018 to 93.6% as at September 30, 2019. This ratio includes firm lease agreements committed as of the end of the quarter and these agreements may not yet generate revenues. More than 78,000 square feet were leased for occupancy scheduled over the next few months and will shortly generate additional income. Lastly, since the beginning of the year, more than 75% of leases expiring in 2019 were renewed.

### Debt ratio

The mortgage debt ratio declined from 56.3% to 55.0% since December 31, 2018, without recording an increase in the fair market value of our real estate portfolio. As we concluded the sale of properties during 2018 and early 2019, we repaid mortgages on existing properties and therefore financial leverage of several million dollars is available to potentially redeploy this capital to purchase accretive properties and generate additional revenue to improve our performance indicators.

### Payout ratio

As expected, the recurring distributable income and recurring FFO payout ratios were below 100%. After three consecutive quarters with ratios higher than 100%, the cause of this difficult situation has now mostly been resolved.

### Same-property portfolio

Mostly due to an increase in the occupancy rate from 91.0% in December 2018 to 93.6% as at September 30, 2019, the same-property portfolio rose significantly over the last two quarters, resulting in an increase of 10.1% of the NOI in the third quarter of 2019 and 3.3% for the cumulative nine-month period.

# 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) | 2019 Q-3 | 2019 Q-2 | 2019 Q-1 | 2018 Q-4 | 2018 Q-3 | 2018 Q-2 | 2018 Q-1 | 2017 Q-4 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Rental income | **23,973** | 22,347 | 21,634 | 22,082 | 23,098[3] | 20,803 | 21,440 | 20,413 |
| Net operating income[1] | **13,476** | 12,196 | 11,051 | 11,624 | 13,330[3] | 11,225 | 11,458 | 10,460 |
| Net income and comprehensive income | **5,632** | 3,316 | 1,381 | 24,396 | 5,793 | 4,593 | 6,555 | 15,498 |
| Net income and comprehensive income per unit | **9.0¢** | 5.8¢ | 2.5¢ | 43.7¢ | 10.4¢ | 9.3¢ | 13.5¢ | 33.0¢ |
| Adjusted net income | **5,813** | 4,030 | 3,036 | 3,318 | 4,700 | 4,316 | 6,007 | 4,052 |
| Adjusted net income per unit | **9.3¢** | 7.0¢ | 5.4¢ | 5.9¢ | 8.5¢ | 8.8¢ | 12.4¢ | 8.6¢ |
| Cash from operating activities | **9,875** | 11,897 | 8,216 | 15,695 | 12,540 | 7,804 | 8,767 | 14,122 |
| Recurring distributable income[1] | **6,780** | 5,550 | 5,268 | 5,212 | 6,001 | 5,521 | 5,686 | 4,916 |
| Recurring distributable income per unit[1] | **10.9¢** | 9.7¢ | 9.4¢ | 9.3¢ | 10.8¢ | 11.1¢ | 11.7¢ | 10.5¢ |
| Recurring funds from operations (FFO)[1] | **6,747** | 5,443 | 4,679 | 5,063 | 6,043 | 5,279 | 5,736 | 4,865 |
| Recurring FFO per unit[1] | **10.8¢** | 9.5¢ | 8.4¢ | 9.1¢ | 10.9¢ | 10.6¢ | 11.8¢ | 10.3¢ |
| Recurring adjusted funds from operations (AFFO)[1] | **6,087** | 4,881 | 4,614 | 4,576 | 5,373 | 4,936 | 5,222 | 4,370 |
| Recurring AFFO per unit[1] | **9.7¢** | 8.5¢ | 8.2¢ | 8.2¢ | 9.7¢ | 9.8¢ | 10.8¢ | 9.3¢ |
| Distributions [2] | **6,563** | 6,113 | 5,881 | 5,859 | 5,843 | 5,353 | 5,099 | 5,079 |
| 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) Includes distributions on Class B LP units.
(3) Includes a lease cancellation penalty of $1,477.

# Performance Indicators

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

The Trust adopted IFRS 16, *Leases*, during the first quarter of 2019. Comparative balances have not been restated; however, the Trust considers the impact on its performance indicators to be minimal.

# Real Estate Portfolio

BTB owns 66 quality properties which have a fair market value of $887 million, generating approximately $92 million in annual income and representing a total leasable area of approximately 5.7 million square feet. A concise description of the properties owned as at December 31, 2018, can be found in the Trust's Annual Information Form available at www.sedar.com.

### Summary of investment properties as at September 30, 2019

| Operating segment | Number of properties | Leasable area (sq. ft.) | Committed occupancy rate (%) |
|---|---|---|---|
| Office | 28 | 2,118,025 | *88.4* |
| Retail | 12 | 1,409,564 | *98.0* |
| Industrial | 18 | 1,482,282 | *97.1* |
| Mixed use | 7 | 564,919 | *93.1* |
| Subtotal | 65 | 5,574,790 | ***93.6*** |
| Properties under redevelopment | 1 | 75,340 | |
| **Total** | **66** | **5,650,130** | |

### Sale of investment properties

Following a strategic review 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 used to repay lines of credit and possibly to acquire accretive properties in line with its investment criteria.

During the quarter ended September 30, 2019, the Trust disposed of the property located at 3885 Harvey Boulevard in Saguenay, Québec, for $4.4 million.

# Real Estate Operations

### Leasing activities

The following table summarizes changes in available leasable area during the periods ended September 30, 2019 and 2018.

| Periods ended September 30 (in square feet) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Available leasable area at beginning of period** | **391,837** | 517,775 | **479,420** | 453,360 |
| Available leasable area purchased (sold) | **(15,145)** | 13,518 | **(37,204)** | 20,332 |
| Area under redevelopment | **—** | (132,665) | **—** | (132,665) |
| Leasable area of expired leases | **69,705** | 101,097 | **363,974** | 445,751 |
| Leasable area of leases terminated before term | **53,045** | 213,670 | **150,038** | 343,200 |
| Leasable area of renewed leases | **(39,635)** | (86,753) | **(369,493)** | (322,685) |
| Leasable area of new leases signed | **(104,499)** | (78,624) | **(229,792)** | (251,205) |
| Other | **(241)** | 166 | **(1,876)** | (7,904) |
| **Available leasable area at end of period** | **355,067** | 548,184 | **355,067** | 548,184 |

### Retention rate

During the year, more than 369,000 square feet of leases were renewed, including 95,000 before term, for expiration in 2020 or later. More than 274,000 square feet expiring in 2019 were renewed, for a retention rate of 75.3% (2018: 49.6%).

The average rental rate of expired and renewed leases (39,635 square feet) increased by 5.3% during the third quarter (2018: 4.4% increase). For the cumulative nine-month period, the average rate increased by 6.4% (2018: 2.4%).

The following table shows a breakdown of the average rate of increase by operating segment:

| Operating segment | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | Square feet | % | Square feet | % |
| Office | 22,696 | 1.5 | 281,378 | 6.3 |
| Retail | 10,432 | 12.0 | 64,521 | 6.6 |
| Industrial | 5,072 | 22.3 | 5,072 | 22.3 |
| Mixed use | 1,435 | 3.1 | 18,522 | 1.8 |
| **Total** | **39,635** | **5.3** | **369,493** | **6.4** |

## Occupancy rates

The following tables provide committed occupancy rates by operating segment and geographic sector, including firm lease agreements signed as at the date of this report.

| | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| **Operating segment** | | | | | |
| Office | **88.4** | 88.0 | 85.5 | 85.4 | 84.4 |
| Retail | **98.0** | 98.2 | 97.9 | 96.6 | 96.1 |
| Industrial | **97.1** | 95.6 | 95.6 | 93.6 | 89.7 |
| Mixed use | **93.1** | 93.2 | 92.1 | 93.1 | 92.6 |
| **Total portfolio** | **93.6** | 93.1 | 91.7 | 91.0 | 89.7 |

| | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| **Geographic sector** | | | | | |
| Laval and North Shore | **98.4** | 98.1 | 96.1 | 95.9 | 98.6 |
| Island of Montréal | **89.3** | 90.5 | 90.1 | 90.1 | 89.4 |
| Montréal South Shore | **95.6** | 95.9 | 95.0 | 93.7 | 94.2 |
| Quebec City and surrounding area | **90.3** | 90.9 | 89.5 | 89.9 | 89.1 |
| Ottawa and surrounding area | **96.8** | 91.1 | 90.2 | 86.9 | 81.1 |
| Sherbrooke and surrounding area | **50.1** | 50.1 | 50.1 | 50.1 | 85.9 |
| Central Ontario | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| | **93.6** | 93.1 | 91.7 | 91.0 | 89.7 |

| | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| **By province** | | | | | |
| Québec | **92.8** | 93.3 | 91.8 | 91.7 | 91.3 |
| Ontario | **97.2** | 92.2 | 91.4 | 88.5 | 83.3 |
| **Total portfolio** | **93.6** | 93.1 | 91.7 | 91.0 | 89.7 |

The overall occupancy rate increased by 0.5% since June 30, 2019 and by 3.9% since September 30, 2018. It stood at 93.6% at the end of the third quarter of 2019.

The following table shows the in-place occupancy rate compared to the committed occupancy rate by operating segment as at September 30, 2019.

| | Occupancy rate (%) | | Square feet |
|---|---|---|---|
| Operating segment | In-place | Committed | Committed |
| Office | **85.1** | 88.4 | 69,900 |
| Retail | **97.8** | 98.0 | 2,800 |
| Industrial | **97.1** | 97.1 | — |
| Mixed use | **92.5** | 93.1 | 3,400 |
| | **92.2** | 93.6 | 76,100 |

The in-place occupancy rate as at September 30, 2019, without taking into account firm committed lease agreements, was 92.2% (2018: 89.1%), a 3.1% increase representing approximately 175,000 square feet that have been rented in the last year and now generate rental income. Vacant space totalling approximately 78,000 square feet as at September 30, 2019 is subject to firm lease agreements and will generate additional income in the next few quarters.

Here are some of firm lease agreements that will soon take effect.

| Properties | Square feet | Tenants | Expected occupancy date |
|---|---|---|---|
| Brewer Hunt Way, Ottawa, Ontario | 32,000 | Satcom | March 2020 |
| Complexe Lebourgneuf Phase I, Quebec City, Québec | 13,900 | SFL | November 2019 |
| Complexe Lebourgneuf Phase I, Quebec City, Québec | 8,300 | Facturation.net | December 2019 |

The Trust learned of the bankruptcy of Ashley Furniture, a tenant in its FX Sabourin retail property located on the south shore of Montréal, Québec. This tenant occupied a leasable area of approximately 34,000 square feet, for approximately $125 of quarterly income. The space was vacated on November 1, 2019.

### Lease maturities

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

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Office** | | | | | |
| Leasable area (sq. ft.) | 48,168 | 285,052 | 237,319 | 254,731 | 250,738 |
| Average lease rate/square foot ($) | $10.99 | $14.13 | $12.90 | $18.27 | $14.44 |
| % of office portfolio | *2.2%* | *13.5%* | *11.2%* | *12.0%* | *11.8%* |
| **Retail** | | | | | |
| Leasable area (sq. ft.) | 186,086 | 63,249 | 96,139 | 290,319 | 147,815 |
| Average lease rate/square foot ($) | $12.13 | $11.80 | $15.17 | $15.39 | $10.39 |
| % of office portfolio | *12.7%* | *4.5%* | *6.8%* | *20.6%* | *10.5%* |
| **Industriel** | | | | | |
| Leasable area (sq. ft.) | 52,840 | 233,633 | 408,866 | 251,122 | 45,483 |
| Average lease rate/square foot ($) | $4.62 | $5.13 | $6.96 | $4.97 | $4.24 |
| % of office portfolio | *3.6%* | *15.8%* | *27.6%* | *16.9%* | *3.1%* |
| **Mixed use** | | | | | |
| Leasable area (sq. ft.) | 37,287 | 110,106 | 124,466 | 110,833 | 50,116 |
| Average lease rate/square foot ($) | $14.41 | $13.36 | $12.73 | $15.25 | $12.99 |
| % of office portfolio | *6.6%* | *19.5%* | *22.0%* | *19.6%* | *8.9%* |
| **Total portfolio** | | | | | |
| **Leasable area (sq. ft.)** | **324,381** | **692,040** | **866,790** | **907,005** | **494,152** |
| **Average lease rate/square foot ($)** | **$11.00** | **$10.76** | **$10.33** | **$13.30** | **$12.14** |
| **% of office portfolio** | ***5.8%*** | ***12.4%*** | ***15.6%*** | ***16.3%*** | ***8.9%*** |

### Top 10 tenants

As at September 30, 2019, BTB managed more than 625 leases, with an average leasable area of approximately 9,000 square feet. The three largest tenants of the Trust are Public Works Canada, West Safety Services Canada and Wal-Mart Canada Inc., representing respectively 5.4%, 2.1% and 2.0% of revenues, generated by a number of leases whose maturities are spread over time. More than 28% 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, 2019. This contribution accounts for 19.1% of annual rental income and 20.0% of leased area.

| Client | % of revenue | % of leased area | Leased area (square feet) |
|---|---|---|---|
| Public Works Canada | 5.4 | 3.6 | 201,520 |
| West Safety Canada Inc. | 2.1 | 1.1 | 61,845 |
| Wal-Mart Canada inc. | 2.0 | 4.7 | 264,550 |
| Atis Portes et Fenêtres Corp. | 1.6 | 4.5 | 251,878 |
| Strongco | 1.4 | 1.4 | 81,442 |
| Propriétés Shoppers Inc. | 1.4 | 0.8 | 47,551 |
| Sail Plein Air | 1.3 | 0.8 | 45,496 |
| Provigo Distribution Inc. (Loblaws) | 1.3 | 0.6 | 34,446 |
| CISSS Montérégie-Centre | 1.3 | 1.2 | 70,242 |
| Société québécoise des infrastructures (SQI) | 1.3 | 1.3 | 76,003 |
| | **19.1** | **20.0** | 1,134,973 |

# Operating Results

The following table summarizes financial results for the periods ended September 30, 2019 and 2018. The table should be read in conjunction with our consolidated financial statements and the notes thereto.

| Periods ended September 30 (in thousands of dollars) | | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| | **Reference (page)** | **$** | $ | **$** | $ |
| Rental income | 24 | **23,973** | 23,098 | **68,044** | 65,341 |
| Operating expenses | 24 | **10,497** | 9,768 | **31,321** | 29,328 |
| Net operating income(1) | 24 | **13,476** | 13,330 | **36,723** | 36,013 |
| Net financial expenses | 25 | **6,331** | 5,046 | **21,070** | 15,344 |
| Administration expenses | 26 | **1,400** | 1,191 | **4,317** | 3,684 |
| Transaction costs | 30 | **63** | 524 | **980** | 865 |
| Gain on disposal of property and equipment | | **—** | — | **—** | (1,185) |
| Gain on write-off of debt | | **—** | — | **—** | (133) |
| Fair value adjustment on investment properties | 26 | **50** | 776 | **27** | 497 |
| **Net income and comprehensive income** | 27 | **5,632** | 5,793 | **10,329** | 16,941 |

(1) Non-IFRS financial measure.

### Significant event – comparative period

In August 2018, the Trust agreed to cancel a lease with the company Shire, receiving a penalty of $1,477. In accordance with IFRS accounting principles, the full amount was recognized as rental income during the third quarter of 2018. This non-recurring income increased net income and comprehensive income, distributable income, FFO and AFFO for the third quarter of 2018 by approximately 2.6¢ per unit outstanding as at September 30, 2018.

## Rental income

Between October 2018 and September 2019, the Trust acquired five properties. During the quarter, approximately $3.1 million in additional rental income was generated from these recent acquisitions. During the same period, the Trust disposed of 11 properties causing an estimated shortfall of $2.1 million for the quarter. The net effect on rental income of the recent transactions contributed to a net increase of rental income of approximately $1.0 million.

Rental income for the quarter increased by $875 or 3.8%, including the net effect of the transactions concluded in the last four quarters. Excluding non-recurring income of the $1,477 regarding the lease cancellation penalty recorded in the third quarter of 2018, rental income would have been up $2,352 or 10.9% for the quarter, and $2,187 or 6.3% for the cumulative period.

In the third quarter of 2019, adjustments to rent receivable of $271 (2018: $249) were recorded on a straight-line basis. For the nine-month period, these adjustments totalled $234 (2018: $432).

BTB also recorded an amortization expense for lease incentives granted to tenants of $746 (2018: $1,158) as a reduction of rental income. For the nine-month period, the lease incentive adjustments totalled $2,247 (2018: $2,615).

## Operating expenses

BTB recorded an increase in operating expenses of $729, or 7.5%, between the third quarter of 2019 and the third quarter of 2018. The increase resulted mainly from the net effect of acquisitions on dispositions completed in recent quarters.

The following table shows the breakdown of operating expenses for the periods ended September 30, 2019 and 2018.

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Operating expenses | | | | |
| Maintenance, repairs and other operating costs | **3,503** | 3,151 | **10,456** | 9,554 |
| Property taxes, public utilities and insurance | **6,994** | 6,617 | **20,865** | 19,774 |
| **Total operating expenses** | **10,497** | 9,768 | **31,321** | 29,328 |
| ***% of rental income*** | ***43.8*** | *42.3* | ***46.0*** | *44.9* |

As a percentage of rental income, operating expenses in the third quarter of 2019 increased by 1.5% to 43.8%, compared to 42.3% for the same quarter of 2018, and by 1.1% to 46.0% for the cumulative period.

## Net operating income

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Net operating income[1] | **13,476** | 13,330 | **36,723** | 36,013 |
| ***% of rental income*** | ***56.2*** | *57.7* | ***54.0*** | *55.1* |

(1) Non-IFRS financial measure.

Acquisitions completed by the Trust during the last four quarters contributed to an increase in net operating income of approximately $1.9 million, while the Trust estimates the shortfall resulting from dispositions completed during the same period at $1.3 million. The net effect of these transactions on net operating income was approximately $0.6 million. Total net operating income increased by $146 or 1.1% between the third quarter of 2018 and the same quarter of 2019. Excluding non-recurring income from the $1,477 lease cancellation penalty recorded in the third quarter of 2018, net operating income would have increased by $1,623 or 13.7% for the quarter.

## Financial expenses

The following table shows the breakdown of financial expenses for the periods ended September 30, 2019 and 2018:

| Periods ended September 30<br>(in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Interest on mortgage loans payable | **4,867** | 4,585 | **14,013** | 12,862 |
| Interest on convertible debentures | **874** | 874 | **2,622** | 2,622 |
| Interest on bank loans | **193** | 162 | **719** | 622 |
| Other interest expenses | **105** | 36 | **339** | 130 |
| Interest income | **(112)** | (19) | **(355)** | (62) |
| **Net interest expenses** | **5,927** | 5,638 | **17,338** | 16,174 |
| Distributions on Class B LP units | **56** | 56 | **168** | 75 |
| **Financial expenses before non-monetary items** | **5,983** | 5,694 | **17,506** | 16,249 |
| Accretion of effective interest on mortgage loans payable, convertible debentures and bank loans | **267** | 256 | **788** | 780 |
| Accretion of non-derivative liability component of convertible debentures | **13** | 12 | **39** | 36 |
| **Net financial expenses before following items:** | **6,263** | 5,962 | **18,333** | 17,065 |
| Net fair value adjustment on derivative financial instruments | **52** | (985) | **2,524** | (1,790) |
| Fair value adjustment on Class B LP units | **16** | 69 | **213** | 69 |
| **Net financial expenses** | **6,331** | 5,046 | **21,070** | 15,344 |

Net interest expenses increased by $289 during the third quarter of 2019 compared to the same period of 2018 and by $1,164 for the cumulative period, due to the net effect of financing of acquisitions and dispositions in recent quarters, as well as higher interest rates on mortgage refinancings completed during recent quarters. In addition to net interest expenses, distributions on Class B LP units amounted to $56 and for the quarter and $168 for the cumulative period. Under IFRS, the Class B LP units are considered a financial instrument classified as liabilities and the related distributions must be recognized as an expense.

Interest income mainly records interest generated from a balance of sale held by the Trust pursuant to the sale of a property located in Delson, Québec.

Net financial expenses can be allocated amongst net interest expenses plus distributions on Class B LP units amounting to $56 for the quarter (2018: $56) and $168 for the nine-month period (2018: $75) 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 a decrease in the value of derivative financial instruments of $52 (2018: $985 increase) for the quarter and a decrease of $2,524 (2018: $1,790 increase) for the cumulative period.

The decrease in the value of financial instruments, which generated the equivalent in expenses recorded as an increase in non-monetary expenses, was due to lower interest rates in Canadian financial markets during the reporting period. Conversely, an increase in the value of financial instruments, which generated the equivalent in income recorded as a decrease in mon-monetary expenses, was due to higher interest rates in Canadian markets during the reporting period.

The fair value of Class B LP units is equal to the fair value of the Trust's units traded on Canadian stock markets. An increase in the value of Class B LP units generates an equivalent expense recorded as an increase of non-monetary financial expenses during the reporting period. Conversely, a decrease in the value of Class B LP units generates the equivalent in income recorded as a decrease in non-monetary financial expenses during the reporting period.

As at September 30, 2019, the average weighted contractual rate of interest on mortgage loans payable was 3.92%, 3 basis points higher than the rate in effect as at September 30, 2018. Interest rates on first-ranking mortgage financings ranged from 2.77% to 6.80% as at September 30, 2019. The weighted average term of financing in place as at September 30, 2019 was 5.1 years (5.5 years as at September 30, 2018).

## Administration expenses

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Administration expenses | **1,054** | 1,012 | **3,312** | 3,094 |
| Doubtful accounts | **215** | 129 | **571** | 302 |
| Amortization | **—** | — | **—** | 5 |
| Unit-based compensation | **131** | 50 | **434** | 283 |
| **Trust administration expenses** | **1,400** | 1,191 | **4,317** | 3,684 |

## Fair market value adjustment of investment properties

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

The fair market 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 appraisal methods.

Management receives quarterly capitalization rate and discount rate data from external chartered appraisers 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 appraisers. 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 market 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, 2019** | | | | |
| Capitalization rate | 6.25% – 7.75% | 6.00% – 8.50% | 5.75% – 8.50% | 5.00% – 8.25% |
| Terminal capitalization rate | 6.25% – 7.75% | 6.50% – 7.50% | 6.25% – 8.25% | 5.25% – 8.50% |
| Discount rate | 7.25% – 8.50% | 7.00% – 8.00% | 6.75% – 9.00% | 6.25% – 9.00% |
| **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% |

The weighted average capitalization rate for the entire portfolio as at September 30, 2019 was 6.79% (2018: 6.91%), down 1 basis point since December 31, 2018 and 12 basis points since September 30, 2018.

Management estimated that the value of the real estate portfolio on the balance sheet as at September 30, 2019 adequately represented its fair market value and therefore no significant adjustment was required.

As at September 30, 2019, 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 $32.7 million.

### Net income and comprehensive income

BTB generated net income of $5.6 million for the third quarter of 2019, down $0.2 million from $5.8 million in the third quarter of 2018. For the cumulative period, net income stood at $10.3 million, down $6.6 million from the same period of 2018 as shown in the "Adjusted Net Income" table presented below.

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net income** | **5,632** | 5,793 | **10,329** | 16,941 |
| Per unit | **9.0¢** | 10.4¢ | **17.6¢** | 33.0¢ |

### Adjusted net income

Net income and comprehensive income fluctuate from one quarter to another based on non-recurring items and 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 before these non-recurring and volatile non-monetary items.

| Periods ended September 30<br>(in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net income and comprehensive income** | **5,632** | 5,793 | **10,329** | 16,941 |
| Non-recurring items: | | | | |
| + Transaction costs | **63** | 524 | **980** | 865 |
| - Lease cancellation penalty | **—** | (1,477) | **—** | (1,477) |
| Volatile non-monetary items | | | | |
| ± Fair value adjustment on derivative financial instruments | **52** | (985) | **2,524** | (1,790) |
| + Fair value adjustment on investment properties | **50** | 776 | **27** | 497 |
| + Fair value adjustment on Class B LP units | **16** | 69 | **213** | 69 |
| **Adjusted net income**[1] | **5,813** | 4,700 | **14,073** | 15,105 |
| Per unit | **9.3¢** | 8.5¢ | **24.0¢** | 28.8¢ |

(1) Non-IFRS financial measure.

This table shows an increase of 23.7% in adjusted net income for the quarter and a decrease of 6.8% for the cumulative period, before the items mentioned above. Quarterly adjusted net income per unit increased 9.4% (16.4% decrease 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, 2018 and still owned as at September 30, 2019, but does not include the acquisitions and dispositions completed in 2018 and 2019, 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 (in thousands of dollars) | Quarter | | | Cumulative (9 months) | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Δ | **2019** | 2018 | Δ |
| | **$** | $ | % | **$** | $ | % |
| Rental income | **18,742** | 17,733 | 5.7 | **55,357** | 53,714 | 3.1 |
| Operating expenses | **8,142** | 8,103 | 0.5 | **25,384** | 24,698 | 2.8 |
| Net operating income[1] | **10,600** | 9,630 | 10.1 | **29,973** | 29,016 | 3.3 |
| Interest expense on mortgage loans payable | **3,672** | 3,684 | (0.3) | **10,992** | 11,053 | (0.6) |
| **Net property income[1]** | **6,928** | 5,946 | | **18,981** | 17,963 | |
| **Increase in net property income from the same-property portfolio** | ***16.5%*** | | | ***5.7%*** | | |

(1) Non-IFRS financial measure.

Rental income, net operating income and net property income of the same-property portfolio increased by 5.7%, 10.1% and 16.5%, respectively, for the third quarter of 2019 compared to the same period of 2018.

For the cumulative period, the excellent results of the same-property portfolio in the third quarter impacted the negative first-quarter results, increasing rental income, net operating income and net property income by 3.1%, 3.3% and 5.7%, respectively.

Rental income for the third quarter and cumulative period of 2018 does not include the non-recurring income from the $1,477 lease cancellation penalty received in the third quarter of 2018.

## Distributable Income and Distributions

The following table shows the calculation of distributable income.

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net income (loss) and comprehensive income (IFRS)** | **5,632** | 5,793 | **10,329** | 16,941 |
| + Fair value adjustment on properties | **50** | 776 | **27** | 497 |
| + Amortization of property and equipment | **25** | 18 | **82** | 64 |
| - Gain on debt extinguishment | **—** | — | **—** | (133) |
| + Unit-based compensation expense | **131** | 50 | **434** | 283 |
| - Gain on disposal of property and equipment | **—** | — | **—** | (1,185) |
| + Accretion of the non-derivative liability component of convertible debentures | **13** | 12 | **39** | 36 |
| ± Fair value adjustment on derivative financial instruments | **52** | (985) | **2,524** | (1,790) |
| + Fair value adjustment on Class B LP units | **16** | 69 | **213** | 69 |
| + Amortization of lease incentives | **746** | 1,158 | **2,247** | 2,615 |
| - Straight-line rental income adjustment | **(271)** | (249) | **(234)** | (432) |
| + Accretion of effective interest | **267** | 256 | **788** | 780 |
| + Transaction costs on acquisitions and dispositions of properties | **63** | 524 | **980** | 865 |
| + Distributions -Class B LP units | **56** | 56 | **168** | 75 |
| **Distributable income[1]** | **6,780** | 7,478 | **17,597** | 18,685 |
| **Non-recurring items** | | | | |
| - Lease cancellation income | **—** | (1,477) | **—** | (1,477) |
| **Recurring distributable income[1]** | **6,780** | 6,001 | **17,597** | 17,208 |

(1) Non-IFRS financial measure.

## Distributions and per unit data

| Periods ended September 30 (in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Distributions** | | | | |
| Cash distributions | **5,655** | 5,105 | **16,073** | 14,198 |
| Cash distributions – Class B LP units | **56** | 56 | **168** | 75 |
| Distributions reinvested under the distribution reinvestment plan | **852** | 682 | **2,316** | 2,022 |
| **Total distributions to unitholders** | **6,563** | 5,843 | **18,557** | 16,295 |
| Percentage of reinvested distributions | ***13.0%*** | *11.7%* | ***12.5%*** | *12.4%* |
| **Per unit data** (1) | | | | |
| Distributable income | **10.9¢** | 13.4¢ | **30.0¢** | 35.6¢ |
| Recurring distributable income | **10.9¢** | 10.8¢ | **30.0¢** | 32.8¢ |
| Distributions | **10.5¢** | 10.5¢ | **31.5¢** | 31.5¢ |
| Payout ratio(2) | ***96.8%*** | *78.1%* | ***104.9%*** | *88.4%* |
| Payout ratio on recurring distributable income | ***96.8%*** | *97.3%* | ***104.9%*** | *96.0%* |
| Cash payout ratio(3) | ***84.2%*** | *69.0%* | ***92.3%*** | *76.4%* |

(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 decreased by $698, from $7,478 to $6,780, between 2018 and 2019. Excluding non-recurring income related to the $1,477 lease cancellation penalty recorded in 2018, recurring distributable income increased by $779. Recurring distributable income per unit for the third quarter of 2019 was 10.9¢, slightly down by 0.9% from 10.8¢ in 2018. For the cumulative period, recurring distributable income was up $389 or 2.3%.

Distributions to unitholders totalled 10.5¢ per issued unit for each quarter of 2019 and 2018.

The payout ratio for distributable income was 96.8% in the third quarter of 2019 compared to 78.4% in the third quarter of 2018, which included the non-recurring income related to the $1,477 lease cancellation penalty, and 105.0% for the cumulative period compared to 86.5% in 2018. On a recurring basis, the payout ratio for the comparable quarter was 97.3% and 96.0% for the cumulative period.

## Distribution reinvestment plan

In the third quarter of 2019, 13.0% of distributions (2018: 11.7%) were reinvested under the distribution reinvestment plan. Approximately $2.3 million (2018: $2.0 million) of the Trust's cash has thereby been preserved through unit conversions.

# 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, 2019 and 2018:

| Periods ended September 30 (in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net income and comprehensive income (IFRS)** | **5,632** | 5,793 | **10,329** | 16,941 |
| - Gains on disposition of property and equipment and other disposition costs | **—** | — | **—** | (1,185) |
| + Fair value adjustment on investment properties | **50** | 776 | **27** | 497 |
| + Fair value adjustment on Class B LP units | **16** | 69 | **213** | 69 |
| + Amortization of a property recognized at cost | **—** | — | **—** | 3 |
| + Amortization of lease incentives | **746** | 1,158 | **2,247** | 2,615 |
| ± Fair value adjustment on derivative financial instruments | **52** | (985) | **2,524** | (1,790) |
| + Leasing payroll expenses | **132** | 129 | **381** | 445 |
| + Distributions -Class B LP units | **56** | 56 | **168** | 75 |
| **FFO(1)** | **6,684** | 6,996 | **15,889** | 17,670 |
| **Non-recurring items** | | | | |
| Transaction expenses for acquisitions and dispositions of investment properties | **63** | 524 | **980** | 865 |
| Lease cancellation penalty | **—** | (1,477) | **—** | (1,477) |
| **Recurring FFO(1)** | **6,747** | 6,043 | **16,869** | 17,058 |
| **FFO per unit (2)** | **10.7¢** | 12.6¢ | **27.1¢** | 33.7¢ |
| **Recurring FFO per unit(2)** | **10.8¢** | 10.9¢ | **28.8¢** | 32.5¢ |
| FFO payout ratio(3) | ***98.1%*** | *83.5%* | ***116.2%*** | *93.5%* |
| Recurring FFO payout ratio(3) | ***97.2%*** | *96.6%* | ***109.4%*** | *96.8%* |
| FFO cash payout ratio(4) | ***85.4%*** | *73.8%* | ***102.2%*** | *80.8%* |
| Recurring FFO cash payout ratio | ***84.6%*** | *85.4%* | ***96.3%*** | *83.7%* |

(1) Non-IFRS financial measures.
(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.

For the third quarter of 2019, recurring FFO per unit was 10.7¢, compared to 12.6¢ in 2018, a 15.0% decrease. Recurring FFO per unit, after factoring in transaction costs on the disposition of investment properties and the lease cancellation penalty recognized as rental income in 2018, were 10.8¢ per unit compared to 10.9¢ in 2018. The recurring FFO payout ratio per unit stood at 97.2% for the third quarter of 2019 compared to 96.6% for the same quarter of 2018, an increase of 0.6%.

# Adjusted Funds from Operations (AFFO)

The following table provides a reconciliation of FFO and AFFO for the periods ended September 30, 2019 and 2018:

| Periods ended September 30 (in thousands of dollars, except for per unit data) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **FFO** | **6,684** | 6,996 | **15,889** | 17,670 |
| - Straight-line rental income adjustment | **(271)** | (249) | **(234)** | (432) |
| + Accretion of effective interest | **267** | 256 | **788** | 780 |
| + Accretion of the liability component of convertible debentures | **13** | 12 | **39** | 36 |
| + Amortization of other property and equipment | **24** | 18 | **82** | 64 |
| + Unit-based compensation expenses | **131** | 50 | **434** | 283 |
| - Provision for non-recoverable capital expenditures | **(479)** | (432) | **(1,361)** | (1,277) |
| - Provision for unrecovered rental fees | **(345)** | (325) | **(1,035)** | (975) |
| **AFFO**(1) | **6,024** | 6,326 | **14,602** | 16,149 |
| **Non-recurring items** | | | | |
| Transaction costs on purchase and sale of properties | **63** | 524 | **980** | 865 |
| Lease cancellation penalty | **—** | (1,477) | **—** | (1,477) |
| **Recurring AFFO**(1) | **6,087** | 5,373 | **15,582** | 15,537 |
| **AFFO per unit**(2) | **9.6¢** | 11.4¢ | **24.9¢** | 30.8¢ |
| **Recurring AFFO per unit**(2) | **9.7¢** | 9.7¢ | **26.6¢** | 29.6¢ |
| AFFO payout ratio(3) | ***108.9%*** | *92.3%* | ***126.4%*** | *102.3%* |
| Recurring AFFO payout ratio(3) | ***107.8%*** | *108.7%* | ***118.5%*** | *106.4%* |
| Recurring AFFO cash payout ratio(4) | ***94.8%*** | *81.6%* | ***111.2%*** | *88.4%* |

(1) Non-IFRS financial measures.
(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 9.6¢ in the third quarter of 2019 compared to 11.4¢ in 2018, a 16% decrease. Recurring AFFO per unit, after factoring transaction costs on the sale of investment properties and the lease cancellation penalty recognized as rental income in the third quarter of 2018, was 9.7¢ per unit compared to 9.7¢ in 2018. The recurring AFFO payout ratio stood at 107.8% at the end of the third quarter of 2019, compared to 108.7% at the end of the third quarter of 2018, a 0.9% improvement.

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

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

| Periods ended September 30 and 12-month periods ended December 31 (in thousands of dollars) | **September 30, 2019 (9 months)** | **September 30, 2018 (9 months)** | December 31, 2018 (12 months) | December 31, 2017 (12 months) |
|---|---|---|---|---|
| | **$** | $ | $ | $ |
| Provision for non-recoverable capital expenditures | **1,361** | 1,277 | 1,719 | 1,467 |
| Non-recoverable capital expenditures | **1,257** | 1,116 | 1,871 | 2,876 |

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.

## Cash Flows

Net cash flow from operating activities, funds available under the Trust's credit facilities and surplus cash are the main sources of cash for funding of distributions, debt service, capital expenditures in investment properties, lease incentives and rental fees.

The Trust expects to be able to meet all short- and long-term commitments. Management expects to have sufficient liquidity from cash surpluses, net cash from operating activities and the Trust's ability to raise capital.

| Periods ended September 30 (in thousands of dollars) | **Quarter** | | **Cumulative (9 months)** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net cash from (used in):** | | | | |
| Operating activities | **9,875** | 12,540 | **29,988** | 29,104 |
| Investing activities | **2,081** | (65,218) | **(15,427)** | (57,876) |
| Financing activities | **(11,402)** | 44,871 | **(21,538)** | 28,990 |
| **Net change in cash during the period** | **554** | (7,807) | **(6,977)** | 218 |
| Cash and cash equivalents, beginning of period | **1,293** | 9,943 | **8,824** | 1,918 |
| **Cash and cash equivalents, end of period** | **1,847** | 2,136 | **1,847** | 2,136 |

Cash from operating activities decreased by $12.5 million to $9.9 million due to an approximately $4 million decrease in trade accounts payable during the quarter.

Investing activities generated positive net cash due to the sale of a property, during the third quarter of 2019 while in the third quarter of 2018, the Trust purchased two properties for a consideration in excess of $67 million.

Financing activities used net cash of $11.4 million, while in 2018 they generated net cash of close to $49 million from mortgage financings on acquisitions of two properties.

The following table provides a reconciliation of distributable income (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) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Net cash flows from operating activities (IFRS)** | **9,875** | 12,540 | **29,988** | 29,104 |
| + Net change in non-cash operating items | **2,832** | 573 | **4,771** | 5,683 |
| + Debt prepayment penalty | **—** | — | **176** | — |
| - Net interest expense | **(5,927)** | (5,638) | **(17,338)** | (16,174) |
| + Other items | **—** | 3 | **—** | 72 |
| **Distributable income** | **6,780** | 7,478 | **17,597** | 18,685 |

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

| Periods ended September 30 and 12-month periods ended December 31 (in thousands of dollars) | **2019 (9 months)** | 2018 (9 months) | 2017 (9 months) | 2018 (12 months) | 2017 (12 months) |
|---|---|---|---|---|---|
| | **$** | $ | $ | $ | $ |
| **Net cash from operating activities (IFRS)** | **29,988** | 29,029 | 24,327 | 44,724 | 38,449 |
| - Interest paid | **(17,290)** | (16,157) | (13,547) | (21,851) | (18,593) |
| **Net cash from operating activities** | **12,698** | 12,872 | 10,780 | 22,873 | 19,856 |
| Net income | **10,329** | 16,941 | 12,673 | 41,337 | 28,171 |
| Total distributions | **18,557** | 16,295 | 13,407 | 22,154 | 18,486 |
| **Surplus (deficit) of net cash from operating activities compared to total distributions** | **(5,859)** | (3,423) | (2,627) | 719 | 1,370 |
| **Surplus (deficit) of net income over total distributions** | **(8,228)** | (646) | (734) | 19,183 | 9,685 |

The Trust presented distributions in excess of net cash flows from operating activities (IFRS) of $5,859, net of interest paid during the quarter ended September 30, 2019. In 2018 and 2017, the Trust also presented surplus distributions of $3,423 and $2,627.

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 six months of the year but are 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, 2018, the Trust presented a surplus of net cash flows from operating activities of $719 (2017: $1,370), despite significant surplus distributions in the first three quarters. The Trust is confident that the same conditions will prevail at the end of fiscal 2019, 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.

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

| Periods ended September 30 (in thousands of dollars, except per unit data ) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Cash flows from operating activities (IFRS)** | **9,875** | 12,540 | **29,988** | 29,104 |
| + Leasing payroll expenses | **132** | 129 | **381** | 445 |
| + Gain on debt extinguishment | **—** | — | **—** | 133 |
| - Transaction costs on purchase and sale of properties | **(63)** | (524) | **(980)** | (865) |
| + Debt prepayment penalty | **—** | — | **176** | — |
| + Net change in non-cash operating items | **2,832** | 573 | **4,771** | 5,683 |
| - Net interest expense | **(5,927)** | (5,638) | **(17,338)** | (16,174) |
| - Provision for non-recoverable capital expenditures | **(479)** | (432) | **(1,361)** | (1,277) |
| - Provision for non-recovered rental fees | **(345)** | (325) | **(1,035)** | (975) |
| ± Other items | **(1)** | 3 | **—** | 75 |
| **AFFO[(1)]** | **6,024** | 6,326 | **14,602** | 16,149 |
| + Provision for non-recoverable capital expenditures | **479** | 432 | **1,361** | 1,277 |
| + Provision for non-recovered rental fees | **345** | 325 | **1,035** | 975 |
| + Straight-line rental income adjustment | **271** | 249 | **234** | 432 |
| - Unit-based compensation expenses | **(131)** | (50) | **(434)** | (283) |
| - Accretion of non-derivative liability component of convertible debentures | **(13)** | (12) | **(39)** | (36) |
| - Accretion of effective interest | **(267)** | (256) | **(788)** | (780) |
| - Amortization of property and equipment | **(24)** | (18) | **(82)** | (64) |
| **FFO[(1)]** | **6,684** | 6,996 | **15,889** | 17,670 |

(1) Non-IFRS financial measure.

# 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, 2019 and 2018.

| Quarters ended September 30 (in thousands of dollars) | Retail | | Office | | Industrial | | Mixed use | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Quarter ended September 30, 2019** | | | | | | | | | |
| Investment properties | 262,304 | ***29.6*** | 370,475 | ***41.8*** | 146,060 | ***16.5*** | 107,809 | ***12.1*** | **886,648** |
| Rental income from properties | 7,005 | ***29.2*** | 10,585 | ***44.2*** | 3,474 | ***14.5*** | 2,909 | ***12.1*** | **23,973** |
| Net operating income[(1)] | 4,140 | ***30.7*** | 5,450 | ***40.4*** | 2,471 | ***18.3*** | 1,415 | ***10.5*** | **13,476** |
| **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 |

(1) Non-IFRS financial measure.

| Periods ended September 30 (in thousands of dollars) | Retail | | Office | | Industrial | | Mixed use | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Period ended September 30, 2019** | | | | | | | | | |
| Rental income from properties | 19,323 | ***28.4*** | 32,026 | ***47.1*** | 9,195 | ***13.5*** | 7,500 | ***11.0*** | **68,044** |
| Net operating income[1] | 11,425 | ***31.1*** | 15,681 | ***42.7*** | 5,925 | ***16.1*** | 3,692 | ***10.1*** | **36,723** |
| **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 |

(1) Non-IFRS financial measure.

# Financial Position

The following table presents a summary of the Trust's balance sheet as at September 30, 2019 and December 31, 2018. It should be read in conjunction with the Trust's consolidated financial statements and the notes thereto.

| (in thousands of dollars) | | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | Reference (page) | $ | $ |
| **Assets** | | | |
| Investment properties | 36 | **886,648** | 839,015 |
| Balance of sale | 37 | **6,034** | — |
| Amounts receivable from tenants and other receivables | 37 | **3,815** | 3,246 |
| Other assets | 38 | **7,032** | 4,138 |
| Cash and cash equivalents | 32 | **1,847** | 8,824 |
| **Total assets** | | **905,376** | 855,223 |
| **Liabilities** | | | |
| Mortgage loans payable | 38 | **494,785** | 471,162 |
| Convertible debentures | 40 | **49,145** | 48,716 |
| Lease liabilities | | **4,435** | — |
| Bank loans | 40 | **12,620** | 15,000 |
| Class B LP units | 41 | **2,528** | 2,315 |
| Accounts payable and other liabilities | 41 | **21,753** | 19,653 |
| **Total liabilities** | | **585,266** | 556,846 |
| **Equity** | | | |
| Unitholders' equity | 42 | **320,110** | 298,377 |
| **Total liabilities and equity** | | **905,376** | 855,223 |

The main changes in the balance sheet as at September 30, 2019 compared to the balance sheet as at December 31, 2018 reflect the purchase and sale of investment properties and mortgage financings and the repayment of 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 two jointly-controlled investment properties.

The fair market value of its investment properties stood at $887 million as at September 30, 2019 compared to $819 million as at September 30, 2018 and $839 million as at December 31, 2018.

### Dispositions

In August 2019, the Trust disposed of the property located at 3885 Harvey Boulevard in Saguenay, Québec, for $4.4 million.

### Summary by operating segment

| As at September 30 | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Number of properties** | **Leasable area (sq. ft.)** | **%** | **Number of properties** | **Leasable area (sq. ft.)** | **%** |
| Office | 28 | 2,118,025 | ***38.0*** | 28 | **2,042,816** | *38.5* |
| Retail | 12 | 1,409,564 | ***25.3*** | 17 | **1,457,669** | *27.5* |
| Industrial | 18 | 1,482,282 | ***26.6*** | 18 | **1,364,613** | *25.7* |
| Mixed use | 7 | 564,919 | ***10.1*** | 6 | **437,152** | *8.3* |
| Subtotal | 65 | 5,574,790 | ***100.0*** | 69 | **5,302,250** | *100.0* |
| Properties under redevelopment | 1 | 75,340 | | 2 | **208,005** | |
| **Total** | **66** | **5,650,130** | | 71 | **5,510,255** | |

### Improvements in investment properties

BTB invests in capital improvement projects to preserve the quality of infrastructure and services provided to tenants in the properties. 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, 2019 totalled $1,202, compared to $1,483 for the same quarter of 2018, of which $560 was recoverable (2018: $1,051). 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 lease 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 $1,131 for the third quarter of 2019 compared to $1,932 for the same quarter of 2018. The leasing fees and leasehold improvements may apply to both new tenants and tenants whose leases were renewed in the Trust's properties. The amount of leasing fees and leasehold improvements varies depending on the lease renewal schedule, vacancy rates and tenancy profile.

The following table summarizes expenditures in capital expenditures, as well as incentives and leasing fees, for the periods ended September 30, 2019 and 2018.

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Recoverable capital expenditures | **560** | 1,051 | **1,610** | 1,721 |
| Non-recoverable capital expenditures | **642** | 432 | **1,256** | 1,116 |
| **Total capital expenditures** | **1,202** | 1,483 | **2,866** | 2,837 |
| Leasing fees and leasehold improvements | **1,131** | 1,932 | **3,180** | 3,968 |
| **Total** | **2,333** | 3,415 | **6,046** | 6,805 |

The following table shows changes in the fair value of investment properties during the periods ended September 30, 2019 and 2018.

| Periods ended September 30 (in thousands of dollars) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| **Balance, beginning of period** | **889,236** | 753,695 | **839,015** | 751,110 |
| Additions: | | | | |
| Initial recognition of right-of-use assets | **—** | — | **3,900** | — |
| Acquisitions | **4** | 70,029 | **75,677** | 79,434 |
| Dispositions | **(4,400)** | (6,079) | **(35,950)** | (15,294) |
| Capital expenditures | **1,202** | 1,483 | **2,866** | 2,837 |
| Leasing fees and capitalized lease incentives | **1,131** | 1,932 | **3,180** | 3,968 |
| Fair value adjustment on investment properties | **(50)** | (776) | **(27)** | (497) |
| Other non-monetary changes | **(475)** | (909) | **(2,013)** | (2,183) |
| **Balance, end of period** | **886,648** | 819,375 | **886,648** | 819,375 |

## Balance of sale

The Trust granted a balance of sale when it disposed of its Delson property. The balance of sale amounts to $6 million, bearing interest at 7% for the first 3 years, 7.5% for the 4th year and 8% for the 5th year. It matures on or before February 1st, 2024.

## Amounts receivable from tenants and other receivables

Amounts receivable from tenants and other receivables increased from $3,246 as at December 31, 2018 to $3,815 as at September 30, 2019. These amounts are summarized below:

| (in thousands of dollars) | **September 30, 2019** | December 31, 2018 | September 30, 2018 |
|---|---|---|---|
| | **$** | $ | $ |
| Rent receivable from tenants | **3,114** | 2,556 | 2,277 |
| Allowance for doubtful accounts | **(791)** | (567) | (491) |
| | **2,323** | 1,989 | 1,786 |
| Unbilled recoveries | **590** | 430 | 162 |
| Other receivables | **902** | 827 | 1,575 |
| **Amounts receivable from tenants and other receivables** | **3,815** | 3,246 | 3,523 |

### 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, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|
| | $ | $ | $ |
| Property and equipment | 1,057 | 1,027 | 882 |
| Accumulated depreciation | (779) | (698) | (723) |
| | 278 | 329 | 159 |
| Prepaid expenses | 5,984 | 1,366 | 5,064 |
| Derivative financial instruments | 237 | 1,599 | 3,160 |
| Deposits | 533 | 844 | 499 |
| Other assets | 7,032 | 4,138 | 8,882 |

## Capital Resources

### Long-term debt

The following table shows the balances of BTB's indebtedness as at September 30, 2019, including mortgage loans payable and convertible debentures, based on year of maturity and corresponding weighted average contractual interest rates:

| As at September 30, 2019 (in thousands of dollars) | Balance of convertible debentures | Balance of mortgages payable | Weighted average contractual interest rate |
|---|---|---|---|
| | $ | $ | % |
| Year of maturity | | | |
| 2019 | 23,000 | 18,462 | 6.43 |
| 2020 | 26,700 | 56,390 | 5.29 |
| 2021 | — | 68,230 | 3.42 |
| 2022 | — | 40,736 | 3.51 |
| 2023 | | 19,077 | 4.18 |
| 2024 and thereafter | — | 294,042 | 3.85 |
| Total | 49,700 | 496,937 | 4.20 |

### Weighted average contractual interest rate

As at September 30, 2019, the weighted average contractual interest rate of the Trust's long-term debt stood at 4.20%, i.e. 3.92% for mortgages payable and 7.03% for convertible debentures.

### Mortgage loans payable

As at September 30, 2019, the Trust's mortgage loans payable amounted to $496.9 million compared to $470.3 million as at September 30, 2018 and $473 million as at December 31, 2018, before deferred financing expenses and valuation adjustments, a net increase of $25 million following the financing of acquisitions completed in 2019, 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, 2019:

| Periods ended September 30<br>(in thousands of dollars) | Quarter | Cumulative (9 months) |
|---|---|---|
| | $ | $ |
| **Balance at beginning of the period** | **498,416** | 473,205 |
| Mortgage loans contracted | **3,500** | 65,180 |
| Balance repaid at maturity or upon disposal | **(1,420)** | (31,608) |
| Monthly principal repayments | **(3,559)** | (9,840) |
| **Balance as at September 30, 2019** | **496,937** | 496,937 |

Note: Before unamortized financing expenses and valuation adjustments.

As at September 30, 2019, the weighted average interest rate was 3.92% compared to 3.89% for mortgage loans on the books as at September 30, 2018, an increase of three basis points. As at September 30, 2019, except for six loans with a cumulative balance of $46.4 million, all mortgages payable bear interest at fixed rates ($388.0 million) or are coupled with an interest rate swap ($62.5 million).

The weighted average term of existing mortgage financings was 5.1 years as at September 30, 2019. It was 5.5 years as at September 30, 2018, a decrease of 0.4 years (or 5 months) in one year. The decrease is mainly due to the assumption of a significant loan with a remaining term of three years on purchase of a property and the long-term financing of the property "1327-1333 Ste-Catherine Street West and 1411 Crescent Street" by a loan with a 2-year term until this property is stabilized.

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

Except for two properties partially securing the acquisition and operating lines of credit as at September 30, 2019, all of the Trust's other properties were subject to mortgages as at September 30, 2019. Unamortized loan financing expenses totalled $2,832 and are amortized under the effective interest method over the term of the loans.

The following table, as at September 30, 2019, shows future mortgage loan repayments for the next few years:

| As at September 30, 2019<br>(in thousands of dollars) | Principal repayment | Balance at maturity | Total | % of total |
|---|---|---|---|---|
| | $ | $ | $ | % |
| **Maturity** | | | | |
| 2019 (3 months) | 3,525 | 18,414 | 21,939 | 4.4 |
| 2020 | 14,317 | 55,082 | 69,399 | 14.0 |
| 2021 | 13,308 | 63,846 | 77,154 | 15.5 |
| 2022 | 11,488 | 35,161 | 46,649 | 9.4 |
| 2023 | 9,990 | 16,772 | 26,762 | 5.4 |
| 2024 and thereafter | 36,134 | 218,900 | 255,034 | 51.3 |
| **Total** | **88,762** | **408,175** | **496,937** | **100.0** |
| + Valuation adjustments on assumed loans | | | 680 | |
| - Unamortized financing expenses | | | (2,832) | |
| **Balance as at September 30, 2019** | | | **494,785** | |

## Convertible debentures

| (in thousands of dollars) | Series E[(1)] | 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, 2019** | **22,861** | **26,284** | **49,145** |

(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. The Series E debentures were redeemed on November 1, 2019.
(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 a rate of 0.75% above the bank prime rate. As at September 30, 2019, $2,420 of the operating credit facility had been used.

## Bank loans – acquisition credit facility

BTB has an acquisition credit facility of $19 million with a Canadian chartered bank. The facility bears interest at rate of 3.25% above the bank prime rate. As at September 30, 2019, $10.2 million of the acquisition credit facility had been used.

These two 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 book value 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, 2019, December 31, 2018 and September 30, 2018.

| (in thousands of dollars) | **September 30, 2019** | December 31, 2018 | September 30, 2018 |
|---|---|---|---|
| | **$** | $ | $ |
| Free cash flow | **(1,847)** | (8,824) | (2,136) |
| Mortgage loans payable[(1)] | **496,937** | 473,205 | 470,286 |
| Convertible debentures[(1)] | **49,700** | 49,700 | 49,700 |
| Acquisition credit facility | **10,200** | 15,000 | 15,000 |
| **Total long-term debt less free cash flow** | **554,990** | 529,081 | 532,850 |
| Gross book value of the Trust less free cash flow | **904,308** | 847,097 | 834,639 |
| Mortgage debt ratio (excluding convertible debentures and acquisition credit facility) | ***55.0%*** | *55.8%* | *56.3%* |
| Debt-equity ratio – convertible debentures | ***5.5%*** | *5.9%* | *6.0%* |
| Debt-equity ratio – acquisition line of credit | ***1.1%*** | *1.8%* | *1.8%* |
| Total debt ratio | ***61.4%*** | *62.5%* | *63.8%* |

(1) Gross amounts.

According to the table above, the mortgage debt ratio, excluding the convertible debentures and acquisition credit facility as at September 30, 2019, amounted to 55.0%, down 0.8% from December 31, 2018 and 1.3% from September 30, 2018. Including the convertible debentures and the acquisition credit facility, the overall debt ratio stood at 61.4%, down 1.1% from December 31, 2018 and 2.4% from September 30, 2018.

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, 2019, the interest coverage ratio stood at 2.27, down 9 basis points from the third quarter of 2018.

| Periods ended September 30<br>(in thousands of dollars, except for the ratios) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Net operating income | **13,476** | 13,330 | **36,723** | 36,013 |
| Net interest expense[1] | **5,927** | 5,638 | **17,338** | 16,174 |
| Interest coverage ratio | ***2.27*** | *2.36* | ***2.12*** | *2.23* |

(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

| | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| Quarter ended September 30, 2019 | **Units** | $ | **Units** | $ |
| Class B LP units outstanding, beginning of period | **532,265** | 2,512 | **532,265** | 2,315 |
| Class B LP units issued | **—** | — | **—** | — |
| Fair value adjustment | **—** | 16 | **—** | 213 |
| **Class B LP units outstanding, end of period** | **532,265** | 2,528 | **532,265** | 2,528 |

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 the same distributions as declared on the BTB units. Distributions paid on Class B LP units are recorded as financial expenses 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 consideration of the acquisition of the residual portion of "Complexe Lebourgneuf – Phase II" in Quebec City (less the portion related to the mortgage assumption by BTB). The holders of these units were entitled to a $56 distribution during the third quarter of 2019.

## Accounts payable and other liabilities

| (in thousands of dollars) | **September 30, 2019** | December 31, 2018 | September 30, 2018 |
|---|---|---|---|
| | **$** | $ | $ |
| Trade and other payables | **17,602** | 17,048 | 16,925 |
| Distributions payable to unitholders | **2,171** | 1,936 | 1,931 |
| Unit-based compensation | **818** | 669 | 596 |
| Derivative financial instruments | **1,162** | — | — |
| **Accounts payable and other liabilities** | **21,753** | 19,653 | 19,452 |

## Unitholders' equity

Unitholders' equity consists of the following:

| (in thousands of dollars) | September 30, 2019 | December 31, 2018 | September 30, 2018 |
|---|---|---|---|
| | $ | $ | $ |
| Trust units | 304,025 | 274,231 | 273,544 |
| Cumulative comprehensive income | 144,154 | 133,825 | 109,429 |
| Cumulative distributions | (128,069) | (109,679) | (103,876) |
| Unitholders' equity | 320,110 | 298,377 | 279,097 |

## 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, 185,358 units were issued during the third quarter of 2019 (2018: 148,697 units) and 499,240 units were issued since the beginning of the year (2018: 448,580 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 (in number of units) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Units outstanding, beginning of quarter | 61,850,788 | 55,013,155 | 55,317,723 | 48,423,118 |
| Units issued | | | | |
| Public offering | — | — | 6,157,100 | 6,250,250 |
| Distribution reinvestment plan | 185,358 | 148,697 | 499,240 | 448,080 |
| Awards - employee unit purchase plan | — | — | 9,253 | 9,691 |
| Awards - restricted unit compensation plan | — | — | 52,830 | 30,713 |
| Units outstanding, end of quarter | 62,036,146 | 55,161,852 | 62,036,146 | 55,161,852 |
| Weighted average number of units outstanding | 61,944,033 | 55,088,713 | 58,073,213 | 51,069,501 |
| Weighted average number of Class B LP units and units outstanding | 62,476,298 | 55,620,978 | 58,605,478 | 51,311,263 |

## Unit options

The Trust may grant options to its trustees, senior officers, investor relations consultants and technical consultants. The maximum number of units that can be issued under the unit option plan may not exceed 10% of the total number of issued and outstanding units. The trustees set the exercise price at the time that options are granted under the plan; the exercise price shall not be less than the discounted market price of the units, as determined under the policies of the Toronto Stock Market at the grant date. The options have a minimum term of five years and vest over a maximum period of 18 months. 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. There were no unit options outstanding as at September 30, 2019.

### 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, 2019 and 2018.

| Periods ended September 30<br>(in number of units) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Deferred units outstanding, beginning of period** | **53,631** | 31,586 | **37,056** | 12,330 |
| Deferred units issued | **1,844** | 1,817 | **16,364** | 20,058 |
| Distributions paid in units | **1,224** | 740 | **3,279** | 1,755 |
| **Deferred units outstanding, end of period** | **56,699** | 34,143 | **56,699** | 34,143 |

### 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 support 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, 2019 and 2018.

| Periods ended September 30<br>(in number of units) | Quarter | | Cumulative (9 months) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Restricted units outstanding, beginning of period** | **161,556** | 153,066 | **138,919** | 115,628 |
| Restricted units issued | **6,336** | — | **82,469** | 72,819 |
| Restricted units cancelled | **—** | (14,147) | **(666)** | (18,815) |
| Restricted units settled | **—** | — | **(52,830)** | (30,713) |
| **Restricted units outstanding, end of period** | **167,892** | 138,919 | **167,892** | 138,919 |

### 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 tenure with the Trust. Subject to the plan's conditions, for each two units purchased by an employee, the Trust shall issue one unit from treasury. During the quarter ended September 30, 2019, no units were issued (2018: nil).

### Off-balance sheet arrangements and contractual commitments

BTB does not have 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.

## 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, 2019, 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 2019 or any other subsequent year.

# Taxation of Unitholders

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

| Periods ended September 30 | 2019 | 2018 |
|---|---|---|
| | % | % |
| 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

On January 1, 2019, the Trust implemented the following changes in accounting policies.

### i) IFRS 16, *Leases*

The Trust has initially adopted IFRS 16, *Leases*, as at January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Trust, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Trust has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated.

### ii) Amendments to IFRS 3, *Business combinations*

The Trust early adopted the amendments to IFRS 3, *Business combinations*, which clarified the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. These amendments also include an optional concentration of fair value test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments are applicable to transactions for which the acquisition date is on or after January 1, 2019.

# 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 2018 Annual Information Form for the year ended December 31, 2018, 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, 2019, 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, 2019, 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 2019, 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 **committed occupancy rate**, which provides an indication of the optimization of rental space and the potential revenue gain from the Trust's property portfolio. This rate takes into account occupied leasable area and the leasable area of leases that have been signed but not yet started;
- The **in-place occupancy rate**, which shows the percentage of total income-producing leasable area held at period end;
- 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 $496.9 million as at September 30, 2019, compared to $470.3 million as at September 30, 2018.
- 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

Administration expenses include administrative costs such as payroll expenses and professional fees associated with executive and administrative staff of the Trust, 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. 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, 2018 and still owned as at September 30, 2019, but does not include the financial impacts from disposals, acquisitions and developments completed in 2018 and 2019, 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 lease incentives;
- Fair value adjustment on derivative financial instruments;
- Leasing payroll expenses (starting in 2016);
- Distributions on Class B LP limited partnership units.

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 capital 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 capital 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.

BTB

Interim Management Discussion and Analysis
Quarter Ended September 30th, 2019

btbreit.com