MANAGEMENT DISCUSSION AND ANALYSIS

Quarter Ended June 30th, 2020

Responsible management is at the heart of our priorities.

BTB


BTB

Management Discussion and Analysis

Quarter Ended June 30, 2020

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Introduction

The purpose of this Management Discussion and Analysis is to allow the reader to evaluate the operating results of BTB Real Estate Investment Trust ("BTB" or the "Trust") for the quarter ended June 30, 2020 as well as its financial position on that date. The report also presents a summary of the Trust's business strategies and the business risks it faces. This MD&A dated August 11, 2020 should be read together with the unaudited condensed consolidated financial statements and accompanying notes for the quarter ended June 30, 2020. It discusses 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 June 30, 2020 and 2019. Additional information about the Trust, including the 2019 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 Management Discussion and Analysis and the quarterly financial statements and the Trust's Board of Trustees has 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, in other filings with Canadian regulators, in reports to unitholders and in other communications. These forward-looking statements may 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, our ability to renew leases coming to 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," "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.

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 June 30, 2020, it owns 64 retail, office and industrial properties located in primary and secondary markets of the Provinces of Québec and Ontario. Since its inception, BTB has become an important property owner in the province of Québec and in Eastern Ontario. The units and Series F and G convertible debentures are traded on the Toronto Stock Exchange under the symbols "BTB.UN", "BTB.DB. F" and "BTB.DB. G", respectively.

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. Through this, 62 of the Trust's 64 properties held as at June 30, 2020 are managed by the Trust's employees. The two remaining properties are managed by third party managers dealing at arm's length with the Trust. Management's objective is, when favourable circumstances will prevail, to directly manage the Trust's remaining properties to possibly achieve savings in management and operating fees through centralized and improved property management operations.

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

	Number of properties	Leasable area (sq. ft.)	Fair value (thousands of $)
As at June 30, 2020(1)	**64**	**5,329,689**	**894,679**

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

Objectives and Business Strategies

BTB's primary objective is to maximize total return to unitholders. Returns include cash distributions and long-term appreciation of the value of its 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 acquisitions 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 properties and therefore its units.

Strategically, BTB seeks to acquire properties with high occupancy rates, good tenant quality, superior locations or low potential lease turnover and properties that are well maintained and require fewer capital expenditures.

BTB's management regularly performs strategic portfolio assessments to determine whether it is financially advisable to retain certain of its investments. BTB may dispose of certain assets if their size, location and/or profitability do not meet the Trust's investment criteria.

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

Highlights of the Second Quarter Ended June 30, 2020

- During the second quarter, the effects of the COVID-19 pandemic has had a significant impact on our operations, but our portfolio has nonetheless performed well, considering the negative external factors. The impacts were mainly felt with delays in the collection of accounts receivable, increases in the allowance for bad debt and the slowdown of rental activity. However, BTB does not own any "enclosed mall" retail properties, which have been particularly affected by the current crisis.
- Our rent collection demonstrated the resilience of the portfolio across the different asset classes. 89.6% of revenues were collected during the quarter and 3.8% of revenues are subject to negotiated deferral agreements. In addition, 3.4% of revenues will be collected as grants from the Canada Emergency Commercial Rent Assistance (CECRA) program. In July 2020, the Government of Québec announced an additional subsidy of 12.5%, equivalent to 0.85% of our revenues invoiced. Consequently, we anticipate that a total of 97.7% of our revenues will be collected during the year.
- The numerous announced bankruptcies and restructurings in the retail industry so far will have a limited impact on BTB's portfolio. To date, we note 4 situations that will affect our income:

  1) L'Aubainerie: a store operating under license, located in Gatineau, Québec, in a property 50% owned by the Trust, closed its doors;

  2) Reitmans: BTB rents five locations to Reitmans under different banners. The tenant has told us that only one store (Thyme Maternity) with an area of 3,000 sq. ft. located on the south shore of Québec will close its doors. The remaining four sites will be maintained;

  3) Sail/Sportium: a 63,000 sq. ft. Sportium establishment, located on FX Sabourin street on the south shore of Montréal, Québec, will become vacant on January 31, 2021;

  4) Dunn's: a restaurant operating under the Dunn's banner in our Marché de l'Ouest property in Dollard-des-Ormeaux, Québec, declared bankruptcy last March.
- In the valuation of the fair values of our properties, we took into account the impact of closures and rent agreements and have reduced the fair value of our portfolio by $3.6 million for the quarter, or 0.4% of the total fair value of the portfolio. However, based on market conditions, we have not made any adjustment to capitalization rates in the second quarter.
- We renewed over 70,000 sq. ft. of leasable area during the quarter. Since the beginning of the year, over 307,000 sq. ft. have been renewed at an average rate of increase of 2.3%. At the end of the quarter, 67.1% of leases expired in 2020 were renewed.
- We show increases in rental revenue and net operating income, respectively of 2.8% and 1.8%, mainly due to the contribution of recent acquisitions. The quarter posts, however, a net loss of $1.1 million, mainly caused by one-time factors related to COVID-19, including a loss of income equivalent to 25% of rents subject to the CECRA program, an increased allowance for expected credit losses of $1.1 million, and a reduction of fair values for two properties totalling $3.6 million. In July, the Government of Québec confirmed additional grants of 12.5% under the CECRA program, but the terms are not yet specified; they have therefore not been reflected in our results.
- Funds from operations (FFO) total $4.7 million, down $0.7 million from the same period in 2019. The main cause of the reduction comes from an increase in the allowance for bad debt of $1.1 million, a loss of $0.9 million for recognized bankruptcies, and a 25% loss related to the federal CECRA program. The negative result was partly offset by the positive financial contribution of the properties recently acquired.
- On May 12, 2020, the Board of Trustees adopted a resolution to reduce the annual distribution from 42.0¢ to 30.0¢ per share (a reduction of 28.6%) effective as of the May 2020 distribution payable in June 2020. The decision was made because of the economic uncertainties caused by the COVID-19 pandemic and the possible effects on BTB's financial situation and future liquidity requirements.

- In order to preserve its liquidity, the Trust has reduced its capital expenditures to $240 for the quarter, compared to $1,348 for the same quarter of 2019.
- As of June 30, 2020, BTB had a cash position of $22.8 million available as cash and restricted cash. The total debt ratio went down to 58.6%, a reduction of 2.8% from the same period in 2019.

Sale of a property

- On June 30, 2020, the Trust disposed of the property located at 1001 Sherbrooke Street East in Montréal, Québec for $21.6 million, and the mortgage loan payable on this property was subsequently repaid as at June 30, 2020.

Summary of significant elements related to COVID-19 and adjusted results

Periods ended June 30, 2020 (in millions of dollars)	Quarter			Cumulative (6 months)		
	Current	COVID-19 Adjustments	Adjusted	Current	COVID-19 Adjustments	Adjusted
	$	$	$	$	$	$
Net operating income	12.4	0.5	12.9	25.2	0.5	25.7
Same-property portfolio net operating income	10.3	0.5	10.8	21.2	0.5	21.7
Net income (loss)	(1.1)	5.2(1)	4.1	(6.7)	12.1(1)	5.4
Recurring FFO(2)	4.7	1.6	6.3	11.0	1.6	12.6
FFO(2) per unit	7.5¢	2.5¢	10.0¢	17.5¢	2.5¢	20.0¢
Recurring FFO payout ratio(2)	114%	29%	85%	109%	14%	95%
Recurring AFFO(2)	4.2	1.6	5.8	9.8	1.6	11.4
AFFO(2) per unit	6.7¢	2.5¢	9.2¢	15.5¢	2.5¢	18.0¢
Recurring AFFO payout ratio(2)	127%	35%	92%	123%	17%	106%

(1) Net operating income -$0.5M, allowance for expected credit losses -$1.1M, average fair value adjustment on properties (Q1 -$6.9 million & Q2 -$3.6 million).
(2) Non-IFRS financial measures.

Subsequent events

- In order to maximize the participation of commercial landlords in the CECRA program, the Government of Québec intends to compensate 50% of the property owners' loss. These owners are committed to absorb a 25% loss by enrolling in this program, will be eligible to receive an amount equivalent to 12.5% of the total cost of rent, thereby reducing their loss by half. For BTB, this is a subsidy that will offset 0.85% of its rental revenue for the second quarter, which will bring our rent collection to 97.7%.
- Rent collection for July 2020 stands at 90.2% of invoiced rents.
- More than 83,000 sq.ft. of leasable area expiring in 2021 was already renewed in July 2020 (for a total of 245,420 sq.ft. year to date).

Summary of significant items as at June 30, 2020

- Number of properties: 64
- Total leasable area: approximately 5.3 million square feet
- Total asset value: $935 million
- Market capitalization: $193 million

Selected Financial Information

The following table presents highlights and selected financial information for the periods ended June 30, 2020 and 2019:

Periods ended June 30 (in thousands of dollars, except for ratios and per unit data)		Quarter		Cumulative (6 months)	
		2020	2019	**2020**	2019
	Reference (page)	**$**	$	**$**	$
Financial information					
Rental revenue	28	**23,063**	22,347	**46,931**	44,071
Net operating income[1]	29	**12,419**	12,196	**25,185**	23,247
Net income (net loss) and comprehensive income	31	**(1,101)**	3,316	**(6,688)**	4,697
Adjusted net income[1]	32	**3,757**	4,518	**9,073**	8,260
Net property income from the same-property portfolio[1]	32	**6,165**	6,979	**13,002**	13,457
Distributions	33	**5,375**	6,113	**11,983**	11,994
Recurring funds from operations (FFO)[1]	34	**4,710**	5,446	**10,987**	10,125
Recurring adjusted funds from operations (AFFO)[1]	35	**4,237**	4,884	**9,754**	9,507
Cash flow from operating activities	36	**10,534**	11,897	**21,208**	20,113
Total assets	39			**934,776**	908,782
Investment properties	39			**894,679**	889,236
Mortgage loans	43			**495,599**	496,169
Convertible debentures	44			**49,367**	48,999
Mortgage debt ratio	45			**52.8%**	54.9%
Total debt ratio	45			**58.6%**	61.4%
Weighted average interest rate on mortgage debt	45			**3.75%**	3.93%
Unitholders' equity	46			**339,934**	320,123
Market capitalization				**192,864**	291,937
Financial information per unit					
Units outstanding (000)	47			**62,822**	61,851
Class B LP units outstanding (000)	45			**397**	532
Weighted average number of units outstanding (000)	47	**62,681**	56,762	**62,390**	56,106
Weighted average number of units and Class B LP units outstanding (000)	47	**63,115**	57,294	**62,887**	56,638
Net income and comprehensive income	31	**(1.7)¢**	5.8¢	**(10.6)¢**	8.3¢
Adjusted net income[1]	32	**6.0¢**	7.9¢	**14.4¢**	14.6¢
Distributions	33	**8.5¢**	10.5¢	**19.0¢**	21.0¢
Recurring FFO[1]	34	**7.5¢**	9.5¢	**17.5¢**	17.9¢
Payout ratio on recurring FFO[1]	34	**113.9%**	110.5%	**108.8%**	117.5%
Recurring AFFO[1]	35	**6.7¢**	8.5¢	**15.5¢**	16.8¢
Payout ratio on recurring AFFO[1]	35	**126.6%**	123.2%	**122.5%**	122.6%
Unitholders' equity	46			**5.41**	5.18
Market price				**3.07**	4.72
Tax on distributions					
Revenue	49	**0.0%**	0.0%	**0.0%**	0.0%
Tax deferral	49	**100%**	100%	**100%**	100%
Operational information					
Number of properties	40			**64**	67
Leasable area (thousands of sq. ft.)	40			**5,330**	5,718
Occupancy rate	25			**92.9%**	93.1%
Increase in average lease renewal rate		**(1.4)%**	7.0%	**2.3%**	6.5%

(1) Non-IFRS financial measures.

Selected Quarterly Information

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

(in thousands of dollars except for per unit data)	**2020 Q-2**	2020 Q-1	2019 Q-4	2019 Q-3	2019 Q-2	2019 Q-1	2018 Q-4	2018 Q-3
	$	$	$	$	$	$	$	$
Rental revenue	**23,063**	23,868	25,558	23,973	22,347	21,634	22,082	23,098
Net operating income[(1)]	**12,419**	12,766	14,174	13,476	12,196	11,051	11,624	13,330
Net income and comprehensive income	**(1,101)**	(5,587)	41,552	5,632	3,316	1,381	24,396	5,793
Net income and comprehensive income per unit	**(1.7)¢**	(8.9)¢	66.2¢	9.0¢	5.8¢	2.5¢	43.7¢	10.4¢
Adjusted net income	**3,757**	5,316	6,445	5,813	4,518	3,742	4,278	4,700
Adjusted net income per unit	**6.0¢**	8.4¢	10.3¢	9.3¢	7.9¢	6.7¢	7.7¢	8.5¢
Cash from operating activities	**10,534**	10,674	17,235	9,875	11,897	8,216	15,620	12,540
Recurring funds from operations (FFO)[(1)]	**4,710**	6,277	7,421	6,747	5,446	4,679	5,063	6,043
Recurring FFO per unit[(1)]	**7.5¢**	10.0¢	11.8¢	10.8¢	9.5¢	8.4¢	9.1¢	10.9¢
Recurring adjusted funds from operations (AFFO)[(1)]	**4,237**	5,517	6,795	6,087	4,884	4,623	4,576	5,373
Recurring AFFO per unit[(1)]	**6.7¢**	8.8¢	10.8¢	9.7¢	8.5¢	8.3¢	8.2¢	9.7¢
Distributions[(2)]	**5,375**	6,618	6,584	6,563	6,113	5,881	5,859	5,843
Distributions per unit	**8.5¢**	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.

Performance Indicators

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

Real Estate Portfolio

BTB owns 64 quality properties which have a fair value of $895 million, generating approximately $95 million in annual income and representing a total leasable area of approximately 5.3 million square feet. A description of the properties owned as at December 31, 2019 can be found in the Trust's Annual Information Form available at www.sedar.com.

Summary of investment properties as at June 30, 2020

Operating segment	**Number of properties**	**Leasable area (sq. ft.)**	**Committed occupancy rate (%)**
Office	29	2,073,157	*90.8*
Retail	12	1,409,565	*95.6*
Industrial	16	1,206,709	*93.6*
Mixed-use	6	564,919	*92.1*
Subtotal	64	5,254,350	***92.9***
Properties under redevelopment	1	75,340	
Total	**64**	**5,329,690**	

Sale of investment properties

Pursuant to the conclusions of the last strategic review of its portfolio, the Trust has elected to sell certain properties when circumstances are favourable. The proceeds of disposition from the sale of these assets are used to either repay related mortgages and any remaining proceeds may be used to repay lines of credit and/or to acquire accretive properties in line with its investment criteria.

In January 2020, the Trust disposed of an industrial property located at 311 Ingersoll St. South in Ingersoll, Ontario, for total proceeds of $13.3 million.

In February 2020, the Trust disposed of an industrial property located at 5600, Côte-de-Liesse in Montréal, Québec, for total proceeds of $9.3 million.

In June 2020, the Trust disposed of an office property located at 1001 Sherbrooke Street East in Montréal, Québec, for total proceeds of $21.6 million.

Real Estate Operations

Leasing activities

The following table summarizes the changes in available leasable area for the periods ended June 30, 2020 and 2019.

Periods ended June 30 (in square feet)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
Available leasable area at beginning of the period	**409,638**	431,600	**379,896**	479,420
Available leasable area purchased (sold)	**(37,091)**	3,261	**(37,091)**	(22,059)
Area under redevelopment	**—**	189,642	**—**	294,269
Leasable area of expired leases at term or before end of term	**98,934**	34,786	**390,406**	96,993
Leasable area of renewed leases at term or before end of term	**(70,486)**	(209,800)	**(307,256)**	(329,858)
Leasable area of new leases signed	**(26,391)**	(57,652)	**(51,386)**	(125,293)
Other	**—**	—	**35**	(1,635)
Available leasable area at end of the period	**374,604**	391,837	**374,604**	391,837

Second quarter of 2020

Lease renewals: During the quarter, 98,934 square feet of leasable area expired at the end of the term or before term. Leases for 70,486 square feet of leasable area have been renewed with our existing tenants. Since the beginning of 2020, 307,256 square feet have been renewed.

New lease transactions: Also during the quarter, the Trust leased 26,391 square feet of leasable area to new tenants, leaving 374,604 square feet of leasable area available at the end of the quarter, resulting in a slight decrease of 0.2% in the occupancy rate for the quarter compared to the same quarter of 2019, but an increase of 0.5% compared to the first quarter of 2020. At the end of the quarter, the occupancy rate was 92.9%. Since January 1, 2020, 51,386 square feet of vacant space have been leased to new tenants.

Average renewal rate

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

	Quarter		Cumulative (6 months)	
Operating segment	**Square feet**	**(%)**	**Square feet**	**(%)**
Office	29,955	3.1	107,409	0.9
Retail	14,118	8.7	15,637	7.4
Industrial	—	—	82,751	9.2
Mixed-use	26,413	(10.2)	101,459	0.6
Total	**70,486**	**(1.4)**	**307,256**	**2.3**

The average rental rate of expired and renewed leases during the second quarter decreased by 1.4% (7.0% increase in 2019). For the cumulative six-month period, the average rate increased 2.3% (6.5% in 2019). The industrial segment increased by 9.2% and the retail segment increased by 7.4%.

Annual retention rate

Since January 1, 2020, approximately 144,836 square feet of leasable area expired in 2020 were renewed, representing a retention rate of 67.1%. Furthermore, 162,420 square feet of leasable area expiring after 2020 were renewed before term, for a total of 307,256 square feet.

Occupancy rates

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

	June 30, 2020	March 31, 2019	December 31, 2019	September 30, 2019	June 30, 2019
	%	%	%	%	%
Operating segment					
Office	**90.8**	89.7	89.3	88.4	88.0
Retail	**95.6**	95.6	96.0	98.0	98.2
Industrial	**93.6**	93.6	96.4	97.1	95.6
Mixed-use	**92.1**	92.0	92.4	93.1	93.2
Total portfolio	**92.9**	92.4	93.2	93.6	93.1

	June 30, 2020	March 31, 2019	December 31, 2019	September 30, 2019	June 30, 2019
	%	%	%	%	%
Geographic sector					
Laval and North Shore	**99.9**	99.9	99.6	98.4	98.1
Island of Montréal	**91.6**	88.7	90.3	89.3	90.5
Montréal South Shore	**92.8**	93.0	93.0	94.7	95.0
Québec City and surrounding area	**90.0**	89.9	90.1	90.3	90.9
Ottawa and surrounding area	**93.2**	93.2	94.9	96.8	91.1
Central Ontario	**—**	—	100.0	100.0	100.0
	92.9	92.4	93.2	93.6	93.1

	June 30, 2020	March 31, 2019	December 31, 2019	September 30, 2019	June 30, 2019
	%	%	%	%	%
By province					
Québec	**92.9**	92.3	92.6	92.8	93.3
Ontario	**92.6**	92.6	95.5	97.2	92.2
Total portfolio	**92.9**	92.4	93.2	93.6	93.1

The overall occupancy rate decreased by 0.3% since December 31, 2019, and increased by 0.2% since June 30, 2019. At the end of the second quarter of 2020, the occupancy rate stood at 92.9%. The 0.3% decrease in occupancy rate since December 31, 2019 was recorded mainly in the industrial property segment, and caused by the sale during the first quarter of two industrial properties totalling 276,000 square feet of leasable area and both showing a 100% occupancy rate. The increase in the occupancy rate for the office property segment was caused by the sale of the property at 1001, Sherbrooke Street East, totalling 122,500 square feet, which had an occupancy rate of 69.7% at the time of its sale.

The following table shows the in-place occupancy rate compared to the committed occupancy rate by operating segment as at June 30, 2020.

	Occupancy rate (%)		Square feet
	In-place	**Committed**	**Committed**
Operating segment			
Office	89.3	90.8	31,860
Retail	95.4	95.6	2,500
Industrial	92.9	93.6	8,214
Mixed-use	90.9	92.1	6,807
	91.9	**92.9**	**49,381**

The in-place occupancy rate as at June 30, 2020 (without taking into account firm committed lease agreements for tenants that are not yet occupying their spaces as at June 30, 2020) was 91.9% (2019: 89.5%), a 2.4% increase. Vacant spaces totalling approximately 49,000 square feet as at June 30, 2020 are subject to firm lease agreements and will, in the next few quarters, generate additional income.

The following are examples of firm lease agreements that will soon take effect.

Properties	Square feet	Tenants	Expected occupancy date
3131 Saint-Martin Blvd West, Laval, Québec	3,600	City of Laval	September 2020
1-10 Brewer Hunt Way, Ottawa, Ontario	9,900	Claigan Environmental	November 2020
Complexe Lebourgneuf – Phase 2, Québec, Québec	7,700	Bouchard & Associés	September 2020
Crescent/Sainte-Catherine West, Montréal, Québec	2,900	Telus	January 2021

Lease maturities

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

	2020	2021	2022	2023	2024
Office					
Leasable area (sq. ft.)	119,101	195,596	233,299	256,826	206,614
Average lease rate/square foot ($)	$13.19	$13.37	$14.45	$14.62	$13.23
% of office portfolio	*5.5%*	*9.4%*	*11.3%*	*12.4%*	*10.0%*
Retail					
Leasable area (sq. ft.)	97,663	109,561	318,191	147,815	82,484
Average lease rate/square foot ($)	$10.07	$11.64	$10.98	$9.67	$15.52
% of retail portfolio	*5.6%*	*7.8%*	*22.6%*	*10.5%*	*5.9%*
Industrial					
Leasable area (sq. ft.)	116,445	207,664	148,371	45,483	88,393
Average lease rate/square foot ($)	$2.64	$7.50	$4.59	$5.58	$9.03
% of industrial portfolio	*9.7%*	*17.2%*	*12.3%*	*3.8%*	*7.3%*
Mixed-use					
Leasable area (sq. ft.)	39,061	112,399	48,293	51,427	12,966
Average lease rate/square foot ($)	$13.64	$12.85	$15.68	$13.26	$13.79
% of mixed-use portfolio	*4.7%*	*20.0%*	*8.6%*	*9.1%*	*2.3%*
Total portfolio					
Leasable area (sq. ft.)	**372,270**	**625,220**	**748,154**	**501,551**	**390,457**
Average lease rate/square foot ($)	**$8.82**	**$11.02**	**$11.10**	**$12.20**	**$12.78**
% of total portfolio	***7.1%***	***11.9%***	***14.2%***	***9.6%***	***7.4%***

Top 10 tenants

On June 30, 2020, BTB managed approximately 620 leases, with an average leasable area of approximately 8,500 square feet. The three largest tenants of the Trust are Public Works Canada, Walmart Canada Inc. and Intrado Inc., representing respectively 5.3%, 3.0% and 2.0% of revenue, generated by multiple leases whose maturities are spread over time. More than 27.3% of the Trust's total revenue is generated by leases signed with government agencies (federal, provincial and municipal) and public companies, thus generating 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 revenue as at June 30, 2020. This contribution accounts for 20.2% of annual rental revenue and 21.2% of leased area.

Client	% of revenue	% of leased area	Leased area (square feet)
Public Works Canada	5.3	3.9	207,202
Walmart Canada inc.	3.0	5.0	264,550
Intrado Inc. (formerly West Safety Canada Inc.)	2.0	1.2	61,845
WSP Canada Inc.	1.6	0.9	48,478
Société québécoise des infrastructures (Government of Québec)	1.6	1.6	82,196
Strongco	1.5	1.5	81,442
Atis Portes et Fenêtres Corp.	1.4	3.0	159,941
BBA Inc.	1.3	0.9	49,855
CISSS Montérégie-Centre (Government of Québec)	1.3	1.3	70,242
Germain Larivière Laval Inc.	1.2	1.9	101,194
	20.2	**21.2**	**1,126,945**

Operating results

The following table summarizes financial results for the periods ended June 30, 2020 and 2019. The table should be read in conjunction with our consolidated financial statements and the accompanying notes.

Periods ended June 30 (in thousands of dollars)		Quarter		Cumulative (6 months)	
		2020	2019	**2020**	2019
	Reference (page)	**$**	$	**$**	$
Rental revenue	28	**23,063**	22,437	**46,931**	44,071
Operating expenses	28	**10,644**	10,241	**21,746**	20,824
Net operating income[(1)]	29	**12,419**	12,196	**25,185**	23,247
Net financial expenses	29	**6,518**	6,805	**15,945**	14,739
Administration expenses	30	**2,513**	1,587	**3,712**	2,917
Transaction costs		**882**	521	**1,711**	917
Fair value adjustment on investment properties	30	**3,607**	(33)	**10,505**	(23)
Net income (net loss) and comprehensive income	31	**(1,101)**	3,316	**(6,688)**	4,697

(1) Non-IFRS financial measure.

Rental revenue

In the second quarter of 2020, BTB's rental revenue increased by $626 or 2.8% compared to the same quarter last year.

During the last 12 months, the Trust acquired four properties and sold five properties. The acquisitions contributed to an increase in rental revenue of approximately $2.5 million for the quarter, while the Trust estimates the decrease in rental revenue associated with the properties disposed of for the same period to be approximately $0.8 million. Therefore, the net contribution to rental revenue of these real estate transactions is estimated at $1.7 million.

The Trust is participating in the CECRA program. By participating in this program, the Trust has agreed to issue rent credits for the months of April, May and June 2020, in the amount of approximately $1,316, as of June 30, 2020, to eligible tenants who applied for it. In accordance with this estimate, the federal government should reimburse the Trust for $877, representing 50% of the eligible rents for that period. The net effect is therefore a decrease in revenue of $439 for the quarter (without taking into account the Government of Québec subsidy announced in July 2020).

For the cumulative six-month period ended June 30, 2020, the Trust noted an increase in its revenue of $2.9 million or 6.5%. The net contribution of property acquisitions and dispositions over the past 12 months is $3.4 million, while the CECRA program has led to a decrease in revenues of $0.4 million.

Operating expenses

BTB recorded an increase in operating expenses of $403, or 3.9%, between the second quarter of 2019 and the second quarter of 2020, resulting from the net effect of acquisitions vs. dispositions completed in the last quarters.

The following table shows the breakdown of operating expenses for the periods ended June 30, 2020 and 2019.

Periods ended June 30 (in thousands of dollars)	**Quarter**		**Cumulative (6 months)**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Operating expenses				
Maintenance, repairs and other operating costs	**3,594**	3,422	**7,316**	6,953
Energy	**1,368**	1,240	**2,981**	3,185
Property taxes and insurance	**5,682**	5,579	**11,449**	10,686
Total operating expenses	**10,644**	10,241	**21,746**	20,824
% of rental income	***46.2***	*45.6*	***46.3***	*47.3*

As a percentage of rental revenue, operating expenses for the second quarter of 2020 increased by 0.6% to 46.2%, compared to 45.6% for the second quarter of 2019, and decreased by 1.0% for the cumulative period, to 46.3%.

Net operating income

Periods ended June 30 (in thousands of dollars)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net operating income[(1)]	**12,419**	12,196	**25,185**	23,247
% of rental income	***53.8***	*54.4*	***53.7***	*52.7*

(1) Non-IFRS financial measure.

Total net operating income (NOI) increased by $223 or 1.8% between the second quarter of 2019 and the second quarter of 2020.

Properties acquired during the past 12 months contributed to an increase of $1.5 million in net operating income, where the shortfall resulting from the dispositions that took place during the same period is evaluated at $0.5 million.

The Trust's participation in the CECRA program affected the net operating income, resulting in a decrease of $439 for the quarter.

For the cumulative period, the Trust recorded an increase in net operating income of $1.9 million or 8.3%. The net contribution of acquisitions and property dispositions over the past 12 months stands at $1.0 million, while the CECRA program has led to a reduction in net operating income of $0.4 million.

Financial expenses

The following table shows the breakdown of financial expenses for the periods ended June 30, 2020 and 2019:

Periods ended June 30 (in thousands of dollars)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Interest on mortgage loans	**4,683**	4,602	**9,494**	9,146
Interest on convertible debentures	**831**	874	**1,668**	1,748
Interest on bank loans	**281**	342	**464**	526
Other interest expenses	**138**	86	**234**	234
Interest income	**(116)**	(154)	**(229)**	(243)
Net interest expenses	**5,817**	5,750	**11,631**	11,411
Distributions on Class B LP units	**45**	56	**97**	112
Early repayment fees	**—**	—	**79**	—
Financial expenses before non-monetary items	**5,862**	5,806	**11,807**	11,523
Accretion of effective interest on mortgage loans, convertible debentures and bank loans	**287**	272	**672**	521
Accretion of non-derivative liability component of convertible debentures	**—**	13	**—**	26
Net financial expenses before the following items:	**6,149**	6,091	**12,479**	12,070
Net fair value adjustment on derivative financial instruments	**330**	746	**4,427**	2,472
Fair value adjustment on Class B LP units	**39**	(32)	**(961)**	197
Net financial expenses	**6,518**	6,805	**15,945**	14,739

Net interest expenses increased by $67 during the second quarter of 2020 compared to the same period of 2019, and by $220 for the cumulative period, mainly due to the net effect of financing of acquisitions and dispositions in recent quarters. In addition to net interest expenses, distributions on Class B LP units amounted to $45 for the quarter and to $97 for the cumulative period. Under IFRS, although the Class B LP units can be exchanged by holders for BTB units that are traded on the public market, they are considered a financial instrument classified as a liability and therefore the related distributions must be recognized as an expense.

Financial income mainly consists of interest income generated from a balance of sale held by the Trust for the principal amount of $6 million pursuant to the sale in 2019 of a property located in Delson, Québec.

Net financial expenses described above include non-monetary items. These non monetary items include the accretion of effective interest on mortgage loans and on convertible debentures and fair value adjustments on financial instruments. BTB recognized a decrease in the value of derivative financial instruments and Class B LP units of $369 (2019: $714 decrease) for the quarter and an increase in the value of $3,466 for the cumulative period (2019: $2,669).

The COVID-19 pandemic has created significant economic uncertainty and increased volatility in the financial markets. The decrease in the value of financial instruments, which generated an equivalent expense recorded as an increase in non-monetary items, is due to lower interest rates in Canadian financial markets during the reporting period. Conversely, an increase in the value of financial instruments, which generated an equivalent income recorded as a decrease in non-monetary expenses, is due to higher interest rates in Canadian markets during the reporting period. The decrease in interest rates during the second quarter therefore resulted in the recording of $330 in expenses, and of $4,427 for the cumulative 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. The Trust also recognized $39 in expenses during the quarter (2019: $32 in revenues) and $961 in revenues for the cumulative period (2019: $197 in expenses).

On June 30, 2020, the average weighted contractual rate of interest on mortgage loans outstanding was 3.75%, 18 basis points lower than the average rate posted as at June 30, 2019 (3.93%). Interest rates on first-ranking mortgage loans ranged from 2.37% to 6.80% as at June 30, 2020. The weighted average term of mortgage loans in place as at June 30, 2020 was 4.8 years (5.3 years as at June 30, 2019).

Administration expenses

Periods ended June 30 (in thousands of dollars)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Administration expenses	**1,205**	1,242	**2,437**	2,258
Expected credit losses	**1,257**	257	**1,397**	356
Unit-based compensation	**51**	88	**(122)**	303
Trust administration expenses	**2,513**	1,587	**3,712**	2,917

The COVID-19 pandemic has particularly affected some tenants, notably in the retail properties segment. The Trust has supported some of these eligible tenants by granting them a deferral on rent payment. To this effect, as at June 30, 2020, the Trust has provided almost $1 million in rent deferrals. The Trust recognizes, however, that there are increased recovery risks associated with these rent deferrals and with some tenants who have a balance at the end of term. The Trust recorded an additional allowance for expected credit losses of approximately $1.1 million to adequately reflect this additional risk.

Fair value adjustment of investment properties

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

The COVID-19 pandemic has created significant economic uncertainty and increased volatility in the financial markets. These factors had led us, at the end of the first quarter of 2020, to increase certain capitalization rates of properties considered to be more vulnerable to the effects of the pandemic, including retail properties where tenants had to temporarily cease operations and requested rent relief and deferrals. At the end of the second quarter, the Trust recorded an additional decrease in the fair value of its real estate portfolio of $3.6 million, nevertheless without adjustments to capitalization rates. This decrease of the fair value is specific to two properties.

The Trust annually uses chartered appraisers to evaluate the fair value of a significant portion of its portfolio. Pursuant to its policy, the 10 most important properties and approximately a third of the remaining properties are annually appraised by independent appraisers. In addition, as part of financing or refinancing and at the request of lenders, properties are also independently appraised during the year.

For its properties that were not subject to independent appraisals, management receives quarterly capitalization rate and discount rate data reflecting real estate market conditions 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 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 June 30, 2020				
Capitalization rate	6.00% - 8.00%	5.75% - 7.50%	5.75% - 8.50%	5.00% - 8.50%
Terminal capitalization rate	6.25% - 7.25%	6.25% - 7.50%	6.00% - 7.25%	5.25% - 7.25%
Discount rate	7.25% - 8.00%	6.75% - 8.00%	6.50% - 8.00%	6.25% - 8.00%
As at June 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%

The weighted average capitalization rate for the entire portfolio as at June 30, 2020 was 6.65% (June 30, 2019: 6.82%), 17 basis points lower since June 30, 2019 and five basis points higher since December 31, 2019.

As at June 30, 2020, BTB has estimated that if a variation of 0.25% in the capitalization rate is applied to the overall portfolio, this variation would change the fair value of the investment properties by approximately $35 million.

Net income (loss) and comprehensive income

BTB generated a net loss of $1.1 million for the second quarter of 2020, compared to a net income of $3.3 million for the second quarter of 2019, a decrease of $4.4 million. For the cumulative period, the net loss stood at $6.7 million, compared to net income of $4.7 million for the same period of 2019.

This loss is essentially attributable to the reduction in the value of its real estate portfolio of $3.6 million, as previously explained, and a reduction of the value of financial instruments and Class B LP units, of $0.4 million.

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net income (loss)	**(1,101)**	3,316	**(6,688)**	4,697
Per unit	**(1.7)¢**	5.8¢	**(10.6)¢**	8.3¢

Adjusted net income

Net income and comprehensive income fluctuate from one quarter to the next based on non-recurring items and certain volatile non-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's units, the forward interest rate curve and the discount and capitalization rates of the real estate portfolio. A new element entered the scene at the end of the previous quarter, the COVID-19 pandemic, which has created significant economic uncertainty and increased volatility in the financial markets.

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

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net income (loss) and comprehensive income	**(1,101)**	3,316	**(6,688)**	4,697
Non-recurring items:				
+ Transaction costs on acquisitions and dispositions of investment properties and early repayment fees	**882**	521	**1,790**	917
Volatile non-monetary items				
± Fair value adjustment on investment properties	**3,607**	(33)	**10,505**	(23)
+ Fair value adjustment on derivative financial instruments	**330**	746	**4,427**	2,472
± Fair value adjustment on Class B LP units	**39**	(32)	**(961)**	197
Adjusted net income(1)	**3,757**	4,518	**9,073**	8,260
Per unit	**6.0¢**	7.9¢	**14.4¢**	14.6¢

(1) Non-IFRS financial measure.

This table shows a decrease of 16.8% in adjusted net income for the quarter, and an increase of 9.8% for the cumulative period, before the items mentioned above. Quarterly adjusted net income per unit decreased by 24.1% and by 1.4% for the cumulative period.

Operating results – same-property portfolio

Same-property portfolio

The same-property portfolio includes all the properties owned by BTB on January 1, 2019 and that are still owned by BTB on June 30, 2020, but it does not include acquisitions completed during 2019 and 2020, nor the results of properties sold during the same periods.

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

Periods ended June 30 (in thousands of dollars)	Quarter			Cumulative (6 months)		
	2020	2019	Δ	**2020**	2019	Δ
	$	$	%	**$**	$	%
Rental revenue	**19,491**	20,517	(5.0)	**40,011**	40,776	(1.9)
Operating expenses	**9,228**	9,467	(2.5)	**18,837**	19,219	(2.0)
Net operating income(1)	**10,263**	11,050	(7.1)	**21,174**	21,557	(1.8)
Interest expense on mortgage loans payable	**4,220**	4,312	(2.1)	**8,432**	8,492	(0.7)
Net property income(1)	**6,043**	6,738		**12,742**	13,065	
Increase in net property income from the same-property portfolio	***(10.3%)***			***(2.5%)***		

(1) Non-IFRS financial measure.

The decrease in rental revenue is attributable to the impact of the CECRA program ($0.4 million) and the loss of income from bankruptcy or the temporary closure of some tenants ($0.5 million). Operating expenses estimated at $0.4 million decreased by 2.5% due to savings resulting from the partial closure of certain properties in April and May. Excluding these effects, net operating income for the same-property portfolio would have decreased 2.7% or $0.3 million.

Distributions

Distributions and per unit data

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Distributions				
Cash distributions	**4,632**	5,276	**10,357**	10,418
Cash distributions – Class B LP units	**45**	56	**97**	112
Distributions reinvested under the distribution reinvestment plan	**698**	781	**1,529**	1,464
Total distributions to unitholders	**5,375**	6,113	**11,983**	11,994
Percentage of reinvested distributions	***13.0%***	*12.8%*	***12.8%***	*12.2%*
Per unit data[1]				
Distributions	**8.5¢**	10.5¢	**19.0¢**	21.0¢

(1) Including Class B LP units.

Distributions to unitholders totalled 3.5¢ per issued unit for the month of April 2020, and 2.5¢ per issued unit for each of May and June 2020, for a total of 8.5¢ for the second quarter of 2020 and 10.5¢ for each quarter of 2019.

Distribution reinvestment plan (DRIP)

In the second quarter of 2020, 13.0% of distributions (2019: 12.8%) were reinvested under the DRIP. Approximately $1.5 million (2019: $1.5 million) of the Trust's cash has thereby been preserved through payment of distributions in units of the Trust since the beginning of the year.

Funds From Operations (FFO)

The following table provides a reconciliation of net income and comprehensive income established in accordance with IFRS and FFO for the periods ended June 30, 2020 and 2019:

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net income and comprehensive income (IFRS)	**(1,101)**	3,316	**(6,688)**	4,697
± Fair value adjustment on investment properties	**3,607**	(33)	**10,505**	(23)
± Fair value adjustment on Class B LP units	**39**	(32)	**(961)**	197
+ Amortization of lease incentives	**771**	744	**1,523**	1,501
+ Fair value adjustment on derivative financial instruments	**330**	746	**4,427**	2,472
+ Leasing payroll expenses	**137**	128	**294**	252
+ Distributions - Class B LP units	**45**	56	**97**	112
FFO(1)	**3,828**	4,925	**9,197**	9,208
Non-recurring item				
Transaction cost on acquisitions and dispositions of investment properties and early repayment fees	**882**	521	**1,790**	917
Recurring FFO(1)	**4,710**	5,446	**10,987**	10,125
FFO per unit(2)	**6.1¢**	8.6¢	**14.6¢**	16.3¢
Recurring FFO per unit(2)	**7.5¢**	9.5¢	**17.5¢**	17.9¢
FFO payout ratio(3)	***140.1%***	*122.1%*	***129.9%***	*129.2%*
Recurring FFO payout ratio(3)	***113.9%***	*110.5%*	***108.8%***	*117.5%*

(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.

For the second quarter of 2020, recurring FFO decreased by 21.0%, and was 7.5¢ per unit, compared to 9.5¢ per unit in 2019. The recurring FFO payout ratio increased by 3.4% for the second quarter of 2020, and stood at 113.9% compared to 110.5% for the same quarter of 2019.

The recurring FFO for the quarter were affected primarily by the $0.4 million decrease in revenue due to the CECRA program and the additional allowance for expected credit losses totalling $1.1 million. These two elements contributed to a 2.5¢ decrease in FFO per unit and a 29% increase in distribution ratios.

Adjusted Funds from Operations (AFFO)

The following table provides a reconciliation of FFO and AFFO for the quarters ended June 30, 2020 and 2019:

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
FFO	**3,828**	4,925	**9,197**	9,208
± Straight-line rental income adjustment	**1**	(175)	**(143)**	37
+ Accretion of effective interest	**287**	272	**672**	521
+ Accretion of the liability component of convertible debentures	**—**	13	**—**	26
+ Amortization of other property and equipment	**24**	33	**48**	57
± Unit-based compensation expenses	**51**	89	**(122)**	304
- Provision for non-recoverable capital expenditures	**(461)**	(449)	**(938)**	(873)
- Provision for unrecovered rental fees	**(375)**	(345)	**(750)**	(690)
AFFO(1)	**3,355**	4,363	**7,964**	8,590
Non-recurring item				
Transaction costs on purchase and disposition of investment properties and early repayment fees	**882**	521	**1,790**	917
Recurring AFFO(1)	**4,237**	4,884	**9,754**	9,507
AFFO per unit(2)	**5.3¢**	7.6¢	**12.7¢**	15.2¢
Recurring AFFO per unit(2)	**6.7¢**	8.5¢	**15.5¢**	16.8¢
AFFO payout ratio(3)	***159.9%***	*137.9%*	***150.0%***	*138.5%*
Recurring AFFO payout ratio(3)	***126.6%***	*123.2%*	***122.5%***	*122.6%*

(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.

Recurring AFFO per unit totalled 6.7¢ for the second quarter of 2020 compared to 8.5¢ for the second quarter of 2019, a 21.2% decrease. The recurring AFFO payout ratio increased by 3.4%, where it stood at 126.6% for the second quarter of 2020 compared to 123.2% for the second quarter of 2019.

The recurring AFFO for the quarter was affected primarily by the $0.4 million decrease in revenue due to the CECRA program and the additional allowance for expected credit losses totalling $1.1 million. These two elements contributed to a 2.5¢ decrease in AFFO per unit and a 35% increase in the AFFO payout ratio.

In calculating AFFO, the Trust deducts a provision for non-recoverable capital expenditures to take into account capital expenditures invested to maintain the condition of its properties and to preserve rental revenue. This provision is based on management's assessment of industry practices and its investment forecasts for the coming years.

The following table compares the amount of the provision for non-recoverable capital investments to the amount of investment actually made during the current comparative quarter and in the last few years.

Periods ended June 30 and 12-month periods ended December 31 (in thousands of dollars)	**June 30, 2020 (6 months)**	June 30, 2019 (6 months)	December 31, 2019 (12 months)	December 31, 2018 (12 months)
	$	$	$	$
Provision for non-recoverable capital expenditures	**938**	873	1,851	1,719
Non-recoverable capital expenditures	**508**	614	2,603	1,871

The Trust intends to achieve a balance between actual investment and the estimated provisions over the long term. Management may change the provision calculation, 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 to fund distributions, debt service, capital expenditures in investment properties, lease incentives and rental fees.

Periods ended June 30 (in thousands of dollars)	**Quarter**		**Cumulative (6 months)**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net cash from (used in):				
Operating activities	**10,534**	11,897	**21,208**	20,113
Investing activities	**19,255**	(21,644)	**20,694**	(17,508)
Financing activities	**(30,697)**	6,207	**(41,885)**	(10,136)
Net change in cash during the quarter	**(908)**	(3,540)	**17**	(7,531)
Cash and cash equivalents, beginning of quarter	**2,728**	4,833	**1,803**	8,824
Cash and cash equivalents, end of quarter	**1,820**	1,293	**1,820**	1,293

Cash from operating activities decreased by $1.4 million to $10.5 million for the second quarter 2020, mainly due to the increase in rent receivable from tenants.

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

Periods ended June 30 and 12-month periods ended December 31 (in thousands of dollars)	**2020 (6 months)**	2019 (6 months)	2019 (12 months)	2018 (12 months)
	$	$	$	$
Net cash flows from operating activities (IFRS)	**21,218**	20,113	47,223	44,724
- Interest paid	**(11,296)**	(11,364)	(23,442)	(21,851)
Net cash flows from operating activities	**9,922**	8,749	23,781	22,873
Net income (loss)	**(6,688)**	4,697	51,881	41,337
Total distributions	**11,983**	11,994	25,141	22,154
Surplus (deficit) of net cash flows from operating activities compared to total distributions	**(2,061)**	(3,245)	(1,360)	719
Surplus (deficit) of net income (loss) over total distributions	**(18,671)**	(7,297)	26,740	19,183

The Trust presented distributions in excess of net cash flows from operating activities (IFRS) of $2,061, net of interest paid during the quarter ended June 30, 2020.

The surplus distributions resulted from the seasonality of activities for the quarter, specifically winter expenses and property taxes, most of which are paid in the first six months of the year but mostly recovered from tenants over a 12-month period.

The Trust may use authorized lines of credit totalling $22 million to finance surplus distributions. During the year ended December 31, 2019, the Trust presented a deficit of net cash flow from operating activities over total distributions of $1,360 (2018: surplus of $719).

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

Periods ended June 30 (in thousands of dollars, except for per unit data)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Cash flows from operating activities (IFRS)	**10,534**	11,897	**21,208**	20,113
+ Leasing payroll expenses	**137**	128	**294**	252
+ Transaction costs on purchase and disposition of investment properties	**—**	521	**—**	917
± Net change in non-cash operating items	**219**	(1,118)	**1,571**	1,199
- Net interest expense	**(5,817)**	(5,750)	**(11,631)**	(11,411)
- Provision for non-recoverable capital expenditures	**(461)**	(449)	**(938)**	(873)
- Provision for non-recovered rental fees	**(375)**	(345)	**(750)**	(690)
Recurring AFFO[1]	**4,237**	4,884	**9,754**	9,507
+ Provision for non-recoverable capital expenditures	**461**	449	**938**	873
+ Provision for non-recovered rental fees	**375**	345	**750**	690
+ Straight-line rental revenue adjustment	**(1)**	175	**143**	(37)
- Unit-based compensation expenses	**(51)**	(89)	**122**	(304)
- Accretion of non-derivative liability component of convertible debentures	**—**	(13)	**—**	(26)
- Accretion of effective interest	**(287)**	(272)	**(672)**	(521)
- Amortization of property and equipment	**(24)**	(33)	**(48)**	(57)
Recurring FFO[1]	**4,710**	5,446	**10,987**	10,125

(1) Non-IFRS financial measure.

Segmented Information

The Trust's operations are generated from four segments of properties located in the Provinces of Québec and of Ontario. The following tables present each segment's contribution to revenues and to net operating income for the periods ended June 30, 2020 and 2019.

Quarters ended June 30 (in thousands of dollars)	Retail		Office		Industrial		Mixed-use		Total
	$	%	$	%	$	%	$	%	$
Quarter ended June 30, 2020									
Investment properties	**257,267**	***28.8***	**398,820**	***44.6***	**136,017**	***15.2***	**102,575**	***11.4***	**894,679**
Rental revenue from properties (including CECRA)	**6,688**	***29.0***	**10,779**	***46.7***	**2,821**	***12.2***	**2,775**	***12.1***	**23,063**
Net operating income(1)	**3,844**	***30.9***	**5,428**	***43.7***	**1,843**	***14.8***	**1,304**	***10.6***	**12,419**
Quarter ended June 30, 2019									
Investment properties	263,429	*29.6*	373,274	*42.0*	145,232	*16.3*	107,301	*12.1*	889,236
Rental revenue from properties	6,267	*27.9*	10,849	*48.4*	2,994	*13.3*	2,327	*10.4*	22,437
Net operating income(1)	3,855	*31.6*	5,205	*42.7*	1,929	*15.8*	1,207	*9.9*	12,196

(1) Non-IFRS financial measure.

Periods ended June 30 (in thousands of dollars)	Retail		Office		Industrial		Mixed-use		Total
	$	%	$	%	$	%	$	%	$
Period ended June 30, 2020									
Rental revenue from properties	**13,551**	***28.9***	**21,888**	***46.6***	**5,912**	***12.6***	**5,580**	***11.9***	**46,931**
Net operating income(1)	**7,797**	***31.0***	**10,920**	***43.4***	**3,828**	***15.2***	**2,640**	***10.4***	**25,185**
Period ended June 30, 2019									
Rental revenue from properties	12,318	*28.0*	21,441	*48.6*	5,721	*13.0*	4,591	*10.4*	44,071
Net operating income(1)	7,285	*31.3*	10,231	*44.0*	3,454	*14.9*	2,277	*9.8*	23,247

(1) Non-IFRS financial measure.

Financial Position

The following table presents a summary of the Trust's balance sheet as at June 30, 2020 and December 31, 2019. It should be read in conjunction with the Trust's consolidated financial statements and the accompanying notes.

(in thousands of dollars)	Reference (page)	**June 30, 2020**	December 31, 2019
		$	$
Assets			
Investment properties	39	**894,679**	924,320
Balance of sale	41	**6,035**	6,035
Amounts receivable from tenants and other receivables	41	**8,743**	3,809
Other assets	42	**2,481**	3,163
Cash and restricted cash	45	**22,838**	1,803
Total assets		**934,776**	939,130
Liabilities			
Mortgage loans payable	43	**495,599**	493,152
Convertible debentures	44	**49,367**	49,096
Lease liabilities		**4,406**	4,454
Bank loans	44	**17,120**	12,460
Class B LP units	45	**1,220**	2,571
Accounts payable and other liabilities	46	**27,130**	21,258
Total liabilities		**594,842**	582,991
Equity			
Unitholders' equity	46	**339,934**	356,139
Total liabilities and equity		**934,776**	939,130

The main changes in the balance sheet as at June 30, 2020, compared to the balance sheet as at December 31, 2019, reflect the purchase and sale of investment properties, adjustments of the fair market value of investment properties, mortgage loans and the repayment of mortgage loans related to these transactions.

Assets

Investment properties

Over the years, BTB has fuelled its growth through high-quality property acquisitions based on its 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 value of its investment properties stood at $895 million as at June 30, 2020 compared to $924 million as at December 31, 2019. Because of loss of revenues due to the COVID-19 pandemic and the impact of closures and ad hoc rent agreements, the Trust recorded a decrease in the value of its portfolio as at June 30, 2020 of approximately $10.5 million since December 31, 2019.

Dispositions

In June 2020, the Trust disposed of an office property located at 1001, Sherbrooke Street East, Montréal, Québec, for total proceeds of $21.6 million.

Summary by operating segment

As at June 30	2020			2019		
	Number of properties	**Leasable area (sq. ft.)**	**%**	**Number of properties**	**Leasable area (sq. ft.)**	**%**
Office	29	2,073,157	***39.5***	29	2,185,855	*38.8*
Retail	12	1,409,565	***26.8***	12	1,409,564	*25.0*
Industrial	16	1,206,709	***23.0***	18	1,482,282	*26.2*
Mixed use	6	564,919	***10.7***	7	564,919	*10.0*
Subtotal	63	5,254,350	***100.0***	66	5,642,620	*100.0*
Properties under redevelopment	1	75,340		1	75,340	
Total	**64**	**5,329,690**		67	5,717,960	

Improvements in investment properties

BTB invests capital to improve its properties to preserve the quality of their infrastructure and services provided to tenants. These investments include value-added maintenance corresponding to expenditures required to upkeep properties, 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 are amortized and may be recovered from rent.

Capital expenditures for the quarter ended June 30, 2020 totalled $240, compared to $1,348 for the same quarter of 2019, of which $95 was recoverable (2019: $893). An amount of $280 was recovered from the former owner of a property. Capital expenditures do not include repair and maintenance costs. Capital expenditures vary from one quarter to another depending on the investment required or planned for each property.

Upon the signing of several leases, the Trust may make disbursements for leasehold improvements and for lease incentives applicable to the leased areas to meet the specific needs of tenants, as well as leasing commissions that are paid to independent brokers. These disbursements totalled $1,091 for the second quarter 2020 compared to $1,431 for the same period of 2019. The leasing fees and the cost of leasehold improvements/incentives 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/incentives varies depending on the lease renewal transaction concluded and tenancy profile.

The following table summarizes in capital expenditures, incentives and leasing fees, for the periods ended June 30, 2020 and 2019.

Periods ended June 30 (in thousands of dollars)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	$	$
Recoverable capital expenditures	**95**	893	**458**	1,050
Non-recoverable capital expenditures	**145**	455	**325**	614
Refund received	**(280)**	—	**(280)**	—
Total capital expenditures	**(40)**	1,348	**503**	1,664
Leasing fees and leasehold improvements	**1,091**	1,431	**3,630**	2,049
Total	**1,051**	2,779	**4,133**	3,713

The following table shows changes in the fair value of investment properties during the periods ended June 30, 2020 and 2019.

Periods ended June 30 (in thousands of dollars)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Balance, beginning of period	**919,632**	818,422	**924,320**	839,015
Additions:				
Initial recognition of right-of-use assets	**—**	—	**—**	3,900
Acquisitions	**—**	75,673	**22,286**	75,673
Dispositions	**(21,625)**	(7,100)	**(44,175)**	(31,550)
Capital expenditures	**(40)**	1,348	**503**	1,664
Leasing fees and capitalized lease incentives	**1,091**	1,431	**3,630**	2,049
Fair value adjustment on investment properties	**(3,607)**	33	**(10,505)**	23
Other non-monetary changes	**(772)**	(571)	**(1,380)**	(1,538)
Balance, end of period	**894,679**	889,236	**894,679**	889,236

Balance of sale

The Trust granted a balance of sale when it disposed of a property located in Delson (Québec). The principal amount of the balance of sale is $6 million, bearing interest at 7% for the first 3 years, 7.5% for the 4th year and 8% for the 5th year. It will mature on or before February 1, 2024.

Amounts receivable from tenants and other receivables

Amounts receivable from tenants and other receivables increased from $3,809 as at December 31, 2019 to $8,743 as at June 30, 2020. These amounts are summarized below:

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$	$	$
Rent receivable from tenants	**8,460**	2,801	2,579
Allowance for expected credit losses	**(2,078)**	(716)	(757)
	6,382	2,085	1,822
Unbilled recoveries	**643**	776	989
CECRA receivable	**877**	—	—
Other receivables	**841**	948	712
Amounts receivable from tenants and other receivables	**8,743**	3,809	3,523

The amount of rent receivable from tenants includes $1,026 to be received under payment deferral agreements agreed upon with tenants.

Other assets

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

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$	$	$
Property and equipment	**1,116**	1,067	1,045
Accumulated depreciation	**(853)**	(804)	(755)
	263	263	290
Prepaid expenses	**1,465**	1,921	7,784
Derivative financial instruments	**—**	304	141
Deposits	**753**	675	481
Other assets	**2,481**	3,163	8,696

Cash

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$	$	$
Free cash flow	**1,820**	1,803	1,293
Restricted cash(1)	**21,018**	—	—
Cash	**22,838**	1,803	1,293

(1) On June 30, 2020, the Trust disposed of an investment property for a sale price of $21.6 million. Proceeds were received on July 2, 2020 and the mortgage loan with a balance of $9.9 million was repaid on the same day.

Capital Ressources

Long-term debt

The following table shows the balances of BTB's indebtedness on June 30, 2020, including mortgage loans and convertible debentures, based on the year of maturity and corresponding weighted average contractual interest rates:

As at June 30, 2020 (in thousands of dollars)	**Balance of convertible debentures**	**Balance of mortgages payable**	**Weighted average contractual interest rate**
	$	$	**%**
Year of maturity			
2020	26,700	59,844	5.16
2021	—	60,564	3.48
2022	—	33,367	3.59
2023		36,293	3.76
2024	24,000	84,447	4.62
2025 and thereafter	—	222,765	3.53
Total	**50,700**	**497,280**	**4.02**

Weighted average contractual interest rate

As at June 30, 2020, the weighted average contractual interest rate of the Trust's long-term debt stood at 4.02%, i.e., 3.75% mortgage loans and 6.61% for convertible debentures.

Mortgage loans

As at June 30, 2020, the Trust's total mortgage loans amounted to $497 million compared to $498 million on June 30, 2019 and $495 million on December 31, 2019, before deferred financing expenses and valuation adjustments. Fluctuations result from the financing of acquisitions completed in 2019 and 2020, refinancings and principal repayments on monthly payments and dispositions.

On July 2, 2020, a loan with a balance of $9.9 million was repaid in full with restricted cash as part of the sale of the property at 1001, Sherbrooke Street East, Montréal, Québec.

The following table summarizes changes in mortgage loans payable during the periods ended June 30, 2020 and 2019:

Periods ended June 30 (in thousands of dollars)	**Quarter**	Cumulative (6 months)
	$	$
Balance at beginning	**497,222**	495,247
Mortgage loans contracted or assumed	**6,000**	33,169
Balance repaid at maturity or upon disposition	**(4,206)**	(25,791)
Monthly principal repayments	**(1,736)**	(5,345)
Balance as at June 30, 2020	**497,280**	497,280

Note: Before unamortized financing expenses and valuation adjustments.

As at June 30, 2020, the weighted average interest rate was 3.75% compared to 3.93% as at June 30, 2019, a decrease of 18 basis points. As at June 30, 2020, except for three loans with a cumulative balance of $33.6 million, all mortgages payable bear interest at fixed rates ($402.2 million) or are subject to an interest rate swap ($61.5 million).

The weighted average term of existing mortgage loans was 4.8 years as at June 30, 2020. It was 5.3 years as at June 30, 2019.

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

Except for five properties, two of them partially securing the acquisition and operating lines of credit as at June 30, 2020 all of the Trust's other properties were subject to mortgages as at June 30, 2020. Unamortized loan financing expenses totalled $2,390 and are amortized under the effective interest method over the term of the loans.

The following table, as at June 30, 2020, shows future mortgage loan repayments for the next few years:

As at June 30, 2020 (in thousands of dollars)	**Principal repayment**	**Balance at maturity**	**Total**	**% of total**
	$	$	$	
Maturity				
2020 (6 months)	6,842	69,371	76,213	15.3
2021	14,767	58,241	73,008	14.7
2022	13,069	18,822	31,891	6.4
2023	10,991	32,624	43,615	8.8
2024	8,631	73,493	82,124	16.5
2025 and thereafter	36,354	154,075	190,429	38.3
Total	**90,654**	**406,626**	**497,280**	**100.0**
+ Valuation adjustments on assumed loans			709	
- Unamortized financing expenses			(2,390)	
Balance as at June 30, 2020			**495,599**	

As at June 30, 2020, the Trust was in compliance with all the covenants to which it was subject except for one mortgage loan's debt service coverage ratio. The mortgage loan matured in July 2020 and was renewed with no additional conditions. The balance of the said mortgage loan as at June 30, 2020 was $18.1 million. The Trust has always met the other mortgage loan provisions and has never been late on a monthly payment.

Convertible debentures

(in thousands of dollars)	**Series F[(1)(3)]**	**Series G[(2)(3)]**	**Total**
Par value	26,700	24,000	
Contractual interest rate	7.15%	6.00%	
Effective interest rate	8.47%	7.30%	
Date of issuance	December 2015	October 2019	
Per-unit conversion price	$5.65	$5.42	
Date of interest payment	June 30 and December 31	April 30 and October 31	
Maturity date	December 2020	October 2024	
Balance as at June 30, 2020	**26,528**	**22,839**	**49,367**

(1) Redeemable by the Trust before December 31, 2020, at a redemption price equal to their principal amount plus accrued and unpaid interest.
(2) Redeemable by the Trust, under certain conditions, as of October 31, 2022, but before October 31, 2023, 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 G conversion price and, as of October 31, 2023, but before October 31, 2024, 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 F and G debentures by issuing freely tradable units to Series F and G 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 said bank's prime rate. As at June 30, 2020, $2,020 of the operating credit facility was used.

Bank loan – acquisition credit facility

BTB has an acquisition credit facility of $19 million with a Canadian chartered bank. The facility bears interest at a rate of 3.25% above the said bank's prime rate. As at March 31, 2020, $13.1 million of the acquisition credit facility was 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 mortgage debt exceeds 75% of the total value of the assets 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 failure to abide by this condition, the Trust has a 12-month delay from the date of knowledge to remedy the situation.

The following table presents the Trust's debt ratios as at June 30, 2020 and 2019 and December 31, 2019.

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$		$
Free cash flow(2)	**(12,938)**	(1,803)	(1,293)
Mortgage loans outstanding(1)(2)	**487,380**	495,247	498,416
Convertible debentures(1)	**50,700**	50,700	49,700
Acquisition credit facility	**15,100**	10,200	10,200
Total long-term debt less free cash flow	**540,242**	554,344	557,023
Total value of the assets of the Trust less free cash flow	**922,691**	938,131	908,244
Mortgage debt ratio (excluding convertible debentures and acquisition credit facility)	***52.8%***	*52.8%*	*54.9%*
Debt ratio – convertible debentures	***5.5%***	*5.4%*	*5.5%*
Debt ratio – acquisition line of credit	***1.6%***	*1.1%*	*1.1%*
Total debt ratio	***58.6%***	*59.1%*	*61.4%*

(1) Gross amounts.
(2) On June 30, 2020, the Trust disposed of an investment property for a sale price of $21.6 million. Proceeds were received on July 2, 2020 and the mortgage loan with a balance of $9.9 million was repaid on the same day. These transactions were taken into account in the calculation of the debt ratios.

According to the table above, the mortgage debt ratio, excluding the convertible debentures and acquisition credit facility as at June 30, 2020, amounted to 52.8%, the same rate as at December 31, 2019 and down 2.1% from June 30, 2019. Including the convertible debentures and the acquisition credit facility, the total debt ratio stood at 58.6%, down 0.5% from December 31, 2019 and 2.8% from June 30, 2019.

The Trust seeks to finance its acquisitions with a maximum mortgage debt ratio of 65% since the cost of financing is lower than the capital cost of the Trust's equity.

Interest coverage ratio

For the quarter ended June 30, 2020, the interest coverage ratio stood at 2.13, an increase of 1 basis point from the second quarter of 2019.

Periods ended June 30 (in thousands of dollars, except for the ratios)	**Quarter**		**Cumulative (6 months)**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net operating income	**12,419**	12,196	**25,185**	23,247
Net interest expense(1)	**5,817**	5,750	**11,631**	11,411
Interest coverage ratio	***2.13***	*2.12*	***2.17***	*2.04*

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

Class B LP units

Period ended June 30, 2020 (in number of units)	**Quarter**		**Cumulative (6 months)**	
	Units	$	**Units**	$
Class B LP units outstanding, beginning of quarter	**497,265**	1,571	**497,265**	2,571
Exchange into Trust units	**(100,000)**	(390)	**(100,000)**	(390)
Fair value adjustment		39		(961)
Class B LP units outstanding, end of quarter	**397,265**	1,220	**397,265**	1,220

The Class B LP units are exchangeable at any time, at the option of the holder, for an equal number of units of BTB trading on the TSX. They are entitled to receive 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 FFO and AFFO.

On May 4, 2020, at the request of the holders, 100,000 Class B LP units were exchanged for units of BTB.

The Class B LP units were issued on May 30, 2018 in consideration for the acquisition of the residual portion of "Complexe Lebourgneuf – Phase II" in Québec City (less the portion related to the mortgage loan assumption by BTB). The holders of the Class B LP units were entitled to a $45 distribution during the second quarter of 2020, and a $97 distribution for the cumulative 6-month period of 2020.

Accounts payable and other liabilities

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$	$	$
Trade and other payables	**20,853**	17,984	21,795
Distributions payable to unitholders	**1,570**	2,179	2,165
Unit-based compensation	**539**	1,050	687
Derivative financial instruments	**4,168**	45	1,014
Accounts payable and other liabilities	**27,130**	21,258	25,661

Seasonal factors, the extent of certain leasehold development work carried out in recent months and the use of municipal tax deferral measures explain the increase in the amount of trade and other payables as at June 30, 2020 compared to December 31, 2019.

Unitholders' equity

Unitholders' equity consists of the following:

(in thousands of dollars)	**June 30, 2020**	December 31, 2019	June 30, 2019
	$	$	$
Trust units	**307,399**	305,029	303,162
Cumulative comprehensive income	**179,017**	185,706	138,522
Distributions	**(146,482)**	(134,596)	(121,561)
Unitholders' equity	**339,934**	356,139	320,123

Distribution reinvestment plan

A distribution reinvestment plan is in place under which unitholders may elect to receive payment of distributions in units, at a 3% discount on the market value of the units at the time of payment. Under the program, 225,257 units were issued during the second quarter of 2020 (2019: 163,578 units).

Units outstanding

The following table summarizes the total number of units outstanding during the reporting quarters and cumulative periods and the weighted number of units outstanding for the same quarters and cumulative periods.

Periods ended June 30 (in number of units)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
Units outstanding, beginning of the period	**62,496,770**	55,530,110	**62,251,558**	55,317,723
Units issued	**—**	6,157,100	**—**	6,157,100
Distribution reinvestment plan	**225,257**	163,578	**396,975**	313,882
Awards - employee unit purchase plan	**—**	—	**11,194**	9,253
Awards - restricted unit compensation plan	**—**	—	**59,327**	52,830
Awards – deferred unit plan	**—**	—	**2,973**	—
Class B LP units exchanged for units	**100,000**	—	**100,000**	—
Units outstanding, end of the period	**62,822,027**	61,850,788	**62,822,027**	61,850,788
Weighted average number of units outstanding	**62,681,044**	56,762,218	**62,535,591**	56,105,724
Weighted average number of Class B LP units and units outstanding	**63,114,573**	57,294,483	**63,000,988**	56,637,989

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 June 30, 2020 and 2019.

Periods ended June 30 (in number of units)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
Deferred units outstanding, beginning of the period	**73,632**	50,657	**59,642**	37,056
Deferred units issued – Trustees' compensation	**2,766**	1,851	**18,342**	14,520
Distributions paid in units	**2,031**	1,123	**3,418**	2,055
Converted units	**—**	—	**(2,973)**	—
Deferred units outstanding, end of the period	**78,429**	53,631	**78,429**	53,631

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 purpose of the plan is also an executive retention tool.

The following table summarizes restricted units outstanding during the periods ended June 30, 2020 and 2019.

Periods ended June 30 (in number of units)	Quarter		Cumulative (6 months)	
	2020	2019	**2020**	2019
Restricted units outstanding, beginning of the period	**119,583**	101,302	**165,012**	138,919
Restricted units issued	**35,339**	60,920	**49,237**	76,133
Restricted units cancelled	**(10,971)**	(666)	**(10,971)**	(666)
Restricted units converted	**—**	—	**(59,327)**	(52,830)
Restricted units outstanding, end of the period	**143,951**	161,556	**143,951**	161,556

Employee unit purchase plan

The Trust offers its employees an optional unit purchase plan. 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 June 30, 2020, no units were issued (2019: nil).

Off-balance sheet arrangements and contractual commitments

BTB does not have any other off-balance sheet arrangement or commitment 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, its properties are managed and operated to integrate sustainable development values into the Trust's activities, to promote the health and well-being of its employees and the communities where it operates, to manage its environmental footprint, and to 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 23 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 a 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, 23 properties in BTB's portfolio have received various levels of BOMA BEST certification, including Gold (2), Silver (3), Bronze (6) and Certified (12). This prestigious certification recognizing BTB's excellence in environmental property management was awarded by the Building Owners & Managers Association - BOMA Québec, a leader in the real estate industry since 1927.

In the future, BTB plans to continue to reduce 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 to upgrade buildings. BTB also expects to keep its BOMA BEST certifications and achieve the highest level of performance for certain of its properties.

Initiatives

BTB Bees – Alvéole: As an ecoresponsible landlord, BTB, in partnership with the firm Alvéole, has taken part in a unique initiative to help regenerate an endangered species by installing beehives on the roofs of 14 of its properties and this, since 2018. Alvéole's dedicated beekeepers tend to the hives and its bees on a bi-weekly basis and following the late summer harvest, BTB distributes the packaged honey to its clients and collaborators.

Ecosystem Protection - Grame: In early September 2019, BTB's team, in partnership with the non-profit organization Grame, took part in a tree-planting event, not only to beautify the playground of a primary and secondary school located in Montréal's West Island, but to also help purify and filter the ecosystem. More than forty-five of BTB's employees volunteered their time to help plant more than 60 trees.

Social Reintegration - Société de Développement Social de Montréal: Since 2016, BTB has entrusted the Société de Développement Social de Montréal ("SDS") with the cleaning of its indoor parking facilities. With their mission of fighting against homelessness and the social exclusion of its members, their program, Action Méditation, provides psychosocial assistance to people who are or are at risk of becoming homeless, whilst facilitating cohabitation and collaboration among various communities located in Montréal. The foundation is based on a principle of social solidarity and the pooling of human, technical and economic resources to address serious societal issues. SDS acts as an intermediary between the business world and communities by transparently and impartially involving businesses in more practical and humanitarian projects.

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, dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions 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 dispositions 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," the 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 June 30, 2020, 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 2020 or any other subsequent year.

Taxation of Unitholders

For Canadian unitholders, to the best of the Trust management's knowledge, distributions are qualified as follows for taxation purposes:

Periods ended June 30	**2020**	2019
	%	%
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.

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 2019 Annual Information Form for the year ended December 31, 2019, 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
- A possible economic recession

BTB has not identified any significant changes to the risks and uncertainties to which it is exposed in its business, except for the following risk:

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The Québec government has taken many steps in its management of the health crisis, including the closure on March 25 of all non-essential stores and services. The recovery was gradual and our properties outside Montréal were able to start operating as of May. This led to the opening of Montréal's malls and restaurants in mid-June.

Since the beginning of the crisis, BTB has set up a COVID-19 task force to ensure full management of all collateral effects on our tenants, suppliers, creditors, as well as our employees. Several actions have been taken, including: review of rent agreements with tenants and coordination with tenants for the application of the federal grant under the CECRA program; participation with our creditors to reduce our mortgage payments during this period; appropriate implementation of cost control and control of our investments; strengthening sanitation, health and safety measures in our properties and restricting access to our buildings.

During this period, several companies announced bankruptcies and restructurings, mainly in the retail sector. To date, BTB's portfolio has been affected very little by this news. However, there is a risk that new tenants will be affected in the future by financial constraints and this could have an impact on our operations and on our financial results.

BTB continues to closely monitor business operations and is aware that the impact of COVID-19 on the global economy and its duration remains uncertain. BTB may take further actions in response to directives of government and public health authorities or that are in the best interests of employees, tenants, suppliers or other stakeholders, as necessary.

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 December 31, 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 June 30, 2020, 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 second quarter of 2020, 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;
- **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 FFO and AFFO;
- The **debt ratio**, which is used to assess BTB's financial stability 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 as of the end of the quarter but not yet started;
- The **in-place occupancy rate**, which shows the percentage of total income-producing leasable area held 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 revenue 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 revenue 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 revenue 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 $497.3 million as at June 30, 2020, compared to $498.4 million as at June 30, 2019.
- Series F and G convertible debentures for a total par value of $50.7 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 expected credit losses 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, 2019 and still owned as at June 30, 2020, but does not include the financial impacts from dispositions, acquisitions and developments completed in 2019 and 2020, 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 revenue from properties from the same-property portfolio, less operating expenses and interest on mortgage financing of the same portfolio

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 revenue 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 to 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.

MANAGEMENT DISCUSSION
AND ANALYSIS
Quarter Ended June 30th, 2020

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