# Building on solid foundations

BTB Real Estate Investment Trust
2014 Annual Report

# Profile

**BTB is a real estate investment trust listed on the Toronto Stock Exchange. It owns and manages a portfolio of 71 commercial, industrial and office properties, located primarily in the Montréal, Québec City and Ottawa areas. Its portfolio comprises more than 4.8 million square feet of leasable area.**

**Since BTB's inception in 2006, the total value of its assets has grown steadily and now stand at nearly $587 million, making BTB the second-largest real estate investment trust in the Province of Québec.**

BTB's primary objective is to maximize total return for unitholders by:

- generating stable monthly cash distributions that are reliable and tax-efficient;
- increasing the Trust's assets value through internal growth and acquisition strategies in order to increase available income and fund distributions;
- managing assets internally in a centralized and controlled fashion in order to reduce operating expenses, management fees and rental expenses;
- maximising the value of its assets through dynamic and responsible management so as to ensure the long-term value of its units.

## Table of contents

# Highlights

Annual revenues from properties

**$70M**

Total assets

**$587M**

Total number of properties

**71**

Total number of square feet

**4.8M**

Payout ratio of distributable income

**78%**

Mortgage debt ratio

**56.4%**

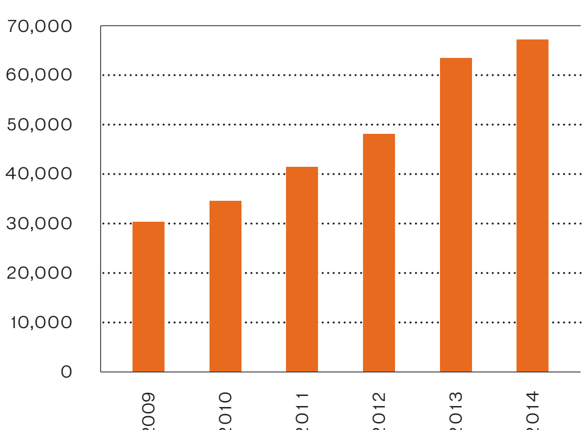
Occupancy rate

**92,7%**

**Evolution of operating revenues for the years ending December 31st**

**(in thousands of dollars)**

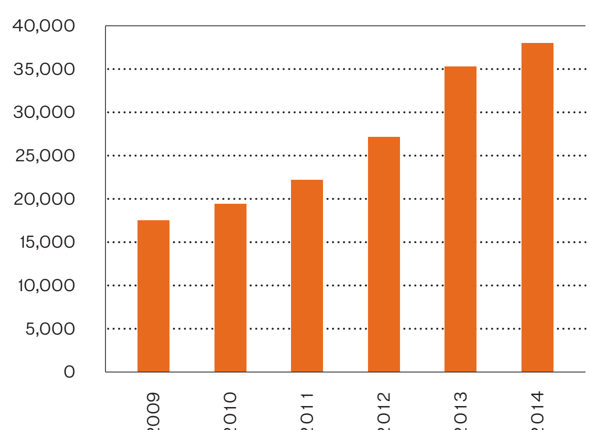
| | |
|---|---|
| 2009 | 30,325 |
| 2010 | 34,595 |
| 2011 | 41,459 |
| 2012 | 48,118 |
| 2013 | 63,435 |
| 2014 | 67,170 |




**Evolution of net operating income for the years ending December 31st**

**(in thousands of dollars)**

| | |
|---|---|
| 2009 | 17,509 |
| 2010 | 19,357 |
| 2011 | 22,122 |
| 2012 | 26,996 |
| 2013 | 35,336 |
| 2014 | 37,983 |



1001 Sherbrooke Street East, Montreal


15-41 Georges-Gagné Blvd,Delson

204 De Montarville Blvd, Boucherville

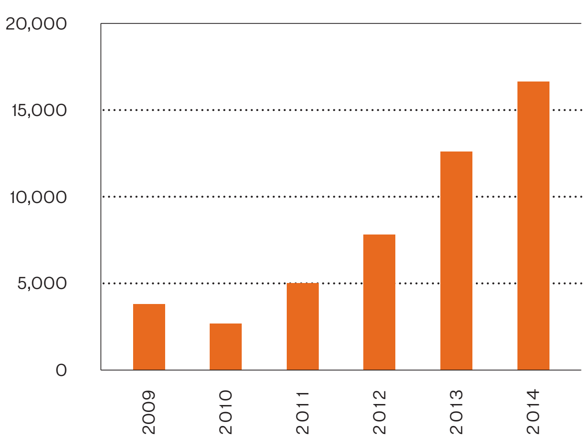
Photo: Courtesy of Lufa Farms Inc.

1400-1440 Antonio-Barbeau Street, Montreal

**Evolution of yearly distribution payments for the years ending December 31st**

**(in thousands of dollars)**

| | |
|---|---|
| 2009 | 3,813 |
| 2010 | 2,684 |
| 2011 | 5,026 |
| 2012 | 7,805 |
| 2013 | 12,610 |
| 2014 | 16,626 |




**Evolution of total leasable area for the years ending December 31st**

**(in thousands square feet)**

| | |
|---|---|
| 2009 | 2,236 |
| 2010 | 2,866 |
| 2011 | 3,272 |
| 2012 | 4,341 |
| 2013 | 4,580 |
| 2014 | 4,821 |

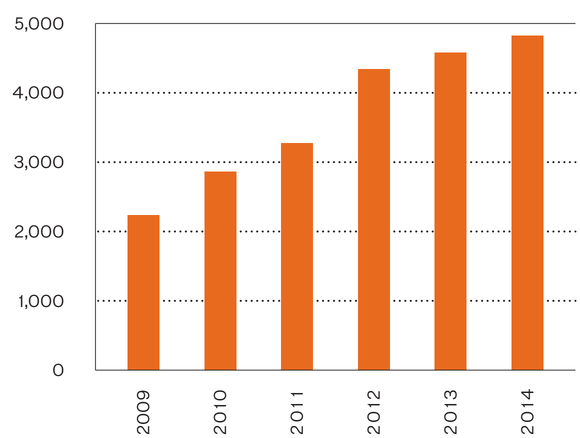


Photo: Courtesy of Strongco

175 Rotterdam Street, Saint-Augustin-de-Desmaures

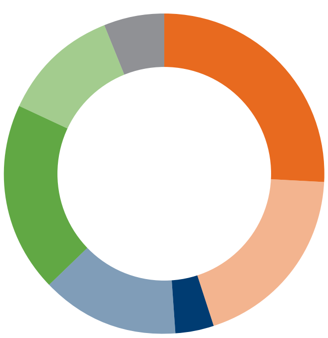
810 Sherbrooke Street East, Montreal

6700 Pierre-Bertrand Blvd, Quebec

Édifice Lombard, 915 Pierre-Bertrand Blvd, Quebec

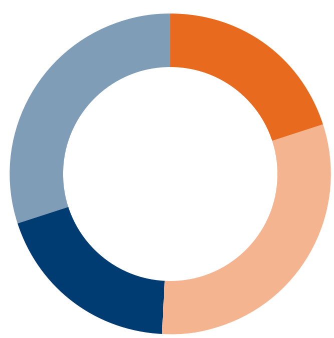
**Breakdown of portfolio by geographical region at December 31st, 2014**

| (per leasable area) | |
|---|---|
| Greater Quebec city area | 26% |
| Island of Montreal | 19% |
| London region | 4% |
| Ottawa region | 14% |
| South shore of Montreal | 19% |
| Laval / North shore of Montreal | 12% |
| Sherbrooke | 6% |
| **Total** | **100%** |



**Breakdown by asset type at December 31st, 2014**

| (per leasable area) | |
|---|---|
| Mixed-use | 20% |
| Office | 31% |
| Retail | 19% |
| Industrial | 30% |
| **Total** | **100%** |



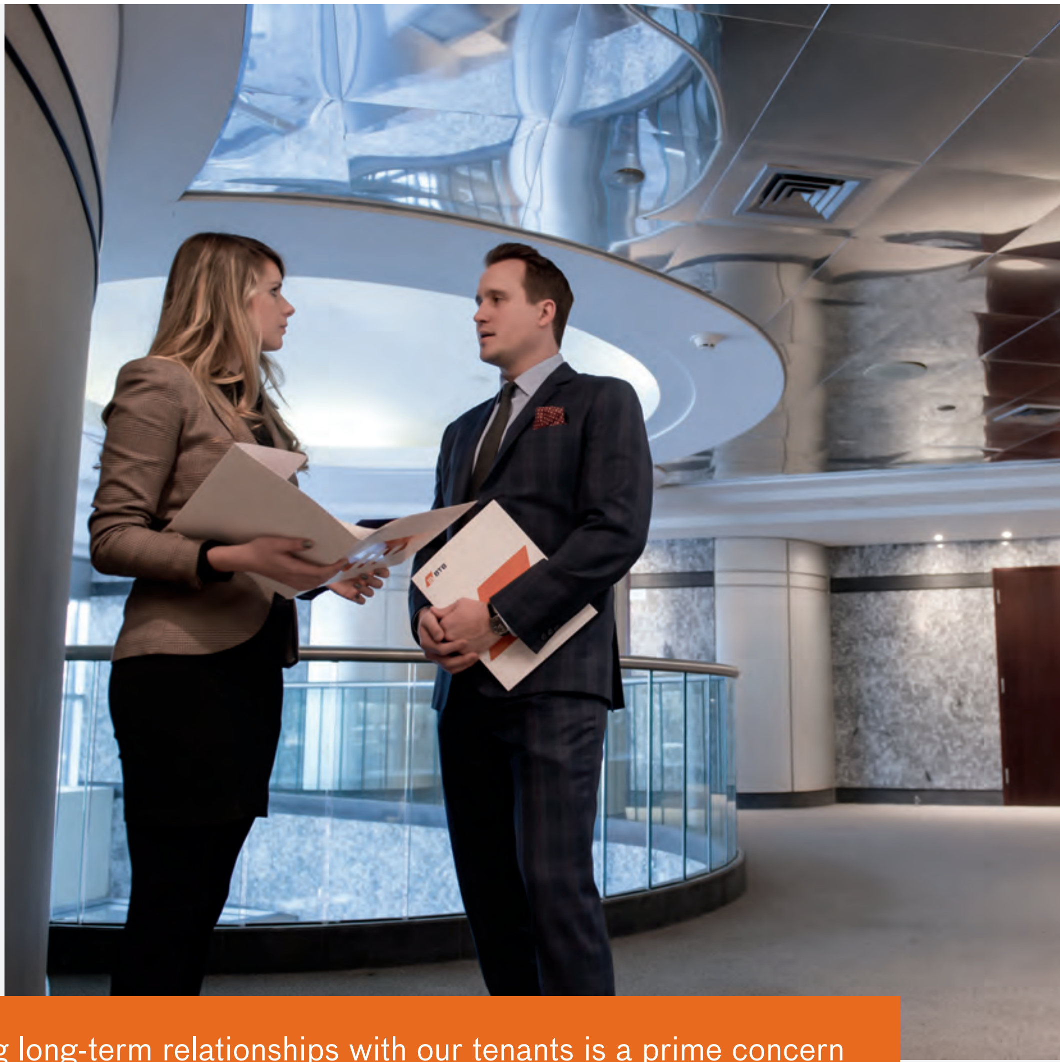

For the past two years, BTB ranked amongst Canada's top-performing real estate investment trusts, providing its unitholders with a total return of more than 30%, calculated on unit appreciation and distribution payments.

# **Creating** added value **for unit holders**


DYNAMIC
Solomon
Polyester/Nylon

# **Managing** our portfolio **efficiently**

BTB is a major property owner in Eastern Canada, with total assets in excess of $585 million. BTB owns 71 buildings, with a leasable area totalling more than 4.8 million square feet.



Building long-term relationships with our tenants is a prime concern for all of our employees. The occupancy rate of our portfolio has increased, ending the year at 92.7% of BTB's leasable area. Our dynamic team contributed to increase our average lease rental rate on lease renewals by 8.7%.

# Focused on customer satisfaction


ВТБ

# Growing strategically

By being selective in its acquisitions, BTB has purchased quality assets that attract first-class tenants. The buildings acquired in 2014 benefit from an advantageous position in their respective markets.

# Message from the Chairman of the Board of Trustees and from the President and Chief Executive Officer

> ***"The strength of BTB's results enables us to look to the future with confidence and has allowed the Board of Trustees to reward our unitholder's patience by increasing distributions."***
>
> Jocelyn Proteau, Chairman, Board of Trustees

From left to right:
Michel Léonard, President and Chief Executive Officer,
Jocelyn Proteau, Chairman of the Board of Trustees

## Building with vision and leadership

Since BTB's inception, we focused our energy on building our business in a strategic and controlled manner. As our real estate portfolio grew, so has the responsibility to manage our assets and enhance the value creation of our portfolio. Every day, our team is busy making decisions that have direct impact on our clients and on our performance. Beyond bricks and mortar, the source of BTB's strength resides in its human capital. The vision and leadership of the men and women who invest their time and energy in the success of BTB are the root of 2014's excellent results.

BTB's top priority is the interests of unitholders, clients and employees. Because of the dedication of everyone involved with the Trust, the year 2014 was profitable.

We are proud to communicate our results for the year 2014, during which BTB saw improvements of all its performance indicators. BTB is a major property owner in Eastern Canada, with a total assets value in excess of $585 million. The Trust owns 71 commercial, industrial and office properties that generate annual revenues of more than $70 million. The total leasable area of its portfolio is more than 4.8 million square feet.

At the close of this fiscal year, its net operating income increased by 7.5% and the payout ratio of its distributable income stood at 78%, compared to 83% at year-end 2013. BTB's funds from operations (FFO) increased by 31%, while adjusted funds from operations (AFFO) grew by 37%.

### Creating value for investors

Profitability and value-creation are key to BTB's strategy. With a total return to investors of over 30% over the last two years, based on unit appreciation and distribution return, we are hopeful that our results for the year 2014 met our unitholders' expectations. BTB's equity totals nearly $178 million. Based on the number of units outstanding on December 31, 2014, which was 34.1 million units, the book value of BTB units stood at $5.20 per unit.

The strength of BTB's results enables us to look to the future with confidence and allowed the Board of Trustees to reward our unitholder's patience by increasing distributions. In September 2014, the trustees voted a 5% increase in distributions to unitholders, up from $0.40 to $0.42 on an annualized basis. This sent a positive signal to investors, one that reflects the quality and efficiency of our team and confirms the trustees' and management's confidence in BTB's future.

### Rigorously managing our debt

In terms of mortgage debt, BTB refinanced approximately $60 million of mortgage loans that matured during the year. Given the favourable lending climate, we managed to reduce our interest expense. As a result, the average interest rate on our mortgage debt has fallen from 4.44% to 4.13%, leading to annualized savings of over $1 million. The mortgage debt ratio declined from 57.4% (at the end of 2013) to 56.3% (as at December 31, 2014).

There were other financing activities. We secured a new $15 million acquisition line of credit, under more favourable conditions than the former acquisition line of credit. Also, as part of the acquisitions concluded during the year, we secured nearly $27 million in mortgage financing to support these acquisitions.

Finally, we issued of 5,436,000 units from treasury, gleaning almost $25 million in capital, which was used to reduce BTB's previous acquisition line of credit and to acquire properties.

## Acquiring high-value assets

By being selective in our acquisitions and striving for excellence, we demonstrated our acquisition skills and our expertise in seizing opportunities. We purchased two high-quality assets, well positioned in their respective markets. The first acquisition is a major shopping centre located in Saint-Jean-sur-Richelieu and the second, an industrial complex located in an industrial park in Québec City. During the year, we invested approximately $40 million and added nearly 300,000 square feet to our total leasable area.

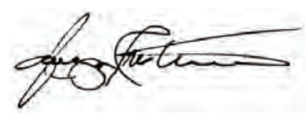
## Client satisfaction

During the year we experienced a strong leasing activity. At the end of the year, our properties' occupancy rate rose to 92.7%. Managing our properties and building lasting relationships with all of our tenants are paramount to us.
The foremost mission of our management team is to maintain relationships with our clients, based on mutual trust, hoping they will remain with us on a long term basis.

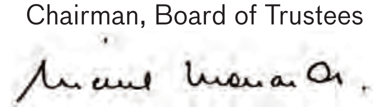
Because of our strong team of professionals, we continue to see steady revenue growth, solidifying our foundations. We wish to recognize the invaluable contribution of our employees, each of whom is dedicated to making BTB a top-performing real estate entity. We would also like to thank all the members of our Board of Trustees, whose guidance is invaluable and who constantly support us in the pursuit of our goals.

From the very first day we opened for business, we have upheld our key values of integrity, respect and quality service, and we will continue to work towards our goal of reaching $1 billion of total assets over the next few years.

Since we built a solid foundation, we can look to the future with confidence and determination.



Jocelyn Proteau
Chairman, Board of Trustees



Michel Léonard
President and Chief Executive Officer

***"Beyond bricks and mortar, the root of BTB's strength resides in its people. The vision and leadership of the men and women who invest their time and energy in the success of BTB are the cornerstone of 2014's excellent results."***

Michel Léonard, President and Chief Executive Officer

# Executive Team

From left to right: Dominic Gilbert, Benoit Cyr,
Michel Léonard and Frédéric Seigneur.

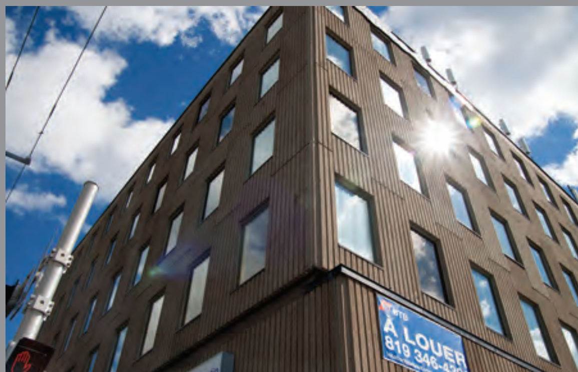
**Michel Léonard**
President and Chief Executive Officer

**Benoit Cyr, CPA, CA, MBA**
Vice President and Chief Financial Officer

**Dominic Gilbert, B.A.A.**
Vice President, Property Management

**Frédéric Seigneur**
Vice President, Leasing

# Our Properties




1640-1650 King Street West, Sherbrooke

15-41 Georges-Gagné Blvd,Delson

32 St-Charles Street West, Longueuil

1400 Marie-Victorin Street, St-Bruno

## Portfolio listing

**Island of Montreal**
1400-1440 Antonio-Barbeau Street, Montreal
5810 and 5878-5882 Sherbrooke Street East, Montreal
7001-7035 St-Laurent Blvd, Montreal
2212-2226 Dollard Street, Montreal
1001 Sherbrooke Street East, Montreal
2153-2155 Crescent Street, Montreal
550-560 Henri-Bourassa Blvd, Montreal
3627-3645 des Sources Blvd, Dollard-des-Ormeaux
3761-3781 des Sources Blvd, Dollard-des-Ormeaux
Marché de l'Ouest
    11600-11800 De Salaberry Blvd, Dollard-des-Ormeaux
1863-1865 Trans-Canada Highway, Dorval*
1325 Hymus Blvd, Dorval
5600 Côte-de-Liesse, Mont-Royal
4105 Sartelon Street, St-Laurent
208-244 Migneron Street and 3400-3410
Griffith Street, St-Laurent
7777 Trans-Canada Highway, St-Laurent
2265-2665-2673 et 2681 Côte Saint-Charles,
Saint-Lazare

**Laval/North Shore**
2900 Jacques-Bureau Street, Laval
1125-1135 St-Martin Blvd. West, Laval
2004-2016 René-Laennec Blvd, Laval
4535 Louis B. Mayer Street, Laval
3695 Des Laurentides (Highway-15), Laval
81-83 Turgeon Street, Ste-Thérèse
5791 Laurier Blvd, Terrebonne
2175 Des Entreprises Blvd, Terrebonne
2205-2225 Des Entreprises Blvd, Terrebonne

**South Shore of Montreal**
4890-4898 Taschereau Blvd., Brossard
2340 Lapinière Blvd, Brossard
100 Montarville Blvd., Boucherville
204 De Montarville Blvd, Boucherville
32 St-Charles Street West, Longueuil
50 St-Charles Street West, Longueuil
85, St-Charles Street West, Longueuil
3036-3094 De Chambly Road, Longueuil
2111 Fernand-Lafontaine Blvd, Longueuil
2350 Chemin du Lac, Longueuil
1400 Marie-Victorin Street, St-Bruno-de-Montarville
Les Halles St-Jean
    145 St-Joseph Blvd, St-Jean-sur-Richelieu
Le Bougainvillier
    315-325 MacDonald Street, St-Jean-sur-Richelieu
Les galeries Richelieu
    1000 Du Séminaire Nord Blvd, St-Jean-sur-Richelieu
Plaza Delson
15,19,21,35 et 41 Georges-Gagné Blvd, Delson


204 Georges-Gagné Blvd, Delson

2900 Jacques-Bureau Street, Laval

705-725-805, Boundary Road, Cornwall*

1863-1865, route Transcanadienne, Dorval*

**Quebec City Area**
Place d'Affaires Lebourgneuf, Phase I
6655 Pierre-Bertrand Blvd, Quebec
Centre d'affaires Le Mesnil
1170 Lebourgneuf Blvd, Quebec
Complexe Lebourgneuf
825 Lebourgneuf Blvd, Quebec
Place d'affaires Lebourgneuf, Phase II
6700 Pierre-Bertrand Blvd, Quebec
Édifice Lombard
909-915 Pierre-Bertrand Blvd, Quebec
Complexe Lebourgneuf, Phase II
815 Lebourgneuf Blvd, Quebec
Edifice Brinks
191 D'Amsterdam Street, St-Augustin-de-Desmaures
Terrasses des Lilas
1100 and 1108-1136 St-Joseph Blvd, Drummondville
Complexe de Léry
505 Des Forges Street and 1500 Royale Street, Trois-Rivières
665-669 Thibeau Blvd, Trois-Rivières
3885 Harvey Blvd, Saguenay
Promenades St-Noël
100 1st Street West, Thetford Mines
175 de Rotterdam Street, St-Augustin-de-Desmaures

**Sherbrooke**
2865-2885 De Portland Blvd, Sherbrooke
Place Fleurimont
1635-1645 King Street East and 150-170 Duplessis Road, Sherbrooke
Place Jacques-Cartier
1640-1650 and 1645 King Street West, Sherbrooke
Les terrasses 777,
747-805 King Street East, Sherbrooke
30-66 Jacques-Cartier Blvd Nord, Sherbrooke
3705 Industrial Blvd, Sherbrooke
2059 René-Patenaude Street, Magog

**Greater London Area**
311 Ingersoll Street, Ingersoll

**Ottawa Area**
80 Aberdeen Street, Ottawa
245 Stafford Road West, Ottawa
1-9 and 10 Brewer Hunt Way and 1260-1280 Teron Rd, Ottawa
400 Hunt Club Rd, Ottawa
7 and 9 Montclair Blvd, Gatineau
705 Boundary Road, Cornwall*
725 Boundary Road, Cornwall*
805 Boundary Road, Cornwall*
2901 and 2905 Marleau Avenue, Cornwall

**Properties in redevelopment*


Loblaws
bienvenue

# Management Discussion and Analysis

Quarter ended December 31, 2014

## Table of Contents

# Introduction

The purpose of this Management Discussion and Analysis is to allow the reader to evaluate the operating results of BTB Real Estate Investment Trust ("BTB" or the "Trust") for the year ended December 31, 2014, as well as its financial position on that date. The report also presents the Trust's business strategies and the risk exposure it faces. This MD&A dated March 19, 2015 should be read together with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2014 and 2013. It discusses any significant information available up to the date of this MD&A. The Trust's consolidated annual financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Unless otherwise indicated, all amounts are in thousands of Canadian dollars, except for per unit and per square foot amounts. Per unit amounts are calculated using the weighted average number of trust units outstanding for the quarters and years ended December 31, 2014 and 2013. Additional information about the Trust, including the Annual Information Form, is available on the Canadian Security Administrators ("CSA") website at www.sedar.com and on our website at www.btbreit.com.

The Audit Committee and the Trust's Board of Trustees approved the contents of this annual Management Discussion and Analysis and the annual financial statements on March 19, 2015.

# Forward-Looking Statements Caveat

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

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include general economic conditions in Canada and elsewhere, the effects of competition in the markets where we operate, the impact of changes in laws and regulations, including tax laws, successful execution of our strategy, our ability to complete and integrate strategic acquisitions successfully, potential dilution, our ability to attract and retain key employees and executives, the financial position of lessees, our ability to refinance our debts upon maturity and to lease vacant space, our ability to complete developments on plan and on schedule and to raise capital to finance our growth, as well as changes in interest rates.

We caution that the foregoing list of important factors likely to affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to BTB, investors and others should carefully consider these factors and other facts and uncertainties. Additional information about these factors can be found in the “Risks and Uncertainties” section of this quarterly 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 property income, distributable income, funds from operations ("FFO") and adjusted funds from operations ("AFFO") are non-IFRS performance measures and do not have standardized meanings prescribed by IFRS. These measures and net operating income 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 November 2012.

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 up to December 31, 2014, it has acquired and owns 71 commercial, office and industrial properties in primary and secondary markets. BTB has now become an important real estate owner in geographical markets in Québec and eastern Ontario. The units and Series C, D and E convertible debentures are traded on the Toronto Stock Exchange under the symbols “BTB.UN”, “BTB.DB.C”, “BTB.DB.D” and “BTB.DB.E”, respectively.

Most of the Trust’s properties are managed internally, with 51 of the Trust’s 71 properties held to date entirely managed by the Trust’s employees. Management’s objective is to resume, when favourable circumstances prevail, internal management of the Trust’s properties under agreements between the Trust and its external managers, thereby achieving savings in management and operating fees through centralized and improved property management.

The following table provides a summary of the property portfolio:

| | Number of properties | Leasable area (sq. ft.) | Fair value (thousands of $) |
|---|---|---|---|
| **As at December 31, 2014(1)** | **71** | **4,821,281** | **571,462** |

(1) These figures include a 50% interest in a 17,114 square-foot building in a Montréal suburb, a 75% interest in a 140,870 square-foot building in Québec City and a 50% interest in two buildings totalling 74,941 square feet in Gatineau, Québec.

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

# Objectives and Business Strategies

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

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

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

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

# Highlights of the Fourth Quarter (2014 vs 2013)

### Increase

- 7.4% in rental income
- 10.5% in net operating income
- 9.5% in distributable income per unit – from 12.7¢ to 13.9¢
- 13.0% in AFFO per unit – from 10.8¢ to 12.2¢

### Improvement

- In the payout ratio from 78.9% to 75.6%
- In the mortgage liability ratio from 57.4% to 56.3%
- In the weighted average interest rate on mortgage debt from 4.44% to 4.13%

### Significant leasing activities

- Occupancy increase from 91.9% to 92.7%
- 187,000 square feet leased or renewed during the quarter, with an increase in average rate of renewed leases of 10.7%

### Subsequent to year-end

The Trust completed two acquisitions during the first quarter of 2015:

- January 28, 2015: acquisition of a 116,000-square-foot industrial property in Ottawa, Ontario, for a price of $12.5 million.
- January 30, 2015: purchase of a major retail centre of close to 146,000 square feet in a Montréal suburb, for a price of $21.5 million.

# Highlights of the Year (2014 vs 2013)

### Increase

- 5.9% in rental income
- 7.5% in net operating income
- 7.4% in assets
- 8.0% in distributable income per unit
- 12.3% in AFFO per unit

### Improvement

- In the payout ratio from 82.6% to 77.9%
- In the mortgage liability ratio from 57.4% to 56.3%
- In the occupancy rate from 91.9% to 92.7%

### Leasing activities

- 427,000 square feet of leases renewed
- 204,000 square feet of new leases signed
- 8.7% increase in the average rate of expired and renewed leases

### Acquisitions

- In May 2014, the Trust purchased a retail complex in Saint-Jean-sur-Richelieu, Québec, at a cost of $31.6 million. There was a $20.5 million mortgage on this acquisition, for a 10 year term at 4.40%.
- In August 2014, the Trust acquired a newly built industrial complex for a price of $8.3 million. There was a $6.2 million mortgage on this acquisition, for a 10 year term at 4.39%.

### Disposition

- In April, the Trust also sold a retail complex with a leasable area of 25,400 square feet located on rue Saint-Jacques, Montréal, for a selling price of $4.2 million, and part of a property in Sherbrooke for a selling price of $0.5 million.

### Capital transactions

- June 2014 – issuance of 4,836,000 units at a price of $4.55 per unit and the over-allotment option for 600,000 additional units at a price of $4.55 per unit for total net proceeds of $23.4 million, net of underwriters' fees.
- Increase in the annual distribution to 42¢ as of September 15, 2014.
- Market capitalization increase of $35.2 million at $161.5 million compared to $126.3 as of December 31, 2014.

# Selected Financial Information

Since the beginning of its real estate operations in October 2006 up until December 31, 2014, the Trust owns 71 properties generating, on an annualized basis, revenues of close to $70 million.

The following table presents highlights and selected financial information for the quarters and years ended December 31, 2014 and December 31, 2013:

Periods ended December 31
(in thousands of dollars, except for ratios and per unit data)

| | | Quarter | | Year | |
|---|---|---|---|---|---|
| | **Reference** | **2014** | **2013** | **2014** | **2013** |
| | | **$** | $ | **$** | $ |
| **Financial information** | | | | | |
| Rental income | Page 31 | **17,558** | 16,348 | **67,170** | 63,435 |
| Net operating income[1] | Page 33 | **10,008** | 9,061 | **37,983** | 35,336 |
| Net property income from the same-property portfolio[1] | Page 30 | **5,470** | 5,169 | **21,299** | 19,992 |
| Net income (loss) and comprehensive income | Page 37 | **(1,405)** | 7,732 | **12,883** | 18,349 |
| Distributable income[1] | Page 38 | **4,734** | 3,581 | **16,626** | 12,610 |
| Distributions | Page 39 | **3,581** | 2,827 | **12,953** | 10,412 |
| Funds from operations[1] (FFO) | Page 40 | **4,214** | 3,490 | **15,226** | 11,632 |
| Adjusted funds from operations (AFFO)[1] | Page 41 | **4,153** | 3,049 | **14,363** | 10,462 |
| Total assets | Page 48 | | | **586,737** | 546,559 |
| Investment properties | Page 49 | | | **571,462** | 529,432 |
| Mortgage loans payable | Page 54 | | | **329,943** | 313,816 |
| Convertible debentures | Page 57 | | | **65,186** | 63,929 |
| Debt ratio – excluding convertible debentures | Page 59 | | | ***56.3%*** | 57.4% |
| Weighted average interest rate on mortgage debt | Page 54 | | | ***4.13%*** | 4.44% |
| Unitholders' equity | Page 60 | | | **177,599** | 152,592 |
| Market capitalization | | | | **161,454** | 126,332 |
| **Financial information per unit** | | | | | |
| Units outstanding (000) | Page 61 | | | **34,134** | 28,326 |
| Weighted average number of units outstanding (000) | Page 61 | **34,089** | 28,292 | **31,418** | 25,736 |
| Net income (loss) and comprehensive income | Page 37 | **(4.1¢)** | 27.3¢ | **41.0¢** | 71.3¢ |
| Distributable income | Page 38 | **13.9¢** | 12.7¢ | **52.9¢** | 49.0¢ |
| Distributions | Page 39 | **10.5¢** | 10.0¢ | **40.8¢** | 40.0¢ |
| Payout ratio on distributable income | Page 39 | ***75.6%*** | 78.9% | ***77.9%*** | *82.6%* |
| Cash payout ratio on distributable income | Page 39 | ***67.0%*** | 70.7% | ***69.2%*** | 75.3% |
| FFO | Page 40 | **12.4¢** | 12.3¢ | **48.5¢** | 45.2¢ |
| AFFO | Page 41 | **12.2¢** | 10.8¢ | **45.7¢** | 40.7¢ |
| Unitholders' equity | Page 60 | | | **5.20** | 5.39 |
| **Tax on distributions** | | | | | |
| Revenue | Page 64 | | | ***0.0%*** | 0.0% |
| Tax deferral | Page 65 | | | ***100%*** | 100.0% |
| **Operational information** | | | | | |
| Number of properties | Page 50 | | | **71** | 69 |
| Leasable area (thousands of sq. ft.) | Page 28 | | | **4,822** | 4,580 |
| Occupancy rate | Page 28 | | | ***92.7%*** | *91.9%* |
| Increase in average lease renewal rate | Page 45 | ***10.7%*** | 9.8% | ***8.7%*** | *7.7%* |

[1] Financial term not defined by IFRS

# Selected annual information

| Years ended December 31<br>(in thousands of dollars, except for ratios and per unit data) | 2014 | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| Rental income | **67,170** | 63,435 | 48,118 |
| Net operating income[(1), (5)] | **37,983** | 35,336 | 26,996 |
| Fair value adjustment on investment properties | **(1,860)** | 8,375 | 7,711 |
| Net income | **12,883** | 18,349 | 17,967 |
| FFO[(2), (5)] | **15,226** | 11,632 | 6,493 |
| AFFO[(3), (5)] | **14,363** | 10,462 | 6,499 |
| Distributions | **12,953** | 10,412 | 7,656 |
| Total assets | **586,737** | 546,559 | 504,927 |
| Long-term debt | **395,129** | 377,745 | 350,795 |
| **Per unit financial information** | | | |
| Net income | **41.0¢** | 71.3¢ | 96.2¢ |
| FFO[(2), (5)] | **48.5¢** | 45.2¢ | 34.8¢ |
| AFFO[(3), (5)] | **45.7¢** | 40.7¢ | 34.5¢ |
| Distribution | **40.8¢** | 40.0¢ | 40.0¢ |
| Payout ratio[(4), (5)] | ***77.9%*** | *82.6%* | *98.1%* |

(1) Defined as rental income from investment properties less operating expenses.
(2) See "Funds from operations" on page 40 for definition and reconciliation to net income.
(3) See "Adjusted funds from operations" on page 41 for definition and reconciliation to FFO and net income.
(4) Represents total distributions divided by distributable income.
(5) Non-IFRS measure.

# Real Estate Portfolio

BTB owns 71 quality properties which have a fair value of $571 million representing a total leasable area of more than 4.8 million square feet. A concise description of the properties owned as at December 31, 2014 can be found in the Trust's Annual Information Form available at www.sedar.com. The properties acquired in 2014 are described on page 49 of this MD&A.

### Summary of properties as at December 31, 2014

| Operating segment | **Number of properties** | **Leasable area (sq. ft.)** | **Occupancy rate (%)** |
|---|---|---|---|
| Office | 22 | 1,443,881 | *86.6* |
| Commercial | 15 | 892,704 | *92.3* |
| Industrial | 19 | 1,420,827 | *98.3* |
| General purpose | 13 | 937,323 | *93.7* |
| Subtotal | 69 | 4,694,735 | *92.7* |
| Industrial properties under redevelopment | 2 | 126,546 | — |
| **Total** | **71** | **4,821,281** | ***92.7*** |

# Performance Indicators

The following indicators are used to measure the financial performance of BTB:

- **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 and reduce its operating costs;
- **Distributable income per unit**, which enables investors to determine the stability of distributions;
- **Funds from operations ("FFO") per unit**, which provide an indication of BTB's ability to generate cash flow;
- **Adjusted funds from operations ("AFFO") per unit**, which takes into account rental fees and capital expenditures and which may vary substantially from one year to the next;
- **The debt-equity ratio**, which is used to assess BTB's financial integrity and its capacity for additional acquisitions;
- **The interest coverage ratio**, which is used to measure BTB's ability to use operating results to pay interest on its debt using its operating revenues;
- **The occupancy rate**, which provides an indication of the optimization of rental space and the potential revenue gain from the Trust's property portfolio.

More detailed definitions and analyses of each of these indicators are provided in the appropriate sections.

# Operating Results

The following table summarizes financial results for the quarters and years ended December 31, 2014 and December 31, 2013. The table should be read in conjunction with our consolidated financial statements and the notes thereto.

Periods ended December 31
(in thousands of dollars)

| | | Quarter | | Year | |
|---|---|---|---|---|---|
| | **Reference** | **2014** | **2013** | **2014** | **2013** |
| | | $ | $ | $ | $ |
| Rental income | Page 31 | **17,558** | 16,348 | **67,170** | 63,435 |
| Operating expenses | Page 32 | **7,550** | 7,287 | **29,187** | 28,099 |
| Net operating income | Page 33 | **10,008** | 9,061 | **37,983** | 35,336 |
| Financial income | | **(50)** | (19) | **(77)** | (105) |
| Financial expenses | Page 34 | **7,680** | 5,018 | **19,108** | 21,634 |
| Trust administration expenses | Page 35 | **1,127** | 850 | **4,209** | 3,833 |
| Fair value adjustment on investment properties | Page 51 | **2,656** | (4,520) | **1,860** | (8,375) |
| **Net income (loss) and comprehensive income** | Page 37 | **(1,405)** | 7,732 | **12,883** | 18,349 |

## Same-property portfolio

The same-property portfolio includes all the properties owned by BTB as at January 1, 2013, but does not include the financial spin-offs of disposals, acquisitions and developments completed in 2013 and 2014.

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

Periods ended December 31
(in thousands of dollars)

| | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **$** | $ | **$** | $ |
| Rental income | **15,572** | 15,515 | **61,190** | 60,597 |
| Operating expenses | **7,130** | 7,111 | **27,831** | 27,490 |
| Net operating income | **8,442** | 8,404 | **33,359** | 33,107 |
| Interest expense on mortgage loans payable | **2,972** | 3,235 | **12,060** | 13,115 |
| **Net property income** | **5,470** | 5,169 | **21,299** | 19,992 |
| **Increase in net property income from the same-property portfolio** | 5.8% | | 6.5% | |

In recent quarters, management agreed to redevelop and repurpose two industrial properties: 1863-1865 Transcanadienne in Dorval, Québec and 805 Boundary Road in Cornwall, Ontario. Consequently, these properties are excluded from the same-property portfolio figures.

## Rental income

BTB actively acquired properties in 2013 and 2014. Due to this acquisition activity as well as internal growth from the same-property portfolio, rental income increased by $1,210 or 7.4% for the fourth quarter of 2014 and $3,735 or 5.9% for fiscal 2014 compared to the same periods of 2013.

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

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

In the fourth quarter of 2014, rent adjustments of $143 (2013: $327) were recorded on a straight-line basis. Straight-line adjustments for the year totalled $610 (2013: $866).

In the fourth quarter of 2014, BTB recorded amortization of $476 (2013: $407) as a reduction in rental income, which represents amortization of lease incentives afforded to lessees. For the year ended December 31, 2014, this amortization totalled $1,793 (2013: $1,480).

The following table provides a reconciliation of rental income on the basis of in-place leases and rental income from investment properties.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **$** | $ | **$** | $ |
| Rental income on the basis of in-place leases | **17,891** | 16,428 | **68,353** | 64,049 |
| Straight-line rental income adjustment | **143** | 327 | **610** | 866 |
| Amortization of lease incentives | **(476)** | (407) | **(1,793)** | (1,480) |
| **Rental income from investment properties** | **17,558** | 16,348 | **67,170** | 63,435 |

Income from the same-property portfolio increased 0.4% in the fourth quarter ended December 31, 2014 compared to the fourth quarter of 2013 and increased 1.0% for fiscal 2014 compared to the previous year.

The following table provides a reconciliation of income from the same-property portfolio and the total portfolio.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | | Year | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | ***Δ %*** | **2014** | **2013** | ***Δ %*** |
| | $ | $ | | $ | $ | |
| Same-property portfolio | **15,572** | 15,515 | *0.4* | **61,190** | 60,597 | *1.0* |
| Acquisitions, disposals and development | **1,986** | 833 | *n/a* | **5,980** | 2,838 | *n/a* |
| **Rental income** | **17,558** | 16,348 | *7.4* | **67,170** | 63,435 | *5.9* |

## 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.

BTB recorded an increase in operating expenses of 3.6% between the fourth quarter of 2013 and the fourth quarter of 2014, and 3.9% for fiscal 2014 compared to the previous year.

Operating expenses of the same-property portfolio increased 0.3% for the quarter and 1.2% for the year.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | | Year | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | *Δ %* | **2014** | **2013** | *Δ %* |
| | $ | $ | | $ | $ | |
| Same-property portfolio | **7,130** | 7,111 | *0.3* | **27,831** | 27,490 | *1.2* |
| Acquisitions, disposals and development | **420** | 176 | *n/a* | **1,356** | 609 | *n/a* |
| **Operating expenses** | **7,550** | 7,287 | *3.6* | **29,187** | 28,099 | *3.9* |

The following table shows the breakdown of operating expenses for the periods ended December 31, 2014 and 2013.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| Operating expenses | | | | |
| Operating costs | **2,907** | 2,837 | **10,970** | 10,370 |
| Property taxes and public utilities | **4,643** | 4,450 | **18,217** | 17,729 |
| **Total operating expenses** | **7,550** | 7,287 | **29,187** | 28,099 |
| **% of rental income** | ***43.0*** | *44.6* | ***43.5*** | *44.3* |

As a percentage of rental income, operating expenses declined 1.6% over the quarter, from 44.6% for the fourth quarter of 2013 to 43.0%, and 0.8%, from 44.3% as at December 31, 2013 to 43.5%, for fiscal 2014. This decrease reflects sound management of operating expenses. The nature of leases for recent acquisitions also contributed to improving these rates.

## Net operating income

Net operating income increased 10.5% for the fourth quarter of 2014 compared to 2013 and 7.5% for fiscal 2014 compared to 2013. Net operating income of the same-property portfolio showed a 0.5% increase for the fourth quarter of 2014 compared to the fourth quarter of 2013 and 0.8% for fiscal 2014 compared to 2013.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | | Year | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | ***Δ %*** | **2014** | **2013** | ***Δ %*** |
| | $ | $ | | $ | $ | |
| Same-property portfolio | **8,442** | 8,404 | *0.5* | **33,359** | 33,107 | *0.8* |
| Acquisitions, disposals and development | **1,566** | 657 | *n/a* | **4,624** | 2,229 | *n/a* |
| **Net operating income** | **10,008** | 9,061 | *10.5* | **37,983** | 35,336 | *7.5* |
| **% of rental income** | ***57.0*** | *55.4* | | ***56.5*** | *55.7* | |

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

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | | Year | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | ***Δ %*** | **2014** | **2013** | ***Δ %*** |
| | $ | $ | | $ | $ | |
| Net operating income | **10,008** | 9,061 | 10.5 | **37,983** | 35,336 | 7.5 |
| Straight-line rental income adjustments | **(143)** | (327) | n/a | **(610)** | (866) | n/a |
| Adjustment related to amortization of lease incentives | **476** | 407 | n/a | **1,793** | 1,480 | n/a |
| **Net operating income before rental income adjustments** | **10,341** | 9,141 | 13.1 | **39,166** | 35,950 | 8.9 |
| ***% of rental income on the basis of in-place leases*** | ***57.8*** | *55.6* | | ***57.3*** | *56.1* | |

Net operating income is used in the real estate industry to measure operational performance. BTB defines it as rental income from properties, less 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 $331 million as at December 31, 2014, compared to $314 million as at December 31, 2013. The increase resulted from the financing or assumption of mortgage loans payable on acquisitions completed and the refinancing of certain properties during the last 12 months.
- Series C, D and E convertible debentures for a total par value of $69 million.
- Operating and acquisition lines of credit used as needed, which allowed primarily for the acquisition of accretive properties during fiscal 2013 and 2014.
- 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.

The following table shows the breakdown of financial expenses for the reporting quarters and years:

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| Interest expense on mortgage loans payable | **3,469** | 3,517 | **13,523** | 13,861 |
| Interest expense on debentures | **1,274** | 1,274 | **5,096** | 5,146 |
| Interest expense on acquisition line of credit | **—** | — | **161** | 767 |
| Interest expense on operating line of credit and other interest expenses | **32** | 18 | **77** | 54 |
| **Interest expenses** | **4,775** | 4,809 | **18,857** | 19,828 |
| Accretion of effective interest | **290** | 223 | **1,069** | 1,142 |
| Accretion of non-derivative liability component of convertible debentures | **145** | 132 | **561** | 551 |
| **Financial expenses before following item:** | **5,210** | 5,164 | **20,487** | 21,521 |
| Fair value adjustment on derivative financial instruments (debenture conversion options and interest rate swap) | **2,470** | (146) | **(1,379)** | 113 |
| **Financial expenses** | **7,680** | 5,018 | **19,108** | 21,634 |

Before recognition of fair value adjustments on derivative financial instruments (debenture conversion options and interest rate swap), financial expenses increased by $46 during the fourth quarter of 2014 compared to the same quarter in 2013 and decreased $1,034 during fiscal 2014 compared to fiscal 2013.

As shown by the following table, interest expense on mortgage loans payable in the same-property portfolio decreased by 8.1% in the fourth quarter of 2014 and 8.0% for fiscal 2014 compared to the same periods in 2013, due to the refinancing of loans that matured at more advantageous rates, despite increased financing on certain properties.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | | Year | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | *Δ %* | **2014** | **2013** | *Δ %* |
| | $ | $ | | $ | $ | |
| Same-property portfolio | **2,972** | 3,235 | *(8.1)* | **12,060** | 13,115 | *(8.0)* |
| Acquisitions and development | **497** | 282 | *n/a* | **1,463** | 746 | *n/a* |
| **Interest expense on mortgage loans payable** | **3,469** | 3,517 | *(1.4)* | **13,523** | 13,861 | *(2.4)* |

Financial expenses can be allocated among interest expenses amounting to $4,775 for the quarter (2013: $4,809) and $18,857 for the year (2013: $19,828) and non-monetary items. Non-monetary items include fair value adjustments on derivative financial instruments in debit positions of $2,470 for the quarter (2013: credit positions of $146) and credit positions of $1,379 for the year (2013: $113). Fair values fluctuate from one quarter to another. These adjustments result from changes in the value of the Trust's units on stock exchanges during the reporting quarters and changes in the value of conversion options and interest rate swaps compared with the amounts recorded at the end of previous quarters.

As at December 31, 2014, the average weighted contractual rate of interest on mortgage loans payable was 4.13%, the same rate as at September 30, 2014 and 31 points lower than the rate in effect as at December 31, 2013. For 25 consecutive quarters, the weighted average interest rate has remained stable or declined. Interest rates on first-ranking mortgage financings ranged from 2.63% to 6.80% as at December 31, 2014. The weighted average term of financing in place as at December 31, 2014 was 4.68 years (4.44 years as at December 31, 2013).

## Trust administration expenses

Trust administration expenses include administrative costs such as payroll expenses and professional fees associated with executive and administrative staff, the compensation plan for trustees, legal and auditing services, expenses related to listed fund status, insurance costs, office expenses and bad debts and related legal fees. These administrative expenses were up 4.9% for the year compared to last year. Trust administration expenses include amortization of the head office building and property and equipment, as well as unit-based compensation, a non-monetary item that affects the volatility of administrative expenses from quarter to quarter.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| Administrative expenses | **895** | 773 | **3,808** | 3,629 |
| Amortization | **32** | 30 | **117** | 114 |
| Unit-based compensation | **200** | 47 | **284** | 90 |
| **Trust administration expenses** | **1,127** | 850 | **4,209** | 3,833 |

## Fair value adjustment on investment properties

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

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

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

Market conditions have remained relatively stable, but management determined that a downward fair value adjustment to the Trust's properties of $2,656 for the quarter and $1,860 for the full year was required. At the end of the fourth quarter of 2013, management had determined that an increase in value in 2014 of $4,520 for the quarter and $8,375 for the full year was required in order to adequately reflect the fair value of the portfolio then held. This decline in value is due to a number of non-recurring factors:

- The February 2015 closing of two stores and renegotiation of a shorter lease term for Groupe Épicia's Magog distribution centre. More details are provided under "Events subsequent to December 31, 2014" on page 47 of this MD&A.
- The non-renewal of two major leases totalling 36,000 square feet in the property located at 1001 Sherbrooke East.
- The non-renewal of a 21,000-square-foot lease with the Super C (Métro-Richelieu) store in Thetford Mines. Management is planning to sell this property.

The value of all other properties in the portfolio remained relatively stable.

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

| | Commercial | Office | Industrial | General purpose |
|---|---|---|---|---|
| **As at December 31, 2014** | | | | |
| Capitalization rate | 6.25% - 10.00% | 6.50% - 9.25% | 7,00% - 10.00% | 7.00% - 8.25% |
| Terminal capitalization rate | 7.25% - 8.00% | 7.00% - 7.75% | 7.25% - 9.75% | 7.25% - 8.25% |
| Discount rate | 7.75% - 8.75% | 7.50% - 8.50% | 7.75% - 10.50% | 7.75% - 9.00% |
| **As at December 31, 2013** | | | | |
| Capitalization rate | 6.25% - 10.00% | 6.75% - 10.25% | 6.50% - 10.50% | 7.00% - 8.25% |
| Terminal capitalization rate | 6.50% - 8.25% | 6.50% - 9.25% | 7.00% - 10.50% | 7.25% - 8.50% |
| Discount rate | 7.25% - 9.00% | 7.50% - 9.75% | 7.50% - 10.75% | 8.25% - 9.25% |

The weighted average capitalization rate for the entire portfolio as at December 31, 2014 was 7.45% (2013: 7.51%), up 2 basis points since September 30, 2014 and down 6 basis points from a year earlier.

As at December 31, 2014, BTB has estimated that a 0.25% change in the capitalization rate applied to the overall portfolio would change the fair value of the investment properties by approximately $19.7 million.

## Net income (loss) and comprehensive income

BTB incurred a net loss of $1.4 million for the fourth quarter of 2014 and generated net income of $12.9 million for the year, down $9.1 million from the fourth quarter of 2013 and up $5.5 million for the year.

For the fourth quarter, the fair value adjustment on investment properties showed a decline in value of $2.7 million in 2014, compared to a $4.5 million increase in value in 2013. Similarly, the fair value adjustment of derivative financial instruments showed a $2.5 million expense in 2014 versus revenue of $0.1 million in 2013.

Periods ended December 31
(in thousands of dollars, except for per unit data)

| | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Net income (loss) and comprehensive income** | **(1,405)** | 7,732 | **12,883** | 18,349 |
| Per unit | **(4.1¢)** | 27.3¢ | **41.0¢** | 71.3¢ |

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

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

Periods ended December 31
(in thousands of dollars, except for per unit data)

| | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Net income (loss) and comprehensive income** | **(1,405)** | 7,732 | **12,883** | 18,349 |
| Volatile non-monetary items | | | | |
| ±Fair value adjustment on investment properties | **2,656** | (4,520) | **1,860** | (8,375) |
| ±Fair value adjustment on derivative financial instruments | **2,470** | (146) | **(1,379)** | 113 |
| **Net income and comprehensive income before volatile non-monetary items** | **3,721** | 3,066 | **13,364** | 10,087 |
| Per unit | **10.9¢** | 10.8¢ | **42.5¢** | 39.2¢ |

This table shows an increase of more than 21.4% in quarterly net income and 32.5% in cumulative net income, before the non-monetary items mentioned above. Quarterly net income per unit increased 0.9% and annual net income increased 8.4%.

# Distributable Income and Distributions

The notion of "distributable income" does not constitute financial information as defined by IFRS. It is, however, a measurement that is frequently used by investors in real estate trusts. In our opinion, distributable income is an effective tool for assessing the Trust's performance.

We define distributable income as net income determined under IFRS, before unrealized fair value adjustments, accretion of the liability component of convertible debentures, rental income arising from the recognition of leases on a straight-line basis, the amortization of lease incentives, the accretion of effective interest and certain other non-cash items.

The following table shows the calculation of distributable income.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Net income (loss) and comprehensive income (IFRS)** | **(1,405)** | 7,732 | **12,883** | 18,349 |
| ± Fair value adjustment on investment properties | **2,656** | (4,520) | **1,860** | (8,375) |
| + Amortization of an investment property and other property and equipment | **45** | 33 | **165** | 126 |
| + Unit-based compensation expense | **200** | 47 | **284** | 90 |
| + Accretion of the liability component of convertible debentures | **145** | 132 | **561** | 551 |
| ± Fair value adjustment on derivative financial instruments | **2,470** | (146) | **(1,379)** | 113 |
| + Amortization of lease incentives | **476** | 407 | **1,793** | 1,480 |
| - Straight-line rental income adjustment | **(143)** | (327) | **(610)** | (866) |
| + Accretion of effective interest | **290** | 223 | **1,069** | 1,142 |
| **Distributable income** | **4,734** | 3,581 | **16,626** | 12,610 |

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

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Cash flows from operating activities (IFRS)** | **13,552** | 10,687 | **36,678** | 32,168 |
| + Financial revenues | **50** | 19 | **77** | 105 |
| ± Net change in operating items | **(4,093)** | (2,316) | **(1,272)** | 165 |
| - Interest expense on mortgage loans payable | **(3,469)** | (3,517) | **(13,523)** | (13,861) |
| - Interest expense on convertible debentures | **(1,274)** | (1,274) | **(5,096)** | (5,146) |
| - Interest expense on acquisition line of credit | **—** | (9) | **(161)** | (776) |
| - Interest expense on operating line of credit and other interest expenses | **(32)** | (9) | **(77)** | (45) |
| **Distributable income** | **4,734** | 3,581 | **16,626** | 12,610 |

## Distributions and per unit data

Periods ended December 31
(in thousands of dollars, except for per unit data)

| | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Distributions** | | | | |
| Cash distributions | **3,170** | 2,531 | **11,505** | 9,490 |
| Distributions reinvested under the distribution reinvestment plan | **411** | 296 | **1,448** | 922 |
| **Total distributions to unitholders** | **3,581** | 2,827 | **12,953** | 10,412 |
| Percentage of reinvested distributions | ***11.5%*** | *10.5%* | ***11.2%*** | *8.9%* |
| **Per unit data** | | | | |
| Distributable income | **13.9¢** | 12.7¢ | **52.9¢** | 49.0¢ |
| Distributions | **10.5¢** | 10.0¢ | **40.8¢** | 40.0¢ |
| Payout ratio [1] | ***75.6%*** | *78.9%* | ***77.9%*** | *82.6%* |
| Cash payout ratio[2] | ***67.0%*** | *70.7%* | ***69.2%*** | *75.3%* |

[1] The payout ratio corresponds to total distributions divided by distributable income.
[2] The cash payout ratio corresponds to cash distributions divided by distributable income.

Distributable income for the fourth quarter increased by $1,153, from $3,581 to $4,734, between 2013 and 2014. Distributable income for fiscal 2014 amounted to $16,626, up $4,016 from fiscal 2013. Distributable income per unit for the fourth quarter of 2014 was 13.9¢ compared to 12.7¢ in 2013, a 9.5% increase, and 52.9¢ for fiscal 2014 compared to 49.0¢ for fiscal 2013, an 8.0% increase.

Distributions to unitholders totalled 10.5¢ per issued unit for the fourth quarter of 2014 compared to 10.0¢ in 2013 and 40.8¢ for the year (2013: 40.0¢).

The payout ratio for distributable income was 75.6% in the fourth quarter of 2014 compared to 78.9% in the fourth quarter of 2013, and 77.9% for fiscal 2014 compared to 82.6% for 2013, reflecting a surplus of distributable income over distributions. The improvement in the 2014 payout ratios is particularly impressive considering the 2¢ increase in the distribution per unit and a cash surplus of more than $7 million resulting from the June 2014 unit issue, which had not yet been fully allocated to accretive acquisitions during the fourth quarter of 2014.

In fiscal 2014, 11.2% of the distributions (2013: 8.9%) were reinvested under the distribution reinvestment plan implemented by BTB in 2011. More than $1.4 million (2013: $0.9 million) of the Trust's cash has thereby been preserved through unit conversions since the beginning of the year.

# 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, which are non-cash items that create volatility:

- Fair value adjustment on investment properties
- Amortization of properties that continue to be recognized at acquisition cost (Trust's head office)
- Amortization of lease incentives
- Fair value adjustment on derivative financial instruments

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.

The following table provides a reconciliation of net income and comprehensive income established according to IFRS and FFO for the quarters and years ended December 31, 2014 and 2013:

| Periods ended December 31<br>(in thousands of dollars, except for per unit data) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Net income (loss) and comprehensive income (IFRS)** | **(1,405)** | 7,732 | **12,883** | 18,349 |
| ± Fair value adjustment on investment properties | **2,656** | (4,520) | **1,860** | (8,375) |
| + Amortization of a property recognized at cost | **17** | 17 | **69** | 65 |
| + Amortization of lease incentives | **476** | 407 | **1,793** | 1,480 |
| ± Fair value adjustment on derivative financial instruments | **2,470** | (146) | **(1,379)** | 113 |
| **FFO** | **4,214** | 3,490 | **15,226** | 11,632 |
| **FFO per unit** | **12.4¢** | 12.3¢ | **48.5¢,** | 45.2¢ |
| FFO payout ratio[1] | ***85.0%*** | *81.0%* | ***85.1%*** | *89.5%* |
| FFO cash payout ratio[2] | ***75.2%*** | *72.5%* | ***75.6%*** | *81.6%* |

[1] The FFO payout ratio corresponds to total distributions divided by FFO.
[2] The FFO cash payout ratio corresponds to cash distributions divided by FFO.

FFO increased by 20.7% for the fourth quarter of 2014 compared to 2013, mainly as a result of acquisitions of income-producing properties and a decrease in the average mortgage loan interest rate. FFO per unit for the fourth quarter amounted to 12.4¢ in 2014 compared to 12.3¢ in 2013. The FFO payout ratio stood at 85.0% for the fourth quarter of 2014 compared to 81.0% for the same period of 2013. The small increase in FFO per unit and the decrease in the payout ratio for the fourth quarter of 2014 compared to 2013 was due to significant fluctuations in non-monetary expenses which are not factored into the calculation of FFO. The 5% increase in the distribution also contributed to the increase in the payout ratio.

For fiscal 2014, FFO per unit stood at 48.5¢ compared to 45.2¢ in 2013, a 7.3% increase. The payout ratio stood at 85.1% for fiscal 2014 compared to 89.5% for fiscal 2013.

# Adjusted Funds from Operations (AFFO)

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

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

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

The Trust deducts a provision for non-recoverable capital expenses in calculating AFFO. The Trust allocates significant amounts to the regular maintenance of its properties in an attempt to reduce capital expenses as much as possible. Since 2013, the allocation for non-recoverable capital expenses is calculated on the basis of 2% of rental revenues.

The Trust also deducts a provision for rental fees in the amount of approximately 20¢ 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 that the Trust will undertake. These disbursements consist of inducements paid or granted when leases are signed, and of brokerage commissions.

The following table provides a reconciliation of FFO and AFFO for the quarters and years ended December 31, 2014 and 2013:

| Periods ended December 31<br>(in thousands of dollars, except for per unit data) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **FFO** | **4,214** | 3,490 | **15,226** | 11,632 |
| - Straight-line rental income adjustment | **(143)** | (327) | **(610)** | (866) |
| + Accretion of effective interest | **290** | 223 | **1,069** | 1,142 |
| + Accretion of the liability component of convertible debentures | **145** | 132 | **561** | 551 |
| + Amortization of other property and equipment | **28** | 17 | **96** | 62 |
| + Unit-based compensation expenses | **200** | 47 | **284** | 90 |
| - Provision for non-recoverable capital expenses | **(351)** | (323) | **(1,343)** | (1,264) |
| - Provision for rental fees | **(230)** | (210) | **(920)** | (885) |
| **AFFO** | **4,153** | 3,049 | **14,363** | 10,462 |
| **AFFO per unit** | **12.2¢** | 10.8¢ | **45.7¢** | 40.7¢ |
| AFFO payout ratio(1) | ***86.2%*** | *92.7%* | ***90.2%*** | *99.5%* |
| AFFO cash payout ratio(2) | ***76.3%*** | *83.0%* | ***80.1%*** | *90.7%* |

(1) The AFFO payout ratio corresponds to total distributions divided by AFFO.
(2) The AFFO cash payout ratio corresponds to cash distributions divided by AFFO.

The increase of 36.2% in AFFO for the fourth quarter of 2014 compared with the fourth quarter of 2013 is due to acquisitions of income-producing properties and a drop in the average mortgage loan interest rate. AFFO per unit amounted to 12.2¢ compared with 10.8¢ in 2013 for the fourth quarter, a 13.0% increase. The AFFO payout ratio stood at 86.2% at the end of the fourth quarter of 2014 compared to 92.7% at the end of the fourth quarter of 2013, showing a surplus of funds from operations over distributions.

For the year, AFFO per unit stood at 45.7¢ compared to 40.7¢ in 2013, a 12.3% increase.

# Segmented Information

The Trust's operations are derived from four categories of properties located in Québec and Ontario. The following tables present each category's contribution to revenues and net operating income for the quarters and years ended December 31, 2014 and 2013.

Quarters ended December 31
(in thousands of dollars)

| | Commercial | | Office | | Industrial | | General purpose | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Quarter ended December 31, 2014** | | | | | | | | | |
| Investment properties | 137,362 | *24.0* | 209,200 | *36.6* | 109,025 | *19.1* | 115,875 | *20.3* | 571,462 |
| Rental income from properties | 4,327 | *24.6* | 7,175 | *40.9* | 2,601 | *14.8* | 3,455 | *19.7* | 17,558 |
| Net operating income | 2,594 | *25.9* | 3,558 | *35.6* | 2,147 | *21.5* | 1,709 | *17.1* | 10,008 |
| **Quarter ended December 31, 2013** | | | | | | | | | |
| Investment properties | 101,675 | *19.2* | 208,793 | *39.4* | 100,561 | *19.0* | 118,403 | *22.4* | 529,432 |
| Rental income from properties | 3,006 | *18.4* | 6,919 | *42.3* | 2,333 | *14.3* | 4,090 | *25.0* | 16,348 |
| Net operating income | 1,850 | *20.4* | 3,309 | *36.5* | 1,937 | *21.4* | 1,965 | *21.7* | 9,061 |

Year ended December 31
(in thousands of dollars)

| | Commercial | | Office | | Industrial | | General purpose | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ |
| **Year ended in 2014** | | | | | | | | | |
| Rental income from properties | 14,087 | *21.0* | 27,771 | *41.3* | 9,946 | *14.8* | 15,366 | *22.9* | 67,170 |
| Net operating income | 8,687 | *22.9* | 13,500 | *35.5* | 8,083 | *21.3* | 7,713 | *20.3* | 37,983 |
| **Year ended in 2013** | | | | | | | | | |
| Rental income from properties | 11,684 | *18.4* | 27,007 | *42.6* | 8,855 | *14.0* | 15,889 | *25.0* | 63,435 |
| Net operating income | 7,163 | *20.3* | 13,058 | *37.0* | 7,324 | *20.7* | 7,791 | *22.0* | 35,336 |

# Comparative Summary of Quarterly Results

As at December 31
(in thousands of dollars, except for per unit data)

| | 2014 Q-4 | 2014 Q-3 | 2014 Q-2 | 2014 Q-1 | 2013 Q-4 | 2013 Q-3 | 2013 Q-2 | 2013 Q-1 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Rental income | **17,558** | 16,866 | 16,202 | 16,544 | 16,348 | 15,452 | 15,820 | 15,815 |
| Net operating income | **10,008** | 9,643 | 9,348 | 8,984 | 9,061 | 8,760 | 8,975 | 8,540 |
| Net income (loss) and comprehensive income | **(1,405)** | 4,968 | 5,323 | 3,997 | 7,732 | 5,660 | 1,616 | 3,342 |
| Net income (loss) per unit | **(4.1¢)** | 14.6¢ | 18.3¢ | 14.1¢ | 27.3¢ | 21.0¢ | 6.8¢ | 14.0¢ |
| Distributable income | **4,734** | 4,224 | 3,990 | 3,677 | 3,581 | 3,202 | 3,110 | 2,718 |
| Distributable income per unit | **13.9¢** | 12.4¢ | 13.7¢ | 13.0¢ | 12.7¢ | 11.9¢ | 13.0¢ | 11.4¢ |
| Funds from operations (FFO) | **4,214** | 3,838 | 3,786 | 3,388 | 3,490 | 2,836 | 2,857 | 2,450 |
| FFO per unit | **12.4¢** | 11.3¢ | 13.0¢ | 11.9¢ | 12.3¢ | 10.5¢ | 12.0¢ | 10.3¢ |
| Adjusted funds from operations (AFFO) | **4,153** | 3,657 | 3,436 | 3,117 | 3,049 | 2,668 | 2,569 | 2,182 |
| AFFO per unit | **12.2¢** | 10.8¢ | 11.8¢ | 11.0¢ | 10.8¢ | 10.0¢ | 10.8¢ | 9.2¢ |
| Distributions | **3,581** | 3,514 | 3,023 | 2,834 | 2,827 | 2,821 | 2,324 | 2,380 |
| Distributions per unit | **10.5¢** | 10.3¢ | 10.0¢ | 10.0¢ | 10.0¢ | 10.0¢ | 10.0¢ | 10.0¢ |

# Real Estate Operations

## Leasing activities

The following table summarizes changes in available leasable area during the quarters and years ended December 31.

| Periods ended December 31 (in square feet) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Available leasable area at beginning of period** | **329,970** | 369,760 | **367,166** | 359,949 |
| Available leasable area purchased (sold) | **—** | — | **5,296** | (4,597) |
| Leasable area of properties under redevelopment | **—** | — | **(46,938)** | — |
| Leasable area of expired leases | **154,390** | 163,023 | **531,266** | 330,889 |
| Leasable area of leases terminated before term | **46,661** | 5,280 | **117,062** | 90,360 |
| Leasable area of expired and renewed leases | **(127,183)** | (124,828) | **(427,218)** | (234,301) |
| Leasable area of new leases signed | **(60,164)** | (46,021) | **(204,005)** | (173,648) |
| Other | **(3,326)** | (48) | **(2,281)** | (1,486) |
| **Available leasable area at end of period** | **340,348** | 367,166 | **340,348** | 367,166 |

The Trust's leasing operations were significant during the fourth quarter of 2014. More than 187,000 square feet were signed with new tenants or renewed during the quarter (2013: 171,000) and 631,000 square feet since the beginning of the year (2013: 447,000).

The average rate of expired and renewed leases rose 10.7% during the fourth quarter (2013: 9.8%). The rate for the year was 8.7% (2013: 7.7%). These favourable rates show how skillful the Trust and its rental managers are at generating significant organic growth.

Management estimated a tenant retention rate of approximately 70% at the end of fiscal 2014, similar to last year.

## Occupancy rates

The following table provides occupancy rates by operating segment based on firm lease agreements signed as at the date of this report:

| | **December 31, 2014** | **September 30, 2014** | **June 30, 2014** | **March 31, 2013** | **December 31, 2013** |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| **Operating segment** | | | | | |
| Office | **86.6** | 87.9 | 87.7 | 87.5 | 87.4 |
| Commercial | **92.3** | 92.7 | 92.1 | 92.5 | 94.2 |
| Industrial | **98.3** | 98.5 | 98.3 | 96.5 | 94.4 |
| General purpose | **93.7** | 92.2 | 92.9 | 92.7 | 93.0 |
| **Total portfolio** | **92.7** | 92.9 | 92.8 | 92.3 | 91.9 |

The overall occupancy rate is down by 0.2% since September 30, 2014 and up by 0.8% since December 31, 2013. It stood at 92.7% at the end of fiscal 2014.

## Lease maturity

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

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Office** | | | | | |
| Leasable area (sq. ft.) | 188,787 | 186,447 | 159,206 | 134,114 | 176,330 |
| Average lease rate/square foot ($) | $14.58 | $14.14 | $12.66 | $12.79 | $14.44 |
| % of office portfolio | 13.1% | 12.9% | 11.0% | 9.3% | 12.2% |
| **Commercial** | | | | | |
| Leasable area (sq. ft.) | 74,704 | 33,082 | 100,881 | 100,184 | 160,225 |
| Average lease rate/square foot ($) | $11.30 | $9.13 | $12.72 | $14.78 | $12.59 |
| % of commercial portfolio | 8.4% | 3.7% | 11.3% | 11.2% | 18.0% |
| **Industrial** | | | | | |
| Leasable area (sq. ft.) | 20,000 | 83,013 | 540,417 | — | 77,072 |
| Average lease rate/square foot ($) | $4.05 | $9.19 | $4.64 | — | $4.01 |
| % of industrial portfolio | 1.4% | 5.8% | 38.0% | — | 5.4% |
| **General purpose** | | | | | |
| Leasable area (sq. ft.) | 70,110 | 173,254 | 52,101 | 103,492 | 113,525 |
| Average lease rate/square foot ($) | $10.05 | $8.73 | $14.39 | $12.66 | $11.43 |
| % of general purpose portfolio | 7.5% | 18.5% | 5.6% | 11.0% | 12.1% |
| **Total portfolio** | | | | | |
| **Leasable area (sq. ft.)** | 353,601 | 475,796 | 852,605 | 337,790 | 527,182 |
| **Average lease rate/square foot ($)** | $12.29 | $10.96 | $7.69 | $13.34 | $11.71 |
| **% of total portfolio** | 7.5% | 10.1% | 18.2% | 7.2% | 11.2% |

## Top 10 tenants

As at December 31, 2014, BTB managed close to 700 leases, with an average area of more than 6,500 square feet. The three largest tenants are Société québécoise des infrastructures (SQI), Groupe Épicia inc. and Atis Portes et Fenêtres Corp., accounting respectively for 3.6%, 2.0% and 2.0% of revenues, generated by a number of leases whose maturities are spread over time. Approximately 33% of the Trust's total revenues are generated by leases entered into with government agencies (federal, provincial and municipal) and public companies, ensuring stable and high-quality cash flows for the Trust's operating activities.

The following table shows the contribution of the Trust's top 10 tenants as a percentage of revenues as at December 31, 2014:

| | % of revenue | Leased area (square feet) |
|---|---|---|
| **Client** | | |
| Société québécoise des infrastructures (SQI) | 3.6 | 139,785 |
| Groupe Épicia inc. | 2.0 | 87,175 |
| Atis Portes et Fenêtres Corp. | 2.0 | 219,725 |
| Flextronics | 1.8 | 48,731 |
| Sobeys Québec Inc. | 1.8 | 44,988 |
| The SM Group Inc. | 1.7 | 109,185 |
| Germain Larivière Inc. | 1.6 | 101,194 |
| Société Strongco inc. | 1.5 | 81,442 |
| CSST | 1.5 | 46,421 |
| City of Ottawa | 1.5 | 29,768 |

## Events subsequent to December 31, 2014

On January 13, 2015, the Trust was informed that Groupe Épicia had filed a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act*. Pursuant to this proposal, Groupe Épicia filed 30 days' notice of cancellation of certain leases, specifically for the stores operating at 665 Thibeau in Trois-Rivières, Québec (9,800 sq. ft.) and 1100 St-Joseph Blvd. in Drummondville, Québec (12,000 sq. ft.), which expired prematurely on February 13, 2015.

Our rental teams are making significant efforts to quickly re-lease the premises. The Drummondville site is also being redeveloped to meet demand from food industry tenants.

Notice of termination was also given for the lease on the distribution centre at 2059 René-Patenaude in Magog, Québec (29,300 sq. ft.). The company plans to continue operating until the beginning of 2016, however, and the rent will be collected in full until then.

# Financial Position

The following table presents the Trust's balance sheet as at December 31, 2014 and December 31, 2013. It should be read in conjunction with the Trust's audited annual financial statements.

Periods ended December 31
(in thousands of dollars)

| | Reference | 2014<br>$ | 2013<br>$ |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | Page 49 | **571,462** | 529,432 |
| Amounts receivable from tenants and other receivables | Page 53 | **1,342** | 2,459 |
| Other assets | Page 53 | **5,788** | 6,306 |
| Cash, cash equivalents and reserved cash | Page 53 | **8,145** | 8,362 |
| **Total assets** | | **586,737** | 546,559 |
| **Liabilities** | | | |
| Mortgage loans payable | Page 54 | **329,943** | 313,816 |
| Convertible debentures | Page 57 | **65,186** | 63,929 |
| Bank loans | Page 59 | **—** | 1,472 |
| Accounts payable and other liabilities | | **14,009** | 14,750 |
| **Total liabilities** | | **409,138** | 393,967 |
| **Equity** | | | |
| Unitholders' equity | Page 60 | **177,599** | 152,592 |
| **Total liabilities and equity** | | **586,737** | 546,559 |

The main changes in the balance sheet as at December 31, 2014 compared to the balance sheet as at December 31, 2013 primarily reflect the acquisition of two investment properties and the related mortgage financings, the refinancing of certain mortgage loans and the issuance of 5,436,000 units (including 600,000 over-allotment units) in June 2014.

# Assets

## Investment properties

Over the years, BTB has fuelled its growth through high-quality property acquisitions based on strict selection criteria, while maintaining an appropriate allocation among four activity segments: office, commercial, industrial and general-purpose 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 jointly-controlled investment properties.

The fair value of investment properties stood at $571 million as at December 31, 2014 compared to $529 million as at December 31, 2013. The increase in the value of investment properties resulted from two property acquisitions during the year and investments in already acquired properties, capitalized leasing costs and the recognition of a change in fair value of the portfolio.

## Acquisition of investment properties

In May 2014, the Trust purchased a retail complex in Saint-Jean-sur-Richelieu, Québec for a purchase price of $31.6 million. The property has a total leasable area of 226,000 square feet and a capitalization rate of approximately 7.5%. The tenants include Maxi, Pharmaprix, Village des Valeurs, Dollarama and a CLSC.

In August 2014, the Trust acquired a newly built industrial complex located on a 344,000 square-foot lot. The purchase price of the complex, which has a leasable area of 40,400 square feet, was $8.3 million, with a capitalization rate of approximately 8.25%. The ultramodern facilities include office space and a showroom, parts counter, warehouse and repair shop. The premises are occupied by a single tenant, Strongco Corporation.

## Disposition of investment properties

In April 2014, the Trust sold a retail complex with a leasable area of 25,400 square feet located on Rue Saint-Jacques, Montréal, for a selling price of $4.2 million. The Trust also sold part of a property in Sherbrooke with a leasable area of 2,000 square feet, for a selling price of $0.5 million.

## Summary by operating segment

As at December 31

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Number of properties** | **Leasable area (sq. ft.)** | **%** | **Number of properties** | **Leasable area (sq. ft.)** | **%** |
| Office | **22** | **1,443,881** | ***29.9*** | 22 | 1,446,352 | *31.6* |
| Commercial | **15** | **892,704** | ***18.5*** | 14 | 651,688 | *14.2* |
| Industrial | **19** | **1,420,827** | ***29.5*** | 19 | 1,506,973 | *32.9* |
| General purpose | **13** | **937,323** | ***19.4*** | 14 | 975,258 | *21.3* |
| Subtotal | **69** | **4,694,735** | ***97.4*** | 69 | 4,580,271 | *100.0* |
| Industrial properties under redevelopment | **2** | **126,546** | ***2.6*** | — | — | — |
| **Total** | **71** | **4,821,281** | ***100.0*** | 69 | 4,580,271 | *100.0* |

## Investments in investment properties held

Upon the signing of several leases, the Trust makes disbursements for leasehold improvements or incentives applicable to the leased areas to meet the specific needs of tenants. Leasing fees are also paid to independent brokers. These disbursements amounted to $1,845 for the fourth quarter and $4,225 for the year ended December 31, 2014, compared to $598 and $2,311 for the same periods of 2013. The leasing fees and leasehold improvements apply to both new tenants and tenants whose leases are renewed for all properties. The amount of leasing fees and leasehold improvements varies depending on the renewal schedule, vacancy rates and tenancy profile.

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

Capital expenditures for the quarter and year ended December 31, 2014 totalled $2,335 and $5,452 respectively, compared to $1,601 and $3,487 for the same periods of 2013, of which $1,143 for the quarter and $2,470 for the year was recoverable (compared to $700 and $1,143 for the same periods of 2013). Capital expenditures do not include repair and maintenance costs. Capital expenditures vary from one period to another depending on the activities required or planned for each property.

The following table summarizes expenditures in maintenance capital expenditures, as well as incentives and leasing fees, for the quarters and years ended December 31, 2014 and 2013.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| Recoverable maintenance capital expenditures | **1,143** | 700 | **2,470** | 1,143 |
| Non-recoverable maintenance capital expenditures | **1,192** | 901 | **2,982** | 2,344 |
| **Total maintenance capital expenditures** | **2,335** | 1,601 | **5,452** | 3,487 |
| Leasing fees and leasehold improvements | **1,845** | 598 | **4,225** | 2,311 |
| **Total** | **4,180** | 2,199 | **9,677** | 5,798 |

The following table shows changes in the fair value of investment properties during the periods ended December 31.

| Periods ended December 31<br>(in thousands of dollars) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| **Balance, beginning of period** | **570,271** | 507,246 | **529,432** | 488,521 |
| Additions : | | | | |
| Acquisition | **—** | 15,549 | **40,121** | 29,614 |
| Disposals | **—** | — | **(4,725)** | (2,300) |
| Capital expenditures net of government grants | **2,335** | 1,601 | **5,452** | 3,487 |
| Leasing fees and leasehold improvements | **1,845** | 598 | **4,225** | 2,311 |
| Fair value adjustment | **(2,656)** | 4,520 | **(1,860)** | 8,375 |
| Other non-monetary changes | **(333)** | (82) | **(1,183)** | (576) |
| **Balance, end of period** | **571,462** | 529,432 | **571,462** | 529,432 |

## Investment properties under redevelopment

The Trust decided to invest significant amounts in redeveloping and repositioning two properties:

- 1863-1865 Transcanadienne, Montréal – Québec

This industrial property is currently completely vacant. The Trust plans to invest approximately $1 million to repurpose this property. Plans are now being prepared.

- 805 Boundary Road, Cornwall – Ontario

The Trust plans to divide this industrial property into two, with one section fully rented under a long-term lease with Canada Post. The Trust plans to significantly redevelop the other section, which is subject to a few short-term leases. The Trust intends to invest approximately $1 million and is waiting for the municipal permits to begin the work.

## Events subsequent to December 31, 2014

- On January 28, 2015, the Trust purchased a 116,000-square-foot industrial building in Ottawa, Ontario for $12.5 million. At the same time, the Trust signed a 15-year lease with Lowe-Martin, one of Canada's largest printers.
- On January 30, 2015, the Trust purchased a major shopping centre of almost 146,000 square feet in a Montréal suburb, for a purchase price of $21.5 million. Tenants include Loblaws, Pharmaprix, SAQ and National Bank.

## Amounts receivable from tenants and other receivables

Amounts receivable from tenants and other receivables decreased from $2,459 as at December 31, 2013 to $1,342 as at December 31, 2014. These amounts are summarized below:

| (in thousands of dollars) | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | $ | $ |
| Amounts receivable from tenants | **1,489** | 2,619 |
| Allowance for doubtful accounts | **(312)** | (263) |
| | **1,177** | 2,356 |
| Other receivables | **165** | 103 |
| | **1,342** | 2,459 |

## Cash, cash equivalents and reserved cash

(in thousands of dollars)

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | $ | $ |
| Available cash | **6,428** | 2,530 |
| Reserved cash | **1,717** | 5,832 |
| | **8,145** | 8,362 |

## Other assets

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

| (in thousands of dollars) | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | $ | $ |
| Property and equipment | **3,049** | 2,972 |
| Accumulated depreciation | **(753)** | (588) |
| | **2,296** | 2,384 |
| Prepaid expenses | **2,599** | 3,273 |
| Derivative financial instruments | **53** | 251 |
| Other | **840** | 398 |
| | **5,788** | 6,306 |

# Capital Resources

## Long-term debt

The following table shows the balances of BTB's indebtedness as at December 31, 2014, including mortgage loans payable and convertible debentures, based on year of maturity and corresponding weighted average contractual interest rates:

As at December 31
(in thousands of dollars)

| | Balance of convertible debentures | Balance of mortgages payable | Weighted average contractual interest rate |
|---|---|---|---|
| | $ | $ | % |
| **Year of maturity** | | | |
| 2015 | — | 32,499 | *4.21* |
| 2016 | 23,000 | 75,510 | *4.99* |
| 2017 | — | 64,767 | *4.22* |
| 2018 | 23,000 | 40,187 | *5.02* |
| 2019 | — | 44,831 | *3.56* |
| 2020 and thereafter | 23,000 | 72,990 | *5.18* |
| **Total** | **69,000** | **330,784** | ***4.69*** |

## Weighted average contractual interest rate

As at December 31, 2014, the weighted average contractual interest rate of the Trust's long-term debt stood at 4.69%, i.e. 4.13% for mortgages payable and 7.38% for convertible debentures.

## Weighted average maturity

The weighted average maturity of mortgage loans is 4.68 years.

## Mortgage loans payable

As at December 31, 2014, the Trust's mortgage loans payable amounted to $330.8 million compared to $314.2 million as at December 31, 2013, before deferred financing costs and valuation adjustments, an increase of $16.6 million due to acquisitions and refinancings in the last two quarters, net of principal repayments on monthly payments.

As at December 31, 2014, the weighted average interest rate was 4.13%, compared to 4.44% for mortgage loans on the books as at December 31, 2013, a drop of 31 basis points. Except for three loans with a total balance of $6.4 million as at December 31, 2014, all other mortgages payable bear interest at fixed rates or are coupled with an interest rate swap.

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

The following table summarizes changes in mortgage loans payable during the fourth quarter and year ended December 31, 2014:

As at December 31, 2014
(in thousands of dollars)

| | Quarter | Year |
|---|---|---|
| **Balance at beginning of period** | **335,115** | 314,173 |
| Mortgage loans contracted or assumed | **—** | 66,875 |
| Balance repaid at maturity | **(1,882)** | (40,829) |
| Monthly principal repayments | **(2,449)** | (9,435) |
| **Balance as at December 31** | **330,784** | 330,784 |

Note: Before unamortized financing costs and valuation adjustments.

Except for a property under redevelopment valued at $1,825, and three properties partially securing the acquisition and operating lines of credit unused as at December 31, 2014, all of the Trust's other properties were mortgaged as at December 31, 2014. Unamortized loan financing costs totalled $2,111 and are amortized under the effective interest method over the term of the loans.

The following table, as at December 31, 2014, shows future mortgage loan repayments for the next few years:

As at December 31, 2014
(in thousands of dollars)

| | Principal repayment | Balance at maturity | Total | % of total |
|---|---|---|---|---|
| | $ | $ | $ | % |
| **Maturity** | | | | |
| 2015 | 9,634 | 31,873 | 41,507 | 12.5 |
| 2016 | 8,841 | 70,409 | 79,250 | 24.0 |
| 2017 | 6,109 | 59,283 | 65,392 | 19.8 |
| 2018 | 4,242 | 35,493 | 39,735 | 12.0 |
| 2019 | 2,712 | 39,059 | 41,771 | 12.6 |
| 2020 and thereafter | 22,664 | 40,465 | 63,129 | 19.1 |
| **Total** | **54,202** | **276,582** | **330,784** | **100.0** |
| + Valuation adjustments on assumed loans | | | 1,270 | |
| - Unamortized financing costs | | | (2,111) | |
| **Balance as at December 31, 2014** | | | **329,943** | |

## Financings completed

During the year, the Trust concluded

- a financing agreement in the amount of $20.5 million bearing interest at 4.40% for a 10-year term, for the acquisition of a retail complex;
- a financing agreement in the amount of $13.4 million bearing interest at 3.85% for a 5-year term, which was used to refinance three properties;
- a financing agreement in the amount of $6.2 million bearing interest at 4.39% over a 10-year term, for the leaseback purchase, at a cost of $8.3 million, of an industrial property in the Québec City area.

## Subsequent events

- On January 28, 2015, the Trust entered into a financing agreement in the amount of $8.3 million, for a 15-year term, bearing interest at a rate of 3.58%, on the industrial building acquired on the same date.
- On January 30, 2015, the Trust entered into a financial agreement in the amount of $14 million, for a 15-year term, bearing interest at a rate of 3.55%, on the shopping centre acquired on the same date.

## Convertible debentures

**(a) Series C**
In January 2011, the Trust issued Series C convertible, unsecured, subordinated debentures, bearing 8% interest, in the amount of $23 million. Interest is payable semi-annually and the debentures mature on January 31, 2016. The debentures are convertible at the option of the holder at any time no later than January 31, 2016, subject to certain conditions. The conversion price is $5.00 per unit (the "Series C conversion price"). As at December 31, 2014, the closing market price of BTB units was $4.73.

As of January 31, 2015, but before January 31, 2016, under certain conditions, the debentures will be redeemable by the Trust at a redemption price equal to their principal amount plus accrued, unpaid interest.

The Trust may, at its option and subject to certain conditions, elect to satisfy its obligation to pay the principal amount of the Series C debentures by issuing freely tradable units to Series C debenture holders.

On the date of issuance, the debentures were recorded as a $21.6 million non-derivative liability component and a $1.4 million derivative financial instrument component.

**(b) Series D**
In July 2011, the Trust issued Series D convertible, unsecured, subordinated debentures, bearing 7.25% interest, in the amount of $23 million. Interest is payable semi-annually and the debentures mature on July 31, 2018. The debentures are convertible at the option of the holder at any time no later than July 31, 2018, subject to certain conditions. The conversion price is $6.10 per unit (the "Series D conversion price"). As at December 31, 2014, the closing market price of BTB units was $4.73.

As of July 31, 2014, but before July 31, 2016, under certain conditions, the debentures will be redeemable by the Trust 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 D conversion price and, as of July 31, 2016, but before July 31, 2018, at a price equal to their principal amount plus accrued, unpaid interest.

The Trust may, at its option and subject to certain conditions, elect to satisfy its obligation to pay the principal amount of the Series D debentures by issuing freely tradable units to Series D debenture holders.

On the date of issuance, the debentures were recorded as a $21.3 million non-derivative liability component and a $1.7 million derivative financial instrument component.

**(c) Series E**
In February 2013, the Trust issued Series E convertible, unsecured, subordinated debentures, bearing 6.90% interest, in the amount of $23 million. Interest is payable semi-annually and the debentures mature on March 31, 2020. The debentures are convertible at the option of the holder at any time no later than March 31, 2020, subject to certain conditions. The conversion price is $6.15 per unit (the "Series E conversion price"). As at December 31, 2014, the closing market price of BTB units was $4.73.

As of March 31, 2016, but before March 31, 2018, under certain conditions, the debentures will be redeemable by the Trust at a redemption price equal to their initial principal amount plus accrued, unpaid interest, provided that the unit market price is at least 125% of the Series E conversion price and, as of March 31, 2018, but before March 31, 2020, to a price equal to their principal amount plus accrued, unpaid interest.

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

On the date of issuance, the debentures were recorded as a $22.7 million non-derivative liability component and a $0.3 million derivative financial instrument component.

As at December 31, 2014, none of the three series met the conditions necessary for an authorized redemption.

As at December 31, 2014
(in thousands of dollars)

| | **Series C** | **Series D** | **Series E** | **Total** |
|---|---|---|---|---|
| Contractual interest rate | 8% | 7.25% | 6.90% | |
| Effective interest rate | 9.78% | 8.47% | 7.90% | |
| Date of issuance | January 2011 | July 2011 | February 2013 | |
| Per-unit conversion price | $5.00 | $6.10 | $6.15 | |
| Date of interest payment | January 31 and July 31 | January 31 and July 31 | March 31 and September 30 | |
| Maturity date | January 2016 | July 2018 | March 31, 2020 | |
| **Balance as at December 31, 2014** | **22,242** | **21,173** | **21,771** | **65,186** |

## Bank loan – Operating credit facility

BTB has an operating credit facility of $2 million with a Canadian chartered bank. This credit facility is partially secured by a first-ranking collateral mortgage on three properties and a second-ranking collateral mortgage on two properties and bears interest at the bank's base rate, plus 0.75%. As at December 31, 2014, the credit facility had not been used.

## Bank loans – acquisition credit facility

BTB has an acquisition credit facility of $15 million with a Canadian chartered bank. This credit facility is partially secured by a first-ranking collateral mortgage on three properties and a second-ranking collateral mortgage on two properties. It bears interest at the bank's base rate, plus 3.25%. As at December 31, 2014, the credit facility had not been used.

## Debt ratio

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

The following table presents the Trust's debt ratios as at December 31, 2014 and December 31, 2013.

As at December 31
(in thousands of dollars)

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Mortgage loans payable [1] | **330,784** | 314,173 |
| Convertible debentures [1] | **69,000** | 69,000 |
| Acquisition credit facility | **—** | — |
| **Total long-term debt** | **399,784** | 383,173 |
| Gross book value of the Trust | **587,490** | 547,147 |
| Debt ratio (excluding convertible debentures) | ***56.3%*** | *57.4%* |
| Total debt ratio | ***68.0%*** | *70.0%* |

[1] Gross amounts

According to the table above, the debt ratio, excluding the convertible debentures as at December 31, 2014, amounted to 56.3% compared to 57.4% as at December 31, 2013. The Trust seeks to finance its acquisitions with debt ratios of 60% to 70% because the cost of mortgage financings is lower than the capital cost of the Trust's equity. However, the appreciation of the portfolio's market value added to regular principal payments against the debt significantly improved the mortgage liability ratio. After including the convertible debentures, the ratio stood at 68.0% compared to 70.0% one year earlier.

## Interest coverage ratio

The Trust calculates its interest coverage ratio by dividing net operating income by interest expense net of interest income. The interest coverage ratio is used to assess BTB's ability to pay interest on its debt using its operating revenues. For the quarter ended December 31, 2014, the interest coverage ratio stood at 2.12, up 23 points from the fourth quarter of 2013, and also up 23 points for fiscal 2014 compared to the previous year, showing the Trust's financial strength and ability to cover the cost of its debt.

Periods ended December 31

| (in thousands of dollars, except for the ratios) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ |
| Net operating income | **10,008** | 9,061 | **37,983** | 35,336 |
| Interest expense, net of interest income[1] | **4,725** | 4,790 | **18,780** | 19,723 |
| Interest coverage ratio | ***2.12*** | *1.89* | ***2.02*** | *1.79* |

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

## Unitholders' equity

Unitholders' equity consists of the following:

(in thousands of dollars)

| | **December 31, 2014** | **December 31, 2013** |
|---|---|---|
| | **$** | **$** |
| Trust units | **182,284** | 157,207 |
| Cumulative profit | **33,563** | 20,680 |
| Cumulative distributions to unitholders | **(38,248)** | (25,295) |
| **Unitholders' equity** | **177,599** | 152,592 |

## Distribution reinvestment plan

On October 1, 2011, the Trust implemented a distribution reinvestment plan under which unitholders may elect to receive distributions in units, with a 5% discount on their market value. Under the program, 91,789 units were issued during the fourth quarter of 2014 (2013: 66,682 units) and 318,482 have been issued since the beginning of the year (2013: 205,141 units). Approximately 11.2% of the distributions paid in 2014 have been reinvested under the plan compared to 8.9% in 2013.

## Units outstanding

The following table summarizes units issued and the weighted number of units for the same periods.

| Periods ended December 31<br>(in number of units) | Quarter | | Year | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Units | Units | Units | Units |
| **Units outstanding, beginning of period** | 34,042,178 | 28,258,856 | **28,325,538** | 23,791,797 |
| Units issued | | | | |
| Public offering | — | — | **5,436,000** | 4,328,600 |
| Distribution reinvestment plan | 91,789 | 66,682 | **318,482** | 205,141 |
| Awards under employee unit purchase plan | — | — | **7,456** | — |
| Awards under the deferred unit compensation plan | — | — | **36,491** | — |
| Awards under the restricted unit compensation plan | — | — | **10,000** | — |
| **Units outstanding, end of period** | 34,133,967 | 28,325,538 | **34,133,967** | 28,325,538 |
| Weighted average number of units outstanding | 34,088,813 | 28,291,857 | **31,418,057** | 25,735,696 |

## Public offering

In June 2014, the Trust completed an issue of 5,436,000 units, including 600,000 units subsequent to the exercise of the over-allotment option, at a price of $4.55 per unit, for net proceeds of approximately $23.4 million, net of underwriters' fees. As described in the prospectus, an amount of $13.4 million was used to repay the acquisition credit facility, with the balance allocated to the Trust's working capital for future acquisitions.

In August 2014, approximately $2.5 million was allocated to the acquisition of a property from the amount reserved for future acquisitions.

Lastly, in January and February 2015, the remainder was allocated to the acquisition of two properties.

## Unit options

The Trust may grant options to its trustees, senior officers, investor relations consultants and technical consultants. The maximum number of units reserved for issuance under the unit option plan may not exceed 10% of the total number of issued and outstanding units. The trustees have and will set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the quoted market price of the units, as determined under a related agreement. The options have a maximum term of five years from the date of grant.

Details of unit options granted during the reporting periods:

Periods ended December 31
(in number of units)

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Unit options | Weighted average exercise price | Unit options | Weighted average exercise price |
| | | $ | | $ |
| **Outstanding, beginning of period** | **98,000** | 4.51 | **227,000** | 5.07 |
| Expired | **(24,000)** | 4.54 | **(129,000)** | 5.55 |
| **Outstanding, end of period** | **74,000** | 4.50 | **98,000** | 4.51 |
| Options vested as at December 31 | **74,000** | 4.50 | **98,000** | 4.51 |
| Weighted average remaining term to expiry (years) | | **0.40** | | 1.48 |

The purpose of granting unit options is to encourage the holder to acquire an ownership interest that increases over time and provides a financial incentive for the holder to consider the long-term interests of BTB and its unitholders. Options also serve as non-cash compensation, thus preserving the cash resources of BTB during its early years.

## 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 issued during the quarters and years ended December 31, 2014 and 2013:

Periods ended December 31
(in number of units)

| | Quarter | | Year | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Deferred units outstanding, beginning of period** | — | 26,206 | **29,771** | 15,981 |
| Deferred units issued | — | 3,075 | **5,619** | 11,948 |
| Distributions converted to deferred units | — | 490 | **1,649** | 1,842 |
| Deferred units settled | — | — | **(37,039)** | — |
| **Deferred units outstanding, end of period** | — | 29,771 | **—** | 29,771 |

## Restricted unit compensation plan

The following table summarizes restricted units issued during the quarters and years ended December 31, 2014 and 2013.

| Periods ended December 31<br>(in number of units) | Quarter | | Year | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Restricted units outstanding, beginning of period | **—** | — | **—** | — |
| Restricted units issued | **39,816** | — | **49,816** | — |
| Restricted units settled | **—** | — | **(10,000)** | — |
| **Restricted units outstanding, end of period** | **39,816** | — | **39,816** | — |

## Employee unit purchase plan

The Trust offers an optional employee unit purchase plan to all its employees. Under this plan, the employees may contribute, each year, a maximum of 3% to 7% of their base salary depending on their years of experience with the Trust. For each two units purchased by an employee, the Trust shall issue one unit from treasury. No units were issued under the plan during the quarter and as at December 31, 2014, a liability of $37 was recorded for the contingent issuance of 7,758 units (2013: $33 for 7,456 units).

## Off-balance sheet arrangements and contractual commitments

BTB does not have any off-balance sheet arrangements that have or are likely to have an impact on its operating results or financial position, specifically its cash position and sources of financing.

During the quarter and year ended December 31, 2014, BTB complied with all of its loan commitments and was not in default with any covenant at the balance sheet date.

# 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,” an indebtedness of a Canadian corporation represented by a banker’s acceptance, cash or, generally, an amount receivable from the Government of Canada or from certain other public agencies; and v) the investments that are made therein are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

As at December 31, 2014, 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 on-going 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 2014 or any other subsequent year.

# Taxation of Unitholders

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

Quarters ended December 31

| | 2014 | 2013 |
|---|---|---|
| | % | % |
| Taxable as other income | — | — |
| Tax deferred | ***100*** | *100* |
| **Total** | ***100*** | ***100*** |

# Summary of Significant Accounting Policies and Estimates

BTB’s significant accounting policies and estimates are described in Notes 2 and 3 to the audited annual consolidated financial statements for the year ended December 31, 2014 and the reader is invited to refer to these financial statements.

### (a) Functional and presentation currency

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

### (b) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

#### (i) Critical judgements in applying accounting policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

*Business combinations*

The Trust acquires entities that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business, i.e., where an integrated set of activities is acquired in addition to the investment property. More specifically, the following criteria are considered:

- The extent to which significant inputs and processes are acquired and in particular the extent of ancillary services provided by the acquiree.
- Whether the acquiree has allocated its own staff to manage the investment property and/or to deploy any processes.
- The number of investment properties owned by the acquiree.

An acquisition of a business is accounted for as a business combination under IFRS 3, *Business Combinations*.

When the acquisition does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

*Operating lease contracts – Trust as lessor*
The Trust enters into commercial property leases on its investment properties. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for the leases as operating leases.

**(ii) Key sources of estimation uncertainty**
The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assest and liabilities within the next financial year:

*Valuation of investment properties*
Investment properties are stated at fair value at each reporting date. Gains or losses arising from changes in the fair values are included in profit or loss in the period in which they arise. Fair value is determined by management using internally generated valuation models and by independent real estate valuation experts using recognized valuation techniques. These models and techniques comprise both the Discounted Cash Flow Method and the Direct Capitalization method. In some cases, the fair values are determined using the Comparable method which is based on recent real estate transactions with similar characteristics and location to those of the Trust's investment properties.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (including lease income and costs, future revenue streams, capital expenditures of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those cash flows. These estimates are based on local market conditions existing at the reporting date.

The significant methods and assumptions used by management and the valuators in estimating the fair value of investment properties are set out below:

*Techniques used for valuing investment properties*
The Direct Capitalization method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires estimation of future cash inflows and application of investor yield or return requirements.

The Discounted Cash Flow method involves the projection of a series of periodic cash flows either to an operating investment property or a development investment property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the investment property. The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the fair value estimated of the investment property.

The Comparable method involves the comparison of the Trust’s investment properties to similar investment properties that have transacted within a recent time frame from which a fair value is estimated based on the price per square foot of these comparable sales.

*Derivative financial instruments*
Derivative financial instruments, including embedded derivatives, are recognized on the consolidated statement of financial position at fair value. Subsequent to initial recognition, these derivatives are measured at fair value. The fair value of derivative instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the financial instrument. Changes in estimated fair value at each reporting date are included in profit and loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

*Unit options*
The Trust has a unit option plan for the benefit of management. The plan does not provide for cash settlement. The Trust recognizes compensation expense on unit options granted, based on their fair value, which is calculated using the Black-Scholes model. The compensation expense is amortized using the graded vesting method. The valuation model requires management to make estimates for the expected life, volatility, the average dividend yield of distributions and the average risk-free interest rate.

## (c) Basis of consolidation

### (i) Business combinations

Business combinations are accounted for using the acquisition method. Accordingly, the consideration transferred for the acquisition of a business is the fair value of the assets transferred, and any debt and trust units issued by the Trust on the date control of the acquired entity is obtained. Acquisition-related costs, other than those associated with the issue of debt or trust units, are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. The Trust measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Trust elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Trust incurs in connection with a business combination are expensed as incurred.

### (ii) Subsidiaries

Subsidiaries are entities controlled by the Trust. Control exists when the Trust has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**(iii) Joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. The consolidated financial statements include the Trust's proportionate share of the joint operations' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

## (d) Financial instruments

Financial assets and liabilities are recognized when the Trust becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Trust's designation of such instruments.

**(i) Non-derivative financial assets**

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise restricted cash, receivables and cash and cash equivalents.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and term deposits with original maturities of three months or less.

*Restricted cash*

Restricted cash mainly includes amounts which are held in interest-bearing reserve accounts and are expected to be utilized over the coming years to fund certain expenses related to investments, as well as amounts provided in guarantee of mortgage loans.

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

**(ii) Non-derivative financial liabilities**

The Trust classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities comprise mortgage loans payable, convertible debentures, bank loans, trade and other payables and distributions payable to unitholders.

The Trust derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

**(iii) Trust units**

Trust units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32 *Financial Instruments: Presentation* ("IAS 32"), in which case, the puttable instruments may be presented as equity.

BTB's trust units meet the conditions of IAS 32 and are therefore presented as equity.

**(iv) Convertible debentures**

The convertible debentures, which are considered financial liabilities, are convertible into trust units of the Trust. Since BTB's trust units meet the definition of a financial liability, the conversion and redemption options are considered embedded derivatives.

**(v) Derivative financial instruments**

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

**(e) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss. The Trust capitalizes into investment property the costs incurred to increase their capacity, replace certain components and make improvements after the acquisition date. The Trust also capitalizes major maintenance and repair expenses providing benefits that will last far beyond the end of the reporting period. Investment property includes income properties, properties under development and land held for future development if necessary.

Cost includes expenditures that are directly attributable to the acquisition of the investment property. The Trust makes payments to agents for services in connection with negotiating lease contracts with the Trust's lessees. These leasing fees are capitalized within the carrying amount of the related investment property and then considered in the fair value adjustment of the investment property at the next reporting period.

Should the use of a property change and be reclassified as property and equipment, its fair value at the date of reclassification would become its cost for subsequent accounting.

**(f) Property and equipment**

**(i) Recognition and measurement**

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses in accordance with the cost model.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized within profit or loss on a net basis.

**(ii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Owner-occupied building | 40 years |
| Equipment, furniture and fixtures | 2 - 12 years |
| Rolling stock | 2 - 5 years |

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted when appropriate.

**(iii) Impairment**

The carrying amount of the Trust's property and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

**(g) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

**(i) Trust as lessor**

All existing rental leases related to the Trust's investment properties have been assessed as operating leases. The tenants have a unilateral right to terminate a lease within the statutory period.

**(ii) Trust as lessee**

Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

### (h) Provisions

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Trust expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### (i) Revenue recognition

Rental revenue from property includes rents from tenants under leases, property taxes and operating cost recoveries, lease cancellation fees and incidental income. Rental revenue is recognized when service has been rendered and the amount of expected consideration can be reliably estimated.

The Trust commences revenue recognition on its leases based on a number of factors. In most cases, revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the leased property. Generally, this occurs on the lease commencement date, or when the Trust is required to make additions to the leased property in the form of tenant improvements, upon substantial completion of the additions. Certain leases provide for tenant occupancy during periods for which no rent is due (“free rent period”) or where minimum rent payments change during the term of the lease. Accordingly, rental revenue is recognized in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which user’s benefit derived from the leased asset is diminished. Any deferred amounts related to the straight-line lease adjustments are recognized within investment properties. Leases generally provide for the tenants’ payment of maintenance expenses of common elements, property taxes and other operating costs, such payment being recognized as operating revenues in the period when the right to payment vests.

Lease incentives which are mostly leasehold improvements and payments of monetary allowances to tenants, are amortized over the lease term as a reduction of rental revenue. The lease term is the non-cancellable period of the lease together with any further extension for which the tenant has the option to continue the lease, where, at the inception of the lease, the Trust is reasonably certain that the tenant will exercise that option. Lease incentives and amortization of lease incentives are recognized as adjustments to the carrying amount of investment properties.

Cancellation fees or premiums received to terminate leases are recognized in profit and loss when they arise.

### (j) Government grants

Government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Trust will comply with the conditions associated with the grant. Grants that compensate the Trust for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Trust for the cost of an asset are deducted from the carrying amount of the asset.

**(k) Earnings per unit**
The Trust presents basic earnings per unit data for its Trust units. Basic earnings per unit are calculated by dividing the profit or loss attributable to unit holders of the Trust by the weighted average number of units outstanding during the period, adjusted for own units held.

**(l) Finance income and finance costs**
Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest on mortgage loans payable, convertible debentures, bank loans and other payables, as well as accretion of the non-derivative liability component of convertible debentures, and accretion of effective interest on mortgage loans payable, convertible debentures and bank loans, and finance income.

Net financing costs comprise finance costs and changes in the fair value of derivative financial instruments.

**(m) Operating segment**
An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Trust’s other components. All operating segments’ operating results are reviewed regularly by the Trust’s Chief Executive officer (‘’CEO’’) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**(n) Unit-based compensation**

**(i) Unit option plan**
The Trust uses the fair value-based method of accounting for its unit-based awards, under which compensation expense is measured at grant date and recognized over the vesting period. The units are considered financial liabilities and the awards are also considered financial liabilities and measured at fair-value at each reporting period and the change in the fair value is recognized as compensation expense in profit and loss.

**(ii) Deferred unit compensation plan for trustees and certain executive officers**
Compensation costs related to the deferred unit compensation plan for trustees and certain executive officers are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust’s unit, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized as compensation expense in profit or loss.

**(iii) Employee unit purchase plan**
Compensation costs related to the employee unit purchase plan are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust’s unit, and are revalued at settlement date. Any changes in fair value are recognized as compensation expense in profit or loss.

### (iv) Restricted unit compensation plan

Compensation costs related to the restricted unit compensation plan are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust's unit, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized as compensation expense in profit or loss. The compensation expense is amortized using the graded vesting method.

### (o) Income taxes

BTB is a mutual fund trust and a Real Estate Investment Trust (''REIT'') pursuant to the Income Tax Act (Canada). Under current tax legislation, a REIT is entitled to deduct distributions of taxable income such that, it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. BTB has reviewed the proscribed conditions under the Income Tax Act (Canada) and has determined that it qualifies as a REIT for the year. BTB intends to continue to qualify as a REIT and to make distributions not less than the amount necessary to ensure that BTB will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in the consolidated financial statements.

### (p) Fair value measurement

The Trust measures financial instruments, such as derivatives, and non-financial assets,such as investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Trust. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Trust determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Trust has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# New Accounting Policies

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

The following paragraphs present new accounting standards that apply to BTB but that have not been adopted yet.

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

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The new standard is effective for the Trust's annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

# Risks and Uncertainties

Like all real estate entities, BTB is exposed, in the normal course of business, to various risk factors that may have an impact on its capacity to attain its strategic objectives. Accordingly, unitholders should consider the following risks and uncertainties when assessing the Trust's outlook in terms of investment potential.

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

### Access to capital and debt financing, and current global financial conditions

The real estate industry is capital-intensive. BTB will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that BTB will have access to sufficient capital (including debt financing) on terms favorable to BTB for future property acquisitions and redevelopments, including for the financing or refinancing of properties, for funding operating expenses or for other purposes. In addition, BTB may not be able to borrow funds under its credit facilities due to limitations on BTB's ability to incur debt set forth in the Contract of Trust. Failure by BTB to access required capital could adversely impact BTB's financial position and results of operations and reduce the amount of cash available for distributions.

New market events and conditions, including disruptions in international and regional credit markets and in other financial systems and deteriorating global economic conditions, could impede BTB's access to capital (including debt financing) or increase the cost of such capital. Failure to raise capital in a timely manner or under favourable terms could have a material adverse effect on BTB's financial position and results of operations, including on its acquisition and development program.

### Debt financing

BTB has and will continue to have substantial outstanding consolidated borrowings comprised primarily of hypothecs, property mortgages, debentures, and borrowings under its acquisition and operating credit facilities. BTB intends to finance its growth strategy, including acquisitions and developments, through a combination of its working capital and liquidity resources, including cash f lows from operations, additional borrowings and public or private sales of equity or debt securities. BTB may not be able to refinance its existing debt or renegotiate the terms of repayment at favourable rates. In addition, the terms of BTB's indebtedness in general contain customary provisions that, upon an event of default, result in accelerated repayment of the amounts owed and that restrict the distributions that may be made by BTB. Therefore, upon an event of default under such borrowings or an inability to renew same at maturity, BTB's ability to make distributions will be adversely affected.

A portion of BTB's cash flows is dedicated to servicing its debt, and there can be no assurance that BTB will continue to generate sufficient cash flows from operations to meet required interest or principal payments, such that it could be required to seek renegotiation of such payments or obtain additional financing, including equity or debt financing.

BTB is exposed to debt financing risks, including the risk that the existing hypothecary borrowings secured by its properties cannot be refinanced or that the terms of such refinancing will not be as favourable as the terms of the existing loans. In order to minimize this risk, BTB tries to appropriately structure the timing of the renewal of significant tenant leases on its respective properties in relation to the times at which the hypothecary borrowings on such properties become due for refinancing.

### Ownership of immovable property

All immovable property investments are subject to risk exposures. Such investments are affected by general economic conditions, local real estate markets, demand for leased premises, competition from other vacant premises, municipal valuations and assessments, and various other factors.

The value of immovable property and improvements thereto may also depend on the solvency and financial stability of tenants and the economic environment in which they operate. BTB's income and distributable income would be adversely affected if one or more major tenants or a significant number of tenants were unable to meet their lease obligations or if a significant portion of vacant space in the properties in which BTB has an interest cannot be leased on economically favorable lease terms. In the event of default by a tenant, delays or limitations may be experienced in enforcing BTB's rights as a lessor and substantial costs may be incurred to protect BTB's investment. The ability to rent unleased space in the properties in which BTB has an interest will be affected by many factors, including the level of general economic activity and competition for tenants by other properties. Costs may need to be incurred to make improvements or repairs to property as required by a new tenant. The failure to rent unleased space on a timely basis or at all or at rents that are equivalent to or higher than current rents would likely have an adverse effect on BTB's financial position and the value of its properties.

Certain significant expenditures, including property taxes, maintenance costs, hypothecary payments, insurance costs and related charges must be made throughout the period of ownership of immovable property regardless of whether the property is producing any income. If BTB is unable to meet mortgage payments on a property, a loss could be sustained as a result of the mortgage creditor's exercise of its hypothecary remedies.

Immovable property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with the demand for and the perceived desirability of such investments. Such illiquidity may tend to limit BTB's ability to make changes to its portfolio promptly in response to changing economic or investment conditions. If BTB were to be required to liquidate its immovable property investments, the proceeds to BTB might be significantly less than the aggregate carrying value of its properties.

Leases for BTB's properties, including those of significant tenants, will mature from time to time over the short and long term. There can be no assurance that BTB will be able to renew any or all of the leases upon maturity or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact BTB's financial position and results of operations and decrease the amount of cash available for distribution.

## Competition

BTB competes for suitable immovable property investments with individuals, corporations and institutions (both Canadian and foreign) which are presently seeking or which may seek in the future immovable property investments similar to those desired by BTB. Many of those investors have greater financial resources than BTB, or operate without the investment or operating restrictions of BTB or under more flexible conditions.

An increase in the availability of investment funds and heightened interest in immovable property investments could increase competition for immovable property investments, thereby increasing the purchase prices of such investments and reducing their yield.

In addition, numerous property developers, managers and owners compete with BTB in seeking tenants. The existence of competing developers, managers and owners and competition for the BTB's tenants could have an adverse effect on the BTB's ability to lease space in its properties and on the rents charged, and could adversely affect the BTB's revenues and, consequently, its ability to meet its debt obligations.

## Acquisitions

BTB's business plan focuses on growth by identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. If BTB is unable to manage its growth effectively, this could adversely impact BTB's financial position and results of operations, and decrease the amount of cash available for distribution. There can be no assurance as to the pace of growth through property acquisitions or that BTB will be able to acquire assets on an accretive basis, and as such there can be no assurance that distributions to unitholders will increase in the future.

## Development program

Information regarding our development projects, development costs, capitalization rates and expected returns are subject to change, which may be material, as assumptions regarding items including, but not limited to, tenant rents, building sizes, leasable areas, and project completion timelines and costs are updated periodically based on revised plans, our cost tendering process, continuing tenant negotiations, demand for leasable space in our markets, our ability to obtain the required building permits, ongoing discussions with municipalities and successful property re-zonings. There can be no assurance that any assumptions in this regard will materialize as expected and changes could have a material adverse effect on our development program, asset values and financial performance.

## Recruitment and retention of employees and executives

Competition for qualified employees and executives is intense. If BTB is unable to attract and retain qualified and capable employees and executives, the conduct of its activities may be adversely affected.

## Government regulation

BTB and its properties are subject to various government statutes and regulations. Any change in such statutes or regulations that is adverse to BTB and its properties could affect BTB's operating results and financial performance.

In addition, environmental and ecological legislation and policies have become increasingly important in recent decades. Under various laws, BTB could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations, or for the costs of other remedial or preventive work. The failure to remove or remediate such substances, or to effect such remedial or preventive work, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs or governmental agencies. Notwithstanding the above, BTB is not aware of any material non-compliance, liability or other claim in connection with any of its properties, nor is BTB aware of any environmental condition with respect to any of its properties that it believes would involve material expenditure by BTB.

## Limit on activities

In order to maintain its status as a "mutual fund trust" under the *Income Tax Act*, BTB cannot carry on most active business activities and is limited in the types of investments it may make. The Contract of Trust contains restrictions to this effect.

## Tax-related risks

Legislation (the "SIFT Rules") relating to the income taxation of publicly listed or traded trusts (such as income trusts and Real Estate Investment Trusts) and partnerships changes the manner in which certain flow-through entities and the distributions from such entities are taxed. Under the SIFT Rules, certain publicly listed or traded flow-through trusts and partnerships referred to as "specified investment flow-through" or "SIFT" trusts and partnerships are taxed in a manner similar to the taxation of corporations, and investors in SIFTs are taxed in a manner similar to shareholders of a corporation.

The taxation regime introduced by the SIFT Rules is not applicable to funds that qualify for the exemption under the SIFT Rules applicable to certain Real Estate Investment Trusts (the "REIT Exemption"). If the Trust fails to qualify for the REIT Exemption, it will be subject to certain tax consequences including taxation in a manner similar to corporations and taxation of certain distributions in a manner similar to taxable dividends from a taxable Canadian corporation.

In order to qualify for the REIT Exemption in respect of a taxation year, the REIT must meet the following conditions: i) the total fair market value of all the "non-portfolio properties" that are "qualified REIT properties" held by the trust is always 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 the REIT's gross revenues for that year come 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 the REIT's gross revenues for that year must come 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) the REIT must, throughout the year, hold properties, each of which is a "real or immovable property" which is a capital property, an "eligible resale property," debt from a Canadian company represented by a banker's acceptance, cash, or generally a Canadian government debt instrument or one from another government agency with a total fair market value that is not less than 75% of the REIT's equity value at that time; 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 December 31, 2014, based on a review of BTB's assets and revenues from its regular business activities, management believes the Trust currently meets all the conditions to qualify for the REIT Exemption. Accordingly, management does not expect the SIFT tax rules to apply to BTB.

Management intends to conduct the REIT's business so that it continues to qualify for the REIT Exemption at all times. However, as the requirements of the REIT Exemption include complex revenue and asset tests, no assurance can be given that the REIT will in fact qualify for the REIT Exemption at all times.

# 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 Securites 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 the end of the year ended December 31, 2014 and that the current controls and procedures provide reasonable assurance that material information about BTB is made known to them during the period 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 the end of the fiscal year ended December 31, 2014, and, more specifically, that the financial reporting is reliable and that the financial statements have been prepared for financial reporting purposes in accordance with IFRS.

During fiscal 2014, management made no changes to internal control over financial reporting that materially affected, or are likely to materially affect, internal control over financial reporting.

# Audited Consolidated Financial Statements

Year ended December 31, 2014

## Table of Contents

# Management's responsibility for Financial Reporting

The accompanying consolidated financial statements of BTB Real Estate Investment Trust ("BTB") were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

Financial information appearing throughout our MD&A is consistent with these consolidated financial statements. In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained.

As at December 31, 2014, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of BTB had an evaluation carried out, under their direct supervision, of the effectiveness of the controls and procedures used for the preparation of filings, as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators. Based on that evaluation, they concluded that the disclosure controls and procedures were effective.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of Trustees who are not members of BTB's management or personnel. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the trustees on auditing matters and financial reporting issues.

KPMG s.r.l./S.E.N.C.R.L., independent auditors appointed by the unitholders of BTB upon the recommendation of the Board, have performed an independent audit of the Consolidated Financial Statements as at December 31, 2014 and 2013 and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Michel Léonard
President and Chief Executive Officer

Benoit Cyr, CPA, CA, MBA
Vice President and Chief Financial Officer

Montreal, March 19th 2015

**KPMG LLP**
600 de Maisonneuve Blvd. West
Suite 1500
Tour KPMG
Montréal (Québec) H3A 0A3

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the unitholders of BTB Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of BTB Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BTB Real Estate Investment Trust as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP*

March 19, 2015

Montréal, Canada

*FCPA auditor, FCA, public accountancy permit No. A106087

BTB Real Estate Investment Trust

# Consolidated Statements of Financial Position

As at December 31, 2014 and 2013
(Audited - in thousands of CAD dollars)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| Investment properties | 4, 5, 6 | 571,462 | 529,432 |
| Property and equipment | 7 | 2,296 | 2,384 |
| Derivative financial instruments | 14 | 53 | 251 |
| Restricted cash | 8 | 1,717 | 5,832 |
| Other assets | 9 | 3,439 | 3,671 |
| Receivables | 10 | 1,342 | 2,459 |
| Cash and cash equivalents | | 6,428 | 2,530 |
| **Total assets** | | **586,737** | **546,559** |
| | | | |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | | |
| Mortgage loans payable | 11 | 329,943 | 313,816 |
| Convertible debentures | 12 | 65,186 | 63,929 |
| Bank loans | 13 | — | 1,045 |
| Derivative financial instruments | 14 | 145 | 1,723 |
| Unit-based compensation | 15 | 213 | 187 |
| Trade and other payables | | 12,457 | 12,324 |
| Distributions payable to unitholders | | 1,194 | 943 |
| **Total liabilities** | | **409,138** | **393,967** |
| **Unitholders' equity** | | **177,599** | **152,592** |
| | | **586,737** | **546,559** |

See accompanying notes to consolidated financial statements.

Approved by the Board on March 19, 2015

Michel Léonard, Trustee

Jocelyn Proteau, Trustee

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| | | $ | $ |
| **Operating revenues** | | | |
| Rental revenues from properties | 17 | 67,170 | 63,435 |
| **Operating expenses** | | | |
| Property taxes and public utilities | | 18,217 | 17,729 |
| Other operating costs | | 10,970 | 10,370 |
| | | 29,187 | 28,099 |
| **Net operating income** | | **37,983** | **35,336** |
| Finance costs | | 20,410 | 21,416 |
| Net adjustment to fair value of derivative financial instruments | | (1,379) | 113 |
| Net financing costs | 18 | 19,031 | 21,529 |
| Trust administration expenses | | 4,209 | 3,833 |
| **Net income before the following item** | | **14,743** | **9,974** |
| (Decrease) Increase in fair value of investment properties | | (1,860) | 8,375 |
| **Net income being total comprehensive income for the period** | | **12,883** | **18,349** |

See accompanying notes to consolidated financial statements.

BTB Real Estate Investment Trust

# Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars)

| | Notes | Unitholders' contributions | Cumulative distributions | Cumulative comprehensive income | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2014** | | **157,207** | **(25,295)** | **20,680** | **152,592** |
| Issuance of units | 16 | 25,077 | — | — | 25,077 |
| Distributions to unitholders | | — | (12,953) | — | (12,953) |
| | | 182,284 | (38,248) | 20,680 | 164,716 |
| Comprehensive income | | — | — | 12,883 | 12,883 |
| **Balance as at December 31, 2014** | | **182,284** | **(38,248)** | **33,563** | **177,599** |
| | | | | | |
| **Balance at January 1, 2013** | | **137,330** | **(14,883)** | **2,331** | **124,778** |
| Issuance of units | 16 | 19,877 | — | — | 19,877 |
| Distribution to unitholders | | — | (10,412) | — | (10,412) |
| | | 157,207 | (25,295) | 2,331 | 134,243 |
| Comprehensive income | | — | — | 18,349 | 18,349 |
| **Balance as at December 31, 2013** | | **157,207** | **(25,295)** | **20,680** | **152,592** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars)

| | Notes | 2014 | 2013 |
|---|---|---|---|
| | | $ | $ |
| **Operating activities** | | | |
| Net income for the period | | 12,883 | 18,349 |
| Adjustment for: | | | |
| Decrease (Increase) in fair value of investment properties | | 1,860 | (8,375) |
| Depreciation of property and equipment | 7 | 165 | 126 |
| Unit-based compensation | | 284 | 90 |
| Straight-line lease adjustment | 17 | (610) | (866) |
| Lease incentive amortization | 17 | 1,793 | 1,480 |
| Net financing costs | 18 | 19,031 | 21,529 |
| | | 35,406 | 32,333 |
| Net change in non-cash operating items | | 1,272 | (165) |
| **Net cash from operating activities** | | **36,678** | **32,168** |
| **Investing activities** | | | |
| Additions to investment properties | 4, 5 | (49,553) | (30,928) |
| Net proceeds from disposal of investment properties | 6 | 4,656 | 2,300 |
| Additions to property and equipment | 7 | (77) | (347) |
| **Net cash used in investing activities** | | **(44,974)** | **(28,975)** |
| **Financing activities** | | | |
| Mortgage loans, net of financing costs | | 66,113 | 56,600 |
| Repayment of mortgage loans | | (50,264) | (42,607) |
| Bank loans, net of financing costs | | 2,246 | — |
| Repayment of bank loans | | (3,291) | (13,963) |
| Net proceeds from issue of convertible debentures | | — | 21,756 |
| Repayment of convertible debentures | | — | (13,020) |
| Net proceeds from issue of units | | 23,429 | 18,996 |
| Net distributions to unitholders | | (11,301) | (9,382) |
| (Additions) Deduction to restricted cash | 8 | 4,115 | (3,975) |
| Interest paid | | (18,853) | (19,674) |
| **Net cash from (used in) financing activities** | | **12,194** | **(5,269)** |
| **Net increase (decrease) in cash and cash equivalents** | | **3,898** | **(2,076)** |
| **Cash and cash equivalents, beginning of period** | | **2,530** | **4,606** |
| **Cash and cash equivalents, end of period** | | **6,428** | **2,530** |

See accompanying notes to consolidated financial statements.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 1. Reporting Entity

BTB Real Estate Investment Trust (“BTB”) is an unincorporated open-ended real estate investment trust formed and governed under the Civil code of Quebec pursuant to a trust agreement and is domiciled in Canada. The address of BTB’s registered office is 2155, Crescent street, Montreal, Quebec, Canada. The consolidated financial statements of BTB for the years ended December 31, 2014 and 2013 comprise BTB and its wholly-owned subsidiaries (together referred to as the “Trust”) and the Trust’s interest in joint operations.

## 2. Basis of Preparation

### (a) Statement of compliance

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on March 19, 2015.

### (b) Basis of presentation and measurement

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

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

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

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgments

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

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

**(i) Critical judgements in applying accounting policies**
The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

*Business combinations*
The Trust acquires entities that own real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business, i.e., where an integrated set of activities is acquired in addition to the investment property. More specifically, the following criteria are considered:

- The extent to which significant inputs and processes are acquired and in particular the extent of ancillary services provided by the acquiree.
- Whether the acquiree has allocated its own staff to manage the investment property and/or to deploy any processes.
- The number of investment properties owned by the acquiree.

An acquisition of a business is accounted for as a business combination under IFRS 3, *Business Combinations*.

When the acquisition does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values.

*Operating lease contracts – Trust as lessor*
The Trust enters into commercial property leases on its investment properties. The Trust has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for the leases as operating leases.

**(ii) Key sources of estimation uncertainty**
The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assest and liabilities within the next financial year:

*Valuation of investment properties*
Investment properties are stated at fair value at each reporting date. Gains or losses arising from changes in the fair values are included in profit or loss in the period in which they arise. Fair value is determined by management using internally generated valuation models and by independent real estate valuation experts using recognized valuation techniques. These models and techniques comprise both the Discounted Cash Flow Method and the Direct Capitalization method. In some cases, the fair values are determined using the Comparable method which is based on recent real estate transactions with similar characteristics and location to those of the Trust's investment properties.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (including lease income and costs, future revenue streams, capital expenditures of fixtures and fittings, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those cash flows. These estimates are based on local market conditions existing at the reporting date.

The significant methods and assumptions used by management and the valuators in estimating the fair value of investment properties are set out below:

*Techniques used for valuing investment properties*
The Direct Capitalization method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires estimation of future cash inflows and application of investor yield or return requirements.

The Discounted Cash Flow method involves the projection of a series of periodic cash flows either to an operating investment property or a development investment property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the investment property. The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the fair value estimated of the investment property.

The Comparable method involves the comparison of the Trust’s investment properties to similar investment properties that have transacted within a recent time frame from which a fair value is estimated based on the price per square foot of these comparable sales.

*Derivative financial instruments*
Derivative financial instruments, including embedded derivatives, are recognized on the consolidated statement of financial position at fair value. Subsequent to initial recognition, these derivatives are measured at fair value. The fair value of derivative instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk

of the financial instrument. Changes in estimated fair value at each reporting date are included in profit and loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

*Unit options*
The Trust has a unit option plan for the benefit of management. The plan does not provide for cash settlement. The Trust recognizes compensation expense on unit options granted, based on their fair value, which is calculated using the Black-Scholes model. The compensation expense is amortized using the graded vesting method. The valuation model requires management to make estimates for the expected life, volatility, the average dividend yield of distributions and the average risk-free interest rate.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

#### (i) Business combinations
Business combinations are accounted for using the acquisition method. Accordingly, the consideration transferred for the acquisition of a business is the fair value of the assets transferred, and any debt and trust units issued by the Trust on the date control of the acquired entity is obtained. Acquisition-related costs, other than those associated with the issue of debt or trust units, are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally measured initially at their fair values at the acquisition date. The Trust measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Trust elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Trust incurs in connection with a business combination are expensed as incurred.

#### (ii) Subsidiaries
Subsidiaries are entities controlled by the Trust. Control exists when the Trust has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### (iii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. The consolidated financial statements include the Trust's proportionate share of the joint operations' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

## (b) Financial instruments

Financial assets and liabilities are recognized when the Trust becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Trust's designation of such instruments.

### (i) Non-derivative financial assets

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise restricted cash, receivables and cash and cash equivalents.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and term deposits with original maturities of three months or less.

*Restricted cash*

Restricted cash mainly includes amounts which are held in interest-bearing reserve accounts and are expected to be utilized over the coming years to fund certain expenses related to investments, as well as amounts provided in guarantee of mortgage loans.

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

**(ii) Non-derivative financial liabilities**

The Trust classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities comprise mortgage loans payable, convertible debentures, bank loans, trade and other payables and distributions payable to unitholders.

The Trust derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

**(iii) Trust units**

Trust units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32 *Financial Instruments: Presentation* ("IAS 32"), in which case, the puttable instruments may be presented as equity.

BTB's trust units meet the conditions of IAS 32 and are therefore presented as equity.

**(iv) Convertible debentures**

The convertible debentures, which are considered financial liabilities, are convertible into trust units of the Trust. Since BTB's trust units meet the definition of a financial liability, the conversion and redemption options are considered embedded derivatives.

**(v) Derivative financial instruments**

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

**(c) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss. The Trust capitalizes into investment property the costs incurred to increase their capacity, replace certain components and make improvements after the acquisition date. The Trust also capitalizes major maintenance and repair expenses providing benefits that will last far beyond the end of the reporting period. Investment property includes income properties, properties under development and land held for future development if necessary.

Cost includes expenditures that are directly attributable to the acquisition of the investment property.

The Trust makes payments to agents for services in connection with negotiating lease contracts with the Trust's lessees. These leasing fees are capitalized within the carrying amount of the related investment property and then considered in the fair value adjustment of the investment property at the next reporting period.

Should the use of a property change and be reclassified as property and equipment, its fair value at the date of reclassification would become its cost for subsequent accounting.

**(d) Property and equipment**

**(i) Recognition and measurement**

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses in accordance with the cost model.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized within profit or loss on a net basis.

**(ii) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Owner-occupied building | 40 years |
| Equipment, furniture and fixtures | 2 - 12 years |
| Rolling stock | 2 - 5 years |

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted when appropriate.

**(iii) Impairment**

The carrying amount of the Trust's property and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

### (e) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the arrangement conveys a right to use the asset. When substantially all risks and rewards of ownership are transferred from the lessor to the lessee, lease transactions are accounted for as finance leases. All other leases are accounted for as operating leases.

#### (i) Trust as lessor

All existing rental leases related to the Trust's investment properties have been assessed as operating leases. The tenants have a unilateral right to terminate a lease within the statutory period.

#### (ii) Trust as lessee

Leases of assets classified as finance leases are presented in the consolidated statements of financial position according to their nature. The interest element of the lease payment is recognized over the term of the lease based on the effective interest rate method and is included in financing expense. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease.

### (f) Provisions

Provisions are recognized when the Trust has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Trust expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### (g) Revenue recognition

Rental revenue from property includes rents from tenants under leases, property taxes and operating cost recoveries, lease cancellation fees and incidental income. Rental revenue is recognized when service has been rendered and the amount of expected consideration can be reliably estimated.

The Trust commences revenue recognition on its leases based on a number of factors. In most cases, revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the leased property. Generally, this occurs on the lease commencement date, or when the Trust is required to make additions to the leased property in the form of tenant improvements, upon substantial completion of the additions. Certain leases provide for tenant occupancy during periods for which no rent is due ("free rent period") or where minimum rent payments change during the term of the lease. Accordingly, rental revenue is recognized in profit or loss on a straight-line basis over the term of the

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

lease unless another systematic basis is more representative of the time pattern in which user's benefit derived from the leased asset is diminished. Any deferred amounts related to the straight-line lease adjustments are recognized within investment properties. Leases generally provide for the tenants' payment of maintenance expenses of common elements, property taxes and other operating costs, such payment being recognized as operating revenues in the period when the right to payment vests.

Lease incentives which are mostly leasehold improvements and payments of monetary allowances to tenants, are amortized over the lease term as a reduction of rental revenue. The lease term is the non-cancellable period of the lease together with any further extension for which the tenant has the option to continue the lease, where, at the inception of the lease, the Trust is reasonably certain that the tenant will exercise that option. Lease incentives and amortization of lease incentives are recognized as adjustments to the carrying amount of investment properties.

Cancellation fees or premiums received to terminate leases are recognized in profit and loss when they arise.

**(h) Government grants**

Government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Trust will comply with the conditions associated with the grant. Grants that compensate the Trust for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Trust for the cost of an asset are deducted from the carrying amount of the asset.

**(i) Earnings per unit**

The Trust presents basic earnings per unit data for its Trust units. Basic earnings per unit are calculated by dividing the profit or loss attributable to unit holders of the Trust by the weighted average number of units outstanding during the period, adjusted for own units held.

**(j) Finance income and finance costs**

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest on mortgage loans payable, convertible debentures, bank loans and other payables, as well as accretion of the non-derivative liability component of convertible debentures, and accretion of effective interest on mortgage loans payable, convertible debentures and bank loans, and finance income.

Net financing costs comprise finance costs and changes in the fair value of derivative financial instruments.

**(k) Operating segment**

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

of the Trust's other components. All operating segments' operating results are reviewed regularly by the Trust's Chief Executive officer (''CEO'') to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## (l) Unit-based compensation

### (i) Unit option plan

The Trust uses the fair value-based method of accounting for its unit-based awards, under which compensation expense is measured at grant date and recognized over the vesting period. The units are considered financial liabilities and the awards are also considered financial liabilities and measured at fair-value at each reporting period and the change in the fair value is recognized as compensation expense in profit and loss.

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

Compensation costs related to the deferred unit compensation plan for trustees and certain executive officers are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust's unit, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized as compensation expense in profit or loss.

### (iii) Employee unit purchase plan

Compensation costs related to the employee unit purchase plan are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust's unit, and are revalued at settlement date. Any changes in fair value are recognized as compensation expense in profit or loss.

### (iv) Restricted unit compensation plan

Compensation costs related to the restricted unit compensation plan are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of the Trust's unit, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized as compensation expense in profit or loss. The compensation expense is amortized using the graded vesting method.

## (m) Income taxes

BTB is a mutual fund trust and a Real Estate Investment Trust (''REIT'') pursuant to the Income Tax Act (Canada). Under current tax legislation, a REIT is entitled to deduct distributions of taxable income such that, it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. BTB has reviewed the proscribed conditions under the Income Tax Act (Canada) and has determined that it qualifies as a REIT for the year. BTB intends to continue to qualify as a REIT and to make distributions not less than the amount necessary to ensure that BTB will not be liable to pay income taxes.

Accordingly, no current or deferred income taxes have been recorded in the consolidated financial statements.

**(n) Fair value measurement**

The Trust measures financial instruments, such as derivatives, and non-financial assets,such as investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Trust. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Trust determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Trust has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

### (o) Change in accounting policy

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

### (p) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements.

#### (i) IFRS 9, Financial Instruments ("IFRS 9")

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

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The new standard is effective for the Trust's annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

#### (ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 4. Investment Properties

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Balance beginning of period | 529,432 | 488,521 |
| Acquisition of investment properties (note 5) | 40,121 | 29,614 |
| Disposal of investment properties (note 6) | (4,725) | (2,300) |
| Capital expenditures | 5,572 | 3,663 |
| Government grants | (120) | (176) |
| Capitalized leasing fees | 1,137 | 478 |
| Capitalized lease incentives | 3,088 | 1,833 |
| Lease incentives amortization | (1,793) | (1,480) |
| Straight-line lease adjustment | 610 | 904 |
| (Decrease) Increase in fair value of investment properties | (1,860) | 8,375 |
| **Balance end of period** | **571,462** | **529,432** |

The fair value of a subset of the Trust's investment properties comprised of the ten most significant investment properties and approximately 1/3 of the remaining investment properties is determined annually on the basis of valuations made by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising the Discounted Cash Flow, the Direct Capitalization and Comparable methods. The selection of investment properties subject to external valuation is determined by management based on its assessment of circumstances that in its view, may impact the value of a particular individual investment property. The fair value of the remaining investment properties is determined by management using internally generated valuations based on the Direct Capitalization method (December 31, 2013 – based on the Discounted Cash Flow method). Since 2014, the Direct Capitalization method is used for internal valuation instead of the Discounted Cash Flow method in order to align the Trust's practice with the industry practice.

At December 31, 2014 external appraisals were obtained for investment properties with an aggregate fair value of $381,600 (December 31, 2013 - $349,282) and management's internal valuations was used for investment properties with an aggregate fair value of $189,862 (December 31, 2013 - $180,150).

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

| | Commercial | Office | Industrial | General purpose |
|---|---|---|---|---|
| **As at December 31, 2014** | | | | |
| Capitalization rate | 6.25% - 10.00% | 6.50% - 9.25% | 7.00% - 10.00% | 7.00% - 8.25% |
| Terminal capitalization rate | 7.25% - 8.00% | 7.00% - 7.75% | 7.25% - 9.75% | 7.25% - 8.25% |
| Discount rate | 7.75% - 8.75% | 7.50% - 8.50% | 7.75% - 10.50% | 7.75% - 9.00% |
| **As at December 31, 2013** | | | | |
| Capitalization rate | 6.25% - 10.00% | 6.75% - 10.25% | 6.50% - 10.50% | 7.00% - 8.25% |
| Terminal capitalization rate | 6.50% - 8.25% | 6.50% - 9.25% | 7.00% - 10.50% | 7.25% - 8.50% |
| Discount rate | 7.25% - 9.00% | 7.50% - 9.75% | 7.50% - 10.75% | 8.25% - 9.25% |

Valuations determined by the Direct Capitalization method are most sensitive to changes in capitalization rate. The following table summarizes the sensitivity of the fair value of investment properties to changes in capitalization rate:

| **Capitalization rate sensitivity**<br>**Increase (decrease)** | **Fair Value** | **Change in fair value** |
|---|---|---|
| | $ | $ |
| (0.50%) | 614,030 | 42,568 |
| (0.25%) | 591,650 | 20,188 |
| Base rate | 571,462 | — |
| 0.25% | 552,242 | (19,220) |
| 0.50% | 534,551 | (36,911) |

As shown in the sensitivity analysis above, an increase in the capitalization rate, other things being equal, will result in a decrease in fair value of the investment properties and vice-versa.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 5. Acquisitions

### (a) 2014 Asset acquisitions

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

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

### (b) 2013 Asset acquisitions

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

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

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 6. Disposal

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

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

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

## 7. Property and Equipment

| | Owner-occupied land | Owner-occupied building | Equipment, furniture and fixtures | Rolling stock | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| Balance at December 31, 2012 | 494 | 1,724 | 348 | 59 | **2,625** |
| Additions | — | 200 | 124 | 23 | **347** |
| Balance at December 31, 2013 | 494 | 1,924 | 472 | 82 | **2,972** |
| Additions | — | 10 | 67 | — | **77** |
| Balance at December 31, 2014 | 494 | 1,934 | 539 | 82 | **3,049** |
| **Accumulated Depreciation** | | | | | |
| Balance at December 31, 2012 | | 245 | 210 | 7 | **462** |
| Depreciation for the year | | 65 | 49 | 12 | **126** |
| Balance at December 31, 2013 | | 310 | 259 | 19 | **588** |
| Depreciation for the period | | 69 | 81 | 15 | **165** |
| Balance at December 31, 2014 | | 379 | 340 | 34 | **753** |
| **Net carrying amount** | | | | | |
| Balance at December 31, 2013 | 494 | 1,614 | 213 | 63 | **2,384** |
| Balance at December 31, 2014 | 494 | 1,555 | 199 | 48 | **2,296** |

## 8. Restricted Cash

Restricted cash consists of an amount of $1,717 (December 31, 2013 - $5,832) provided in guarantee of mortgage loans. The permitted use of restricted cash is to fund certain future capital expenditures.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 9. Other Assets

| As at December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Prepaid expenses | 2,599 | 3,273 |
| Deposits | 840 | 398 |
| **Total** | **3,439** | **3,671** |

## 10. Receivables

| As at December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Rents receivable | 1,489 | 2,619 |
| Provision for doubtful accounts | (312) | (263) |
| Net rents receivable | 1,177 | 2,356 |
| Other receivables | 165 | 103 |
| **Total** | **1,342** | **2,459** |

## 11. Mortgage Loans Payable

Mortgage loans payable are secured by immovable hypothecs on investment properties having a fair value of approximately $565,187 as at December 31, 2014 (December 31, 2013 – $525,342).

| As at December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Fixed rate mortgage loans payable | 317,677 | 305,794 |
| Floating rate mortgage loans payable | 13,107 | 8,379 |
| Unamortized fair value assumption adjustments | 1,270 | 1,642 |
| Unamortized financing costs | (2,111) | (1,999) |
| **Mortgage loans payable** | **329,943** | **313,816** |
| Weighted average interest rate | 4.13% | 4.44% |
| Weighted average term to maturity (years) | 4.68 | 4.44 |
| Range of annual rates | 2.63% - 6.80% | 2.55% - 6.80% |

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

As at December 31, 2014, the mortgage loan scheduled repayments are as follows:

| | Scheduled repayments | Principal maturity | Total |
|---|---|---|---|
| | $ | $ | $ |
| 2015 | 9,634 | 31,873 | 41,507 |
| 2016 | 8,841 | 70,409 | 79,250 |
| 2017 | 6,109 | 59,283 | 65,392 |
| 2018 | 4,242 | 35,493 | 39,735 |
| 2019 | 2,712 | 39,059 | 41,771 |
| Thereafter | 22,664 | 40,465 | 63,129 |
| | **54,202** | **276,582** | **330,784** |
| Unamortized fair value assumption adjustments | | | 1,270 |
| Unamortized financing costs | | | (2,111) |
| | | | **329,943** |

In March 2013, the Trust entered into an interest rate swap agreement on a floating interest rate mortgage to hedge the variability in cash flows attributed to fluctuating interest rates. Settlement on both the fixed and variable portion of the interest rate swap occurs on a monthly basis. The original principal amount of the interest rate swap was $7,150, the maturity date is April 2023 and the effective fixed interest rate is 4.02%. As at December 31, 2014, the outstanding principal amount was $6,756 (December 31, 2013 – $7,000). The Trust does not apply hedge accounting to such cash flow hedging relationships (see note 14).

## 12. Convertible Debentures

As at December 31, 2014, the Trust had three series of subordinated, convertible, redeemable debentures outstanding.

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

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

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

| | **Series C** | **Series D** | **Series E** | **Total** |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **As at December 31,2014** | | | | |
| Non-derivative liability component upon issuance | 21,592 | 21,346 | 22,690 | 65,628 |
| Accretion of non-derivative liability component | 1,058 | 693 | 66 | 1,817 |
| | 22,650 | 22,039 | 22,756 | 67,445 |
| Unamortized financing costs | (408) | (866) | (985) | (2,259) |
| **Non-derivative liability component** | **22,242** | **21,173** | **21,771** | **65,186** |
| **Conversion and redemption options liability (asset) component at fair value** | **(12)** | **(19)** | **(22)** | **(53)** |

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

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

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

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

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

## 13. Bank Loans

The Trust has access to an acquisition line of credit in the amount of $15,000. This line of credit bears interest at a rate of 3.25% above the prime rate. As at December 31, 2014, no amount was drawn under the acquisition line of credit.

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

The line of credit and the credit facility are secured by an immoveable first rank hypothec on three properties having a value of $6,497 (December 31, 2013 – two properties having a value of $4,308) and by an immoveable second rank hypothec on two properties having a value of $61,675 (December 31, 2013 - $nil).

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 14. Fair Value Measurement

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

| As at December 31, 2014 | Carrying amount | Fair value | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| **Measured at fair value** | | | | |
| Conversion and redemption options of convertible debentures (note 12) | (53) | — | — | (53) |
| Interest rate swap | 145 | — | 145 | — |
| **For which fair values are disclosed** | | | | |
| Mortgage loans payable (note 11) | 329,943 | — | 337,749 | — |
| Convertible debentures, including their conversion and redemption features | 65,133 | 69,688 | — | — |

| As at December 31, 2013 | Carrying amount | Fair value | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| **Measured at fair value** | | | | |
| Conversion and redemption options of convertible debentures (note 12) | 1,723 | — | — | 1,723 |
| Interest rate swap asset | (251) | — | (251) | — |
| **For which fair values are disclosed** | | | | |
| Mortgage loans payable (note 11) | 313,816 | — | 317,816 | — |
| Convertible debentures, including their conversion and redemption features | 65,652 | 67,505 | — | — |
| Bank loans (note 13) | 1,045 | — | 1,045 | — |

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

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

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

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

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

| | Conversion and redemption options of convertible debentures |
|---|---|
| | $ |
| **Period ended December 31, 2014** | |
| Balance beginning of year | 1,723 |
| Change for the period recognized in profit and loss under Net adjustment to fair value of derivative financial instruments | (1,776) |
| **Balance end of year** | **(53)** |

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

The following table provides a sensitivity analysis for the volatility applied in fair value measurement of the conversion and redemption options of convertible debentures at December 31, 2014:

| | Conversion and redemption options of convertible debentures | Volatility |
|---|---|---|
| | $ | % |
| **Volatility sensitivity** | | |
| **Increase (decrease)** | | |
| (0.50%) | (124) | 11.73 |
| December 31, 2014 | (53) | 12.23 |
| 0.50% | 28 | 12.73 |

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

## 15. Unit-based Compensation

### (a) Unit option plan

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

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

Unit-based compensation expense and the assumptions used in the calculation thereof using the Black & Scholes option valuation model are as follows:

| As at December 31, | **2014** | **2013** |
|---|---|---|
| Unit-based compensation expense | 3 | (8) |
| Liability recognized for unit-based compensation | 17 | 14 |
| Unit options granted | — | — |
| Remaining life (years) | 0.40 | 1.40 - 2.22 |
| Volatility rate | 15.93% | 17.54 - 16.41% |
| Distribution yield | 8.88% | 8.97% |
| Risk-free interest rate | 0.94% | 1.10 - 1.13% |

The following tables present relevant information on options outstanding at year-end and changes in the balances during the year:

| | Number of units | Maturity date | Exercise price |
|---|---|---|---|
| **Grant date** | | | |
| June 22, 2011 | 74,000 | May 26,2015 | $4.50 |
| | **74,000** | | |

| For the years ended December 31, | | **2014** | | **2013** |
|---|---|---|---|---|
| | **Units options** | **Weighted average exercise price** | **Units options** | **Weighted average exercise price** |
| Outstanding, beginning of period | 98,000 | 4.51 | 227,000 | 5.07 |
| Forfeited / Cancelled | (24,000) | 4.54 | (129,000) | 5.55 |
| **Outstanding, end of period** | **74,000** | **4.50** | **98,000** | **4.51** |
| **Options vested** | **74,000** | **4.50** | **98,000** | **4.51** |
| **Weighted average remaining life (years)** | | **0.40** | | **1.48** |

As at December 31, 2014, the liability related to the plan was $17 (December 31, 2013 - $14). The related expense recorded in profit and loss amounted to $3 for the year ended December 31, 2014 (for the year

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

ended December 31, 2013 – income of $8). No options were exercised under this plan for the years ended December 31, 2014 and 2013.

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

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

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

| For the years ended December 31, | **2014** | **2013** |
|---|---|---|
| | Deferred Units | Deferred Units |
| Outstanding, beginning of period | 29,771 | 15,981 |
| Trustees' compensation | 5,619 | 11,948 |
| Distributions paid in units | 1,649 | 1,842 |
| Units settled | (37,039) | — |
| **Outstanding, end of period** | **—** | **29,771** |

As at December 31, 2014, the liability related to the plan was $nil (December 31, 2013 - $140). The related expense recorded in profit and loss amounted to $39 for the year ended December 31, 2014 (for the year ended December 31, 2013 - $65). As part of the settlement, the Trust issued 36,491 units and paid an amount of $3 under this plan for the years ended December 31, 2014 (no issuance and no amount for the year ended December 31, 2013).

### (c) Employee unit purchase plan

The Trust offers an optional employee unit purchase plan to all its employees. Under this plan, the employees may contribute, each year, pursuant to a maximum of 3% to 7% of their base salary depending of their years of experience with the Trust. For each two units purchased by an employee, the Trust shall issue one unit from treasury.

As at December 31, 2014, the liability related to the plan was $37, representing a total of 7,758 units to issue (December 31, 2013 - $33, representing a total of 7,456 units to issue). The related expense recorded in profit and loss amounted to $37 for the year ended December 31, 2014 (for the year ended December 31, 2013 - $33). The 7,758 units related to 2014 purchases have been issued in February 2015 (7,456 units related to 2013 purchases - February 2014).

### (d) Restricted unit compensation plan

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

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

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | Restricted units | Restricted units |
| Outstanding, beginning of period | — | — |
| Granted | 49,816 | — |
| Vested / Settled | (10,000) | — |
| **Outstanding, end of period** | **39,816** | **—** |

As at December 31, 2014, the liability related to the plan was $159 (December 31, 2013 - $nil). The related expense recorded in profit and loss amounted to $205 for the year ended December 31, 2014 (for the year ended December 31, 2013 - $nil). As part of settlement, the Trust issued 10,000 units under this plan for the years ended December 31, 2014 (no issuance made for the year ended December 31, 2013).

## 16. Trust Units Issued and Outstanding

BTB is authorized to issue an unlimited number of trust units. Each trust unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. The unitholders have the right to require BTB to redeem their trust units on demand. Upon receipt of the redemption notice, all rights to and under the trust units tendered for redemption are surrendered and the holder thereof is entitled to receive a price per trust unit ("Redemption Price"), as determined by a market formula. The Redemption Price is to be paid in accordance with the conditions provided for in the Declaration of Trust. BTB trust units are considered liability instruments under IFRS because the units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32.

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

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

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

Trust units issued and outstanding are as follows:

| For the years ended December 31, | | 2014 | | 2013 |
|---|---|---|---|---|
| | Units | $ | Units | $ |
| Units outstanding, beginning of period | 28,325,538 | 157,207 | 23,791,797 | 137,330 |
| Issue pursuant to a public issue | 5,436,000 | 24,734 | 4,328,600 | 20,128 |
| Unit issue costs | — | (1,305) | — | (1,132) |
| | 33,761,538 | 180,636 | 28,120,397 | 156,326 |
| Issue pursuant to the distribution reinvestment plan | 318,482 | 1,400 | 205,141 | 881 |
| Issue pursuant to the deferred unit compensation plan (note 14 (b)) | 36,491 | 169 | — | — |
| Issue pursuant to the employee unit purchase plan (note 14 (c)) | 7,456 | 33 | — | — |
| Issue pursuant to the restricted unit compensation plan (note 14 (d)) | 10,000 | 46 | — | — |
| **Units outstanding, end of period** | **34,133,967** | **182,284** | **28,325,538** | **157,207** |

### (a) Distribution reinvestment plan

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

## 17. Rental Revenues from Properties

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Rental income contractually due from tenants | 68,353 | 64,049 |
| Lease incentive amortization | (1,793) | (1,480) |
| Straight-line lease adjustment | 610 | 866 |
| | **67,170** | **63,435** |

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 18. Net Financing Costs

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Financial income | (77) | (105) |
| Interest on mortgage loans payable | 13,523 | 13,861 |
| Interest on convertible debentures | 5,096 | 5,146 |
| Interest on bank loans | 172 | 776 |
| Other interest expense | 66 | 45 |
| Accretion of non-derivative liability component of convertible debentures | 561 | 551 |
| Accretion of effective interest on mortgage loans payable, convertible debentures and bank loans | 1,069 | 1,142 |
| Net adjustment to fair value of derivative financial instruments | (1,379) | 113 |
| | **19,031** | **21,529** |

## 19. Expenses by Nature

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Depreciation | 165 | 126 |
| Employee benefits expense | 3,947 | 3,665 |

## 20. Earnings per Unit

BTB's trust units being puttable financial instruments presented as equity in accordance with IAS 32 (see note 16), the Trust is not required to report a profit or loss per unit figure on its consolidated statements of comprehensive income. However, for disclosure purposes only, the Trust has determined basic earnings per unit using the same basis that would apply in accordance with IAS 33, *Earnings per Share*.

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

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Net income | 12,883 | 18,349 |
| Weighted average number of units outstanding – basic | 31,418,057 | 25,735,969 |
| **Earnings per unit – basic** | **0.41** | **0.71** |

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 21. Operating Lease Income

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

Future minimum base rentals receivable under non-cancellable operating leases as at December 31, 2014 are as follows:

| | 2014 |
|---|---|
| | $ |
| Within one year | 42,614 |
| Over one year but within five years | 122,964 |
| Over five years | 69,694 |
| | **235,272** |

## 22. Capital and Financial Risk Management

This note presents information about the Trust's management of capital and the Trust's exposure to financial risk and its objectives, policies and processes for measuring and managing risk.

**Capital Management**

The Trust's capital consists of contributions by unitholders, convertible debentures, mortgage loans and bank loans, excluding issuance costs. In managing its capital, the Trust's objectives are to ensure that it has adequate resources for its operations and development, while maximizing returns for unitholders and maintaining a balance between debt and equity.

The Trust manages its capital structure based on changes in its operations, the economic climate and the availability of capital.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

The Trust's capital is as follows:

| As at December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Mortgage loans payable(1) | 330,784 | 314,173 |
| Convertible debentures(1) | 69,000 | 69,000 |
| Bank loans(1) | — | 1,045 |
| | **399,784** | **384,218** |
| Unitholders' equity | 177,599 | 152,592 |
| | **577,383** | **536,810** |

(1) Excluding issue costs

| As at December 31, | 2014 | 2013 |
|---|---|---|
| | % | % |
| Mortgage loans payable, Convertible debentures and Bank loans / total asset value ratio | 68.1 | 70.3 |
| Mortgage loans payable and Bank loans/ total asset value ratio | 56.4 | 57.7 |

**Financial Risk Management**

The Trust has exposure to the following risks from its use of financial instruments:

- credit risk
- interest rate risk
- liquidity risk
- fair value risk (see note 14)

This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk, and the Trust's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**(a) Credit risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Trust mitigates this risk by varying its tenant mix and staggering lease terms; avoiding dependence on a single tenant for a significant portion of the Trust's operating revenues and conducting credit assessments for all major new tenants. The Trust analyzes its trade receivable on a regular basis and records a provision for doubtful accounts when there is a significant risk of non-recovery. As at December 31, 2014, overdue rent receivable amounted to $507 (December 31, 2013 - $1,037), of which a provision for doubtful account of $312 (December 31, 2013 - $263) has been

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

recorded. Management expects to recover the amounts not provisioned as all lease agreements are signed, and they are in continuous discussions for collections with the tenants.

The Trust places its cash and cash equivalent investments with Canadian financial institutions with high credit ratings. Credit ratings are actively monitored and these financial institutions are expected to meet their obligation.

**(b) Interest rate risk**
Interest rate risk reflects the risk of changes in the fair value or future cash flows of a financial instrument because of fluctuations in market interest rates.

Except for three mortgage loans outstanding of $6,351 as at December 31, 2014, all other mortgage loans payable and convertible debentures bear interest at fixed rates or are covered by an interest rate swap agreement. Accordingly a 100-basis point increase or decrease in the average interest rates for the fiscal year, assuming that all other variables remain constant, would have an impact of approximately $64 on the Trust's comprehensive income for the year ended December 31, 2014.

**(c) Liquidity risk**
Liquidity risk is managed by:

- maximizing cash flows from operations;
- adopting an investment property acquisition and improvement program that takes into account available liquidity;
- using credit facilities on the market;
- staggering mortgage loan maturities;
- maximizing the value of investment properties, thus increasing mortgage financing on renewal of loans; and
- issuing debt securities or BTB's units on the financial markets.

Management believes that the Trust will be able to obtain the financing required to make the payments coming due in the next year. However, there is a risk that changes affecting market conditions and access to financing may invalidate this assumption.

Some mortgage loans include subjective and restrictive covenant clauses under which the Trust must comply with financial conditions and ratios.

As at December 31, 2014, the Trust was in compliance with all the covenants to which it was subject.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

The Trust's cash position is regularly monitored by management. The following are contractual maturities of financial liabilities, including estimated interest payments:

| As at December 31, 2014 | | | Estimated payment schedule | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual cash flows** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020 and thereafter** |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 12,457 | 12,457 | 12,457 | — | — | — | — | — |
| Distributions payable to unitholders | 1,194 | 1,194 | 1,194 | — | — | — | — | — |
| Mortgage loans payable and convertible debentures | 395,129 | 471,409 | 59,524 | 116,993 | 76,519 | 70,609 | 46,879 | 100,885 |
| | **408,780** | **485,060** | **73,175** | **116,993** | **76,519** | **70,609** | **46,879** | **100,885** |

| As at December 31, 2013 | | | Estimated payment schedule | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual cash flows** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019 and thereafter** |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 12,324 | 12,324 | 12,324 | — | — | — | — | — |
| Distributions payable to unitholders | 943 | 943 | 943 | — | — | — | — | — |
| Bank loans | 1,045 | 1,045 | 1,045 | — | — | — | — | — |
| Mortgage loans payable and convertible debentures | 377,745 | 455,083 | 86,132 | 43,033 | 111,917 | 70,223 | 66,170 | 77,608 |
| | **392,057** | **469,395** | **100,444** | **43,033** | **111,917** | **70,223** | **66,170** | **77,608** |

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

## 23. Subsidiaries and Joint Arrangements

### (a) Subsidiaries

The principal entities included in the Trust's consolidated financial statements are as follows:

| Entity | Type | Relationship |
|---|---|---|
| BTB Real Estate Investment Trust ("BTB REIT") | Trust | Parent |
| BTB, Acquisition and operating Trust ("BTB A&ET") | Trust | 100% owned by BTB REIT |
| BTB Real Estate Management Inc. | Corporation | 100% owned by BTB A&ET |
| Cagim Real Estate Corporation ("CREC") | Corporation | 100% owned by BTB A&ET |
| Lombard SEC | Limited Partnership | 99.9% owned by BTB A&ET<br>0.1% owned by CREC |
| Place d'affaire Lebourgneuf Phase II, SENC ("PAL II") | General Partnership | 99.9% owned by BTB A&ET<br>0.1% owned by CREC |
| Société immobilière Cagim, SEC | Limited Partnership | 70.4% owned by BTB A&ET<br>29.5% owned by PAL II<br>0.1% owned by CREC |

### (b) Joint arrangements

The Trust has investments in joint arrangements whereby the parties that have joint control of the arrangements have rights to the assets, and obligations for the liabilities, relating to the arrangements. Therefore, the joint arrangements are classified as joint operations. The joint operations included in the Trust's consolidated financial statement are as follows:

| As at December 31, | **2014** | **2013** |
|---|---|---|
| | % | % |
| **Property*** | | |
| Immeuble BTB/Laplaine | 50 | 50 |
| Huntington/BTB Montclair | 50 | 50 |
| Complexe Lebourgneuf Phase II** | 75 | 75 |

* The three investments properties are located in Quebec.

** Structured through a separate vehicle. The legal form of the separate vehicle gives the parties rights to the assets, and obligations for the liabilities, relating to the arrangement. Accordingly, the joint arrangement is classified as a joint operation.

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

The consolidated financial statements include the Trust's proportionate share of the assets, liabilities, revenues and expenses of these three joint arrangements.

| As at and for the years ended December 31, | **2014** | **2013** |
|---|---|---|
| | $ | $ |
| Assets | 47,454 | 45,615 |
| Liabilities | 30,898 | 31,273 |
| Revenues | 5,341 | 4,852 |
| Expenses | 2,015 | 1,860 |

## 24. Operating Segments

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

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

- Commercial
- Office
- Industrial
- General purpose

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

| | Commercial | Office | Industrial | General purpose | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Year ended December 31, 2014** | | | | | |
| Investment properties | 137,362 | 209,200 | 109,025 | 115,875 | **571,462** |
| Rental revenue from properties | 14,087 | 27,771 | 9,946 | 15,366 | **67,170** |
| Net operating income | 8,687 | 13,500 | 8,083 | 7,713 | **37,983** |
| **Year ended December 31, 2013** | | | | | |
| Investment properties | 101,675 | 208,793 | 100,561 | 118,403 | **529,432** |
| Rental revenue from properties | 11,684 | 27,007 | 8,855 | 15,889 | **63,435** |
| Net operating income | 7,163 | 13,058 | 7,324 | 7,791 | **35,336** |

## 25. Compensation of Key Management Personnel and Trustees

Key management personnel and trustees compensation is as follows:

| For the years ended December 31, | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Salaries and short-term benefits | 1,935 | 1,654 |
| Unit-based compensation | 209 | 83 |
| **Total** | **2,144** | **1,737** |

Key management personnel are comprised of the Company's executive officers.

## 26. Commitments and Contingencies

### (a) Contractual obligations

The Trust entered into a binding agreement under which the Trust is committed to pay, up to a maximum of $1,275, for the refurbishment of an investment property acquired in October 2013. The funds required for the execution of this obligation are covered by an equivalent amount held in restricted cash for the payment of the refurbishment work. As at December 31, 2014, the Trust has paid $604 in refurbishment work (December 31, 2013 - $198).

BTB Real Estate Investment Trust

# Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013
(Audited - in thousands of CAD dollars, except per unit amounts)

### (b) Finance lease as lessee

The annual future payments required under finance leases expiring between 2018 and 2024 (December 31, 2013, one finance lease expiring in 2018) are as follows:

| As at December 31, | Future minimum lease payments | | Interest | | Present value of minimum lease payments | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| | $ | $ | $ | $ | $ | $ |
| Within one year | 47 | 20 | 19 | 7 | 28 | 13 |
| Over one year but within five years | 201 | 76 | 56 | 11 | 145 | 65 |
| Over five years | 139 | — | 25 | — | 114 | — |
| | **387** | **96** | **100** | **18** | **287** | **78** |

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

In 2014 the Trust entered into a commitment for a total consideration of $1,014 in exchange for work to be performed on an investment property. The total amount will be financed under a finance lease contract. As of December 31, 2014 work has been completed for a portion of $234. The corresponding lease obligation has been recognized in Trade and other payables.

### (c) Litigation

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

## 27. Subsequent Events

In January 2015, the Trust acquired an industrial building located in the city of Ottawa for a purchase price of $12,525. As part of the transaction, the Trust secured a 15 year mortgage loan in the amount of $8,300 bearing interest at 3.58%.

In January 2015, the Trust acquired a commercial property in Delson for a purchase price of $21,500. As part of the transaction, the Trust secured a 15 year mortgage loan in the amount of $14,000 bearing interest at 3.55%.

## 28. Comparatives Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

# Corporate Information

## Board of Trustees

**Jocelyn Proteau**(2)
President of the Board of Trustees
BTB Real Estate Investment Trust
Corporate director

**Michel Léonard**
President and Chief Executive Officer
BTB Real Estate Investment Trust

**Luc Lachapelle**(1)
Secretary of the Board of Trustees
BTB Real Estate Investment Trust
President and Chief Executive Officer
Corlac Immobilier Inc.

**Lucie Ducharme**(1)
Executive Vice President
Groupe Petra
Independent Trustee

**Claude Garcia**(1)(2)
Corporate director

**Jean-Pierre Janson**(2)
Executive Vice-President
Partenaires Financiers Richardson Limited

**Sylvie Lachance**(3)
Executive Vice President
Real Estate Development Sobeys inc.

**Fernand Perreault**(3)
Corporate director

**Peter Polatos**(3)
President
Gestion AMTB inc.

(1) Member of the Audit Committee
(2) Member of the Human Resources and Governance Committee
(3) Member of the Investment Committee

## Executive Team

**Michel Léonard**
President and Chief Executive Officer

**Benoit Cyr,** CPA, CA, MBA
Vice-President and Chief Financial Officer

**Dominic Gilbert,** B.A.A.
Vice-President, Property Management

**Frédéric Seigneur**
Vice-President, Leasing

# Unitholders Information

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

**Listing**
The units and convertible debentures of BTB Real Estate Investment Trust are listed on the Toronto Stock Exchange under the trading symbols:
BTB.UN
BTB.DB.C
BTB.DB.D
BTB.DB.E

**Transfer Agent**
Computershare Trust Company of Canada
1500 University St.
Suite 700
Montreal, Quebec, H3A 3S8
Canada
T 514 982-7555
T Toll free: 1 800 564-6253
F 514 982-7850
service@computershare.com

**Taxability of distributions**
In 2014, for all Canadian unitholders, the distributions were fiscally treated as follow:

- Other revenues: 0%
- Fiscal Deferral: 100%

**Auditors**
KPMG s.r.l. / S.E.N.C.R.L.
600 De Maisonneuve Blvd. West
Suite 1500
Montreal, Quebec, H3A 0A3

**Legal Counsel**
De Grandpré Chait s.e.n.c.r.l.
1000 De la Gauchetière St. West
Suite 2900
Montreal, Quebec, H3B 4W5

**Unitholders distribution reinvestment plan**
BTB Real Estate Investment trust offers a distribution reinvestment plan to unitholders whereby the participants may elect to have their monthly cash distribution reinvested in additional units of BTB at a price based on the weighted average price for BTB's Units on the Toronto Stock Exchange for the five trading days immediately preceding the distribution date, discounted by 5%.

For further information about the DRIP, please refer to the Investor relations section of our website at www.btbreit.com or contact the Plan agent: Computershare Trust Company of Canada.

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