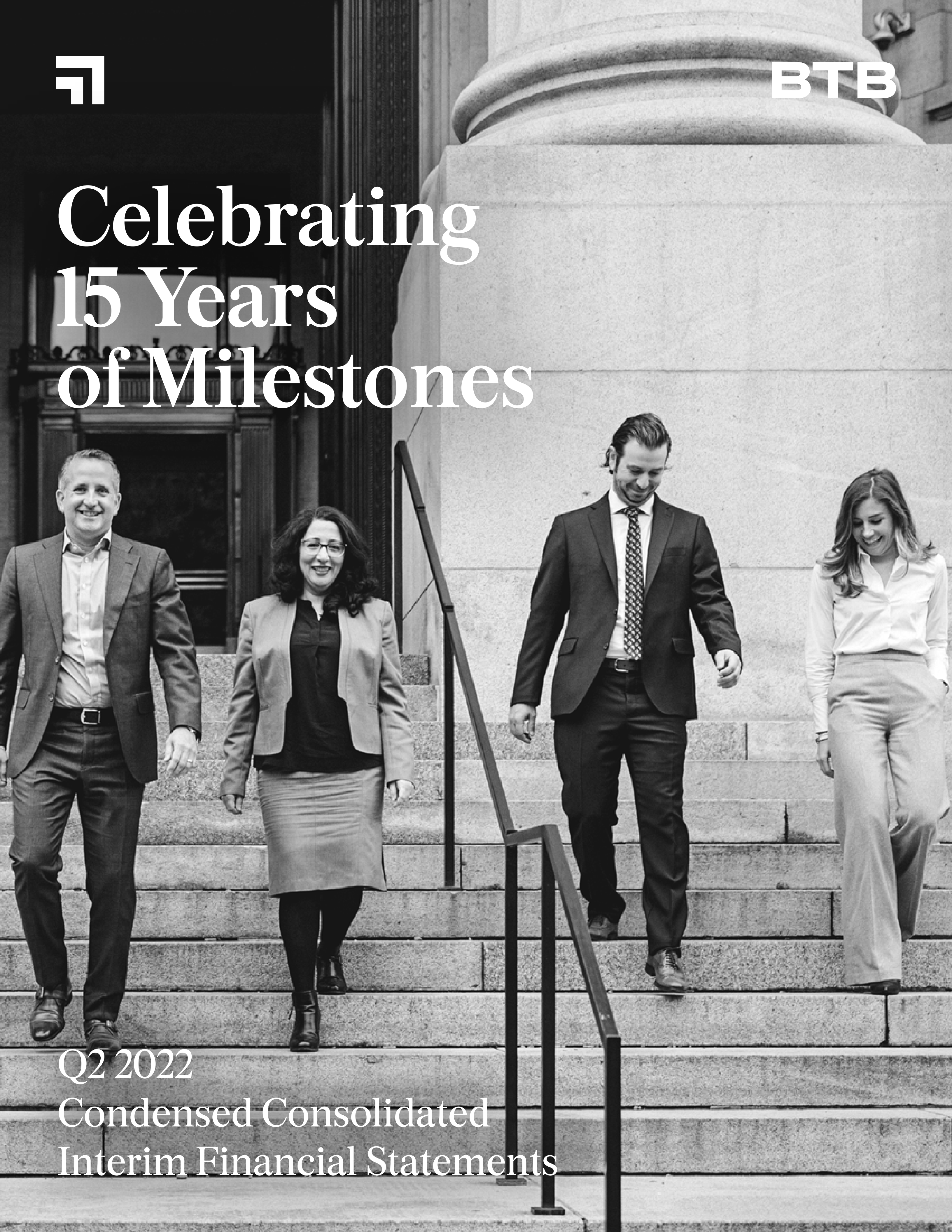


BTB

# Celebrating 15 Years of Milestones

Q2 2022

Condensed Consolidated Interim Financial Statements

# Condensed Consolidated Interim Financial Statements

Quarter ended June 30, 2022

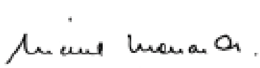
# Condensed Consolidated Interim Statements of Financial Position

(Unaudited - in thousands of CAD dollars)

| | Notes | As at June 30, 2022 | As at December 31, 2021 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| Investment properties | 3 | 1,167,247 | 1,110,971 |
| Property and equipment | | 453 | 446 |
| Prepaid expenses and deposits | | 6,528 | 2,747 |
| Balance of sale | | 3,018 | 3,018 |
| Receivables | 4 | 4,882 | 5,528 |
| Cash and cash equivalents | | 3,020 | 7,191 |
| **Total assets** | | **1,185,148** | **1,129,901** |
| **Liabilities and unitholders' equity** | | | |
| Mortgage loans payable | 5 | 628,778 | 605,210 |
| Convertible debentures | 6 | 41,563 | 42,819 |
| Bank loans | 7 | 24,174 | 35,468 |
| Lease liabilities | | 4,211 | 4,219 |
| Class B LP Units | 8 | 1,250 | 1,417 |
| Unit-based compensation | 10 | 1,278 | 1,513 |
| Derivative financial instruments | 9 | 2,234 | 11,246 |
| Trade and other payables | | 19,940 | 21,731 |
| Distribution payable to unitholders | | 2,118 | 1,853 |
| **Total liabilities** | | **725,546** | **725,476** |
| **Unitholders' equity** | | **459,602** | **404,425** |
| | | **1,185,148** | **1,129,901** |

See accompanying notes to condensed consolidated interim financial statements.

Approved by the Board on August 5, 2022.



Michel Léonard, Trustee

Jocelyn Proteau, Trustee

# Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited - in thousands of CAD dollars)

| | | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|---|---|---|---|
| | Notes | 2022 | 2021 | 2022 | 2021 |
| | | $ | $ | $ | $ |
| **Operating revenues** | | | | | |
| Rental revenue | 12 | 28,979 | 26,034 | 58,047 | 49,566 |
| **Operating expenses** | | | | | |
| Public utilities and other operating expenses | | 4,899 | 4,968 | 11,166 | 10,487 |
| Property taxes and insurance | | 6,482 | 5,492 | 13,049 | 11,091 |
| | | 11,381 | 10,460 | 24,215 | 21,578 |
| **Net operating income** | | **17,598** | **15,574** | **33,832** | **27,988** |
| Financial income | | 132 | 262 | 277 | 396 |
| **Expenses** | | | | | |
| Financial expenses | | 7,010 | 6,130 | 14,567 | 12,376 |
| Distribution - Class B LP Units | 8 | 26 | 26 | 52 | 56 |
| Fair value adjustment – Class B LP Units | 8 | (233) | (52) | (167) | 228 |
| Net adjustment to fair value of derivative financial instruments | | (9,344) | 733 | (8,347) | 2,547 |
| Net financial expenses | 13 | (2,541) | 6,837 | 6,105 | 15,207 |
| Administration expenses | | 1,693 | 1,838 | 3,515 | 3,506 |
| Net change in fair value of investment properties and disposition expenses | 3 | 335 | - | (203) | - |
| **Net income and comprehensive income for the period** | | **18,243** | **7,161** | **24,692** | **9,671** |

See accompanying notes to condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

(Unaudited - in thousands of CAD dollars)

| | Notes | Unitholders' contributions | Cumulative distribution | Cumulative comprehensive income | Total |
|---|---|---|---|---|---|
| Balance as at January 1, 2022 | | **351,540** | **(177,308)** | **230,193** | **404,425** |
| Issuance of units, net of issuance expenses | 11 | 42,658 | - | - | 42,658 |
| Distribution to unitholders | 11 | - | (12,173) | - | (12,173) |
| | | 394,198 | (189,481) | 230,193 | 434,910 |
| Comprehensive income | | - | - | 24,692 | 24,692 |
| **Balance as at June 30, 2022** | | **394,198** | **(189,481)** | **254,885** | **459,602** |
| Balance as at January 1, 2021 | | **309,394** | **(155,952)** | **188,625** | **342,067** |
| Issuance of units, net of issuance expenses | 11 | 39,076 | - | - | 39,076 |
| Distribution to unitholders | 11 | - | (10,280) | - | (10,280) |
| | | 348,470 | (166,232) | 188,625 | 370,863 |
| Comprehensive income | | - | - | 9,671 | 9,671 |
| **Balance as at June 30, 2021** | | **348,470** | **(166,232)** | **198,296** | **380,534** |

See accompanying notes to condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - in thousands of CAD dollars)

| | | For the three-month periods ended June 30, | | For the six-month periods ended June 30, | |
|---|---|---|---|---|---|
| | Notes | 2022 | 2021 | 2022 | 2021 |
| | | $ | $ | $ | $ |
| **Operating activities** | | | | | |
| Net income for the period | | 18,243 | 7,161 | 24,692 | 9,671 |
| Net change in fair value of investment properties and disposition expenses | 3 | 335 | - | (203) | - |
| Depreciation of property and equipment | | 26 | 27 | 56 | 42 |
| Unit-based compensation | 10 | 27 | 160 | 178 | 805 |
| Straight-line lease adjustment | 12 | (74) | (91) | (224) | (488) |
| Lease incentive amortization | 12 | 818 | 777 | 1,553 | 1,654 |
| Financial income | | (132) | (262) | (277) | (396) |
| Net financial expenses | 13 | (2,541) | 6,837 | 6,105 | 15,207 |
| | | 16,702 | 14,609 | 31,880 | 26,495 |
| Adjustment for changes in other working capital items | | (1,186) | (6,447) | (4,960) | (5,184) |
| **Net cash from operating activities** | | **15,516** | **8,162** | **26,920** | **21,311** |
| Additions to investment properties net of mortgage loans | 3 | (32,993) | (16,783) | (50,205) | (18,456) |
| Net proceeds from disposition of investment properties | 3 | 1,659 | - | 21,632 | - |
| Acquisition of property and equipment | | (41) | (41) | (63) | (86) |
| **Net cash from investing activities** | | **(31,375)** | **(16,824)** | **(28,636)** | **(18,542)** |
| Mortgage loans, net of financing expenses | | 9,486 | 58,761 | 9,054 | 58,758 |
| Repayment of mortgage loans | | (7,936) | (36,426) | (14,671) | (40,585) |
| Bank loans | | (11,144) | (15,000) | (11,294) | (15,300) |
| Lease liability payments | | (4) | (4) | (8) | (7) |
| Net proceeds from unit issue | | (6) | 30,048 | 38,324 | 30,058 |
| Net distribution to unitholders | | (5,570) | (4,537) | (10,370) | (8,608) |
| Net distribution – Class B LP units | 8 | (26) | (26) | (52) | (56) |
| Interest paid | | (6,587) | (5,102) | (13,438) | (10,784) |
| **Net cash (used in) from financing activities** | | **(21,787)** | **27,714** | **(2,455)** | **13,476** |
| **Net change in cash and cash equivalents** | | **(37,646)** | **19,052** | **(4,171)** | **16,245** |
| **Cash and cash equivalents, beginning of period** | | **40,666** | **6,255** | **7,191** | **9,062** |
| **Cash and cash equivalents, end of period** | | **3,020** | **25,307** | **3,020** | **25,307** |

See accompanying notes to condensed consolidated interim financial statements.

# Notes to Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2022 and 2021
(Unaudited - in thousands of CAD dollars, except unit and 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 1411 Crescent Street, Suite 300, Montreal, Quebec, Canada. The condensed consolidated interim financial statements of BTB for the three-month and six-month periods ended June 30, 2022 and 2021 comprise BTB and its wholly-owned subsidiaries (together referred to as the "Trust") and the Trust's interest in joint operations.

## 2. Basis of Preparation

### (a) Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Trust's consolidated financial statements for the year ended December 31, 2021.

The accounting policies applied by the Trust in these unaudited condensed interim financial statements are the same as those applied by the Trust in its consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated interim financial statements were approved by the Board of Trustees on August 5, 2022.

### (b) Risks and uncertainties related to the coronavirus pandemic (COVID-19)

The COVID-19 pandemic has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures have caused an economic slowdown and material disruption to businesses in Canada and globally since 2020. The nature and extent of these measures may change depending on the efficacy of the vaccination programs, the emergence of new variants of the COVID-19 virus, and any resurgence of COVID-19 positive cases. As a result of the continuously evolving circumstances surrounding COVID-19, uncertainty remains with respect to BTB's revised internal forecast, the most significant being the fact that it cannot predict how consumers will respond as the restriction measures continue or change in Canada (return to the office policy, online vs physical consumer habits, etc.). Given the continuously evolving circumstances surrounding COVID-19, it is difficult to predict with certainty the nature, extent and duration of COVID-19, and the duration and intensity of resulting business disruptions and related financial, social, and public health impacts. Such effects could be adverse and material, including their potential effects on the Trust's business, operations, and financial performance both in the short-term and long-term. Estimates and assumptions that are most subject to increased uncertainty caused by the COVID-19 relate to the valuation of investment properties and the determination of expected credit losses on receivables. The amounts recorded in the consolidated financial statements are based on the latest reliable information available to management at the time the consolidated financial statements were prepared where that information reflects conditions at the date of the consolidated financial statements. However, given the heightened level of uncertainty caused by COVID-19, these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future. BTB continues to monitor its business operations and is aware of the impacts that the COVID-19 pandemic has on the global economy as its duration remains uncertain. BTB may take further action in response to the directives of government and public health authorities or actions that are in the best interests of employees, tenants, suppliers, or other stakeholders, as necessary.

### (c) Risks and uncertainties related to the increase of the Bank of Canada policy interest rate

The increase of the Bank of Canada policy interest rate has created a heightened level of uncertainty on the economy. The rise of the policy rate has had trivial effects to Trust's operations and ability to negotiate new and renewals of mortgages. Given the situation, there could be certain repercussions on the mortgage refinancing activities, the fair value of the investment properties, certain investment decisions and the level of transactions of the market. The Trust will continue to monitor the effects of the rise on its investment activities and valuation of the investment properties.

### (d) Functional and presentation currency

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

### (e) 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, and the differences may be material.

## 3. Investment Properties

| | Six-month period ended June 30, **2022** | Year ended December 31, **2021** |
|---|---|---|
| | $ | $ |
| Balance beginning of period | 1,110,971 | 903,870 |
| Acquisitions of investment properties (note 3(a)) | 80,226 | 185,864 |
| Dispositions of investment properties (note 3(b)) | (27,789) | (4,450) |
| Capital expenditures | 1,428 | 3,672 |
| Capitalized leasing fees | 942 | 936 |
| Capitalized lease incentives | 1,988 | 3,466 |
| Lease incentives amortization | (1,553) | (3,292) |
| Straight-line lease adjustment | 224 | 1,334 |
| Net changes in fair value of investment properties | 810 | 19,571 |
| **Balance end of period** | **1,167,247** | **1,110,971** |

The fair value of a subset of the Trust's investment properties comprised of a selection of the most significant investment properties and approximately 1/3 of the remaining investment properties is determined annually on the basis of valuations made by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising the Discounted Cash Flow, the Direct Capitalization and Comparable methods. The selection of investment properties subject to independent 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.

In determining the fair value of investment properties, the Trust has adjusted cash flow assumptions for its estimate of near-term disruptions to cash flows to reflect collections, vacancy and assumptions on new leasing. The Trust undertook a process to assess the appropriateness of the rates considering changes to property level cash flows and any risk premium inherent in such cash flow changes. These considerations are reflected in the fair value adjustments of investment properties.

At June 30, 2022 no external appraisals were obtained for investment properties (December 31, 2021 - $672,109).

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:

| | Industrial | Off downtown core office | Necessity-based retail |
|---|---|---|---|
| **As at June 30, 2022** | | | |
| Capitalization rate | 4.50% - 8.50% | 5.25% - 8.50% | 5.25% - 7.75% |
| Terminal capitalization rate | 4.75% - 7.00% | 5.50% - 7.50% | 6.00% - 7.00% |
| Discount rate | 5.50% - 7.50% | 5.50% - 8.25% | 6.50% - 7.50% |
| **As at December 31, 2021** | | | |
| Capitalization rate | 4.50% - 8.50% | 5.25% - 8.50% | 5.25% - 7.75% |
| Terminal capitalization rate | 4.75% - 7.00% | 5.50% - 7.50% | 6.00% - 7.00% |
| Discount rate | 5.75% - 7.50% | 5.50% - 8.25% | 6.50% - 7.50% |

The following table provides a sensitivity analysis of the fair value of investment properties for changes in the weighted average capitalization rate as at June 30, 2022, which is representative of the sensitivity to changes in the discount rate and terminal capitalization rate as at June 30, 2022.

| **Capitalization rate sensitivity**<br>**Increase (decrease)** | **Fair Value** | **Change in fair value** |
|---|---|---|
| | $ | $ |
| (0.50 %) | 1,270,726 | 103,479 |
| (0.25 %) | 1,216,752 | 49,505 |
| Base rate | 1,167,247 | - |
| 0.25 % | 1,121,669 | (45,578) |
| 0.50 % | 1,079,563 | (87,684) |

## a) Acquisitions

The fair value of the assets and liabilities recognized in the consolidated statement of financial position on the date of the acquisition during the six-month period ended June 30, 2022, and the year ended December 31, 2021, were as follows:

### i) Acquisitions in 2022

**Fair value recognized on acquisition**

| Acquisition date | Property type | Location | Interest acquired | Investment properties, including transaction costs | Mortgage loan | Receivable / (Trade and other payables), including transaction costs | Net consideration |
|---|---|---|---|---|---|---|---|
| | | | % | $ | $ | $ | $ |
| January 2022 | Office | Ottawa, ON | 100 | 34,908 | (24,800) | - | 10,108 |
| January 2022 | Office | Ottawa, ON | 100 | 3,192 | - | - | 3,192 |
| April 2022 | Industrial | Ottawa, ON | 100 | 12,410 | - | - | 12,410 |
| June 2022 | Industrial | Montreal, QC | 100 | 15,000 | - | - | 15,000 |
| June 2022 | Industrial | Leduc, AB | 100 | 13,150 | (9,474) | - | 3,676 |
| Transaction costs | | | | | - | 1,671 | 1,671 |
| **Total** | | | | **78,660** | **(34,274)** | **1,671** | **46,057** |

#### ii) Acquisitions in 2021

| Fair value recognized on acquisition | | | | | | | |
|---|---|---|---|---|---|---|---|
| Acquisition date | Property type | Location | Interest acquired | Investment properties, including transaction costs | Mortgage loan | Receivable / (Trade and other payables), including transaction costs | Net consideration |
| | | | % | $ | $ | $ | $ |
| June 2021 | Industrial | Montreal, QC | 100 | 15,250 | (9,913) | (84) | 5,253 |
| November 2021 | Office | Montreal, QC | 100 | 35,818 | (23,400) | (522) | 11,896 |
| November 2021 | Office | Montreal, QC | 100 | 37,807 | (24,700) | (548) | 12,559 |
| December 2021 | Industrial | Leduc, AB | 100 | 6,500 | (4,225) | (52) | 2,223 |
| December 2021 | Office | Edmonton, AB | 100 | 4,500 | (2,925) | (43) | 1,532 |
| December 2021 | Industrial | Edmonton, AB | 100 | 6,500 | (4,225) | (48) | 2,227 |
| December 2021 | Industrial | Edmonton, AB | 100 | 8,900 | (5,785) | (13) | 3,102 |
| December 2021 | Industrial | Edmonton, AB | 100 | 14,100 | (9,150) | (10) | 4,940 |
| December 2021 | Industrial | Edmonton, AB | 100 | 12,400 | (8,066) | (7) | 4,327 |
| December 2021 | Industrial | Saskatoon, SK | 100 | 4,600 | (3,182) | (17) | 1,401 |
| December 2021 | Industrial | Saskatoon, SK | 100 | 20,700 | (13,441) | 39 | 7,298 |
| December 2021 | Industrial | Saskatoon, SK | 100 | 5,000 | (3,246) | 10 | 1,764 |
| December 2021 | Industrial | Saskatoon, SK | 100 | 10,500 | (6,818) | 6 | 3,688 |
| Transaction costs | | | | 3,289 | - | (3,289) | - |
| **Total** | | | | **185,864** | **(119,076)** | **(4,578)** | **62,210** |

### b) Dispositions

#### i) Dispositions in 2022

| Disposal date | Property type | Location | Gross proceeds | Purchaser's Mortgage assumption | Receivable / (Trade and other payables), including transaction costs | Net proceeds |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| January 2022 | Industrial | Cornwall, ON | 8,056 | (2,590) | - | 5,466 |
| January 2022 | Industrial | Cornwall, ON | 8,275 | (2,959) | - | 5,316 |
| January 2022 | Industrial | Cornwall, ON | 7,885 | - | - | 7,885 |
| January 2022 | Industrial | Cornwall, ON | 1,775 | - | - | 1,775 |
| June 2022 | Industrial | Magog, QC | 1,798 | - | - | 1,798 |
| Transaction costs | | | - | - | (607) | (607) |
| **Total** | | | **27,789** | **(5,549)** | **(607)** | **21,633** |

**ii) Dispositions in 2021**

| Disposal date | Property type | Location | Gross proceeds | Purchaser's Mortgage assumption | Receivable / (Trade and other payables), including transaction costs | Net proceeds |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| December 2021 | Retail | Montreal, QC | 4,450 | (2,632) | - | 1,818 |
| Transaction costs | | | - | - | (109) | (109) |
| **Total** | | | **4,450** | **(2,632)** | **(109)** | **1,709** |

## c) Net changes in fair value of investment properties and disposition expenses

| | Three-month period ended June 30, | | Six-month period ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | $ | $ | $ | $ |
| Net changes in fair value of investment properties (note 3) | (197) | - | 810 | - |
| Disposition expenses (note 3 (b)) | (138) | - | (607) | - |
| | **(335)** | **-** | **203** | **-** |

Net changes in fair value of investment properties includes the net changes in fair value of right-of-use assets related to the investment properties to which a lease is attached.

The disposition expenses include mainly commissions and debt prepayment penalties on mortgage loans related to disposed properties.

## 4. Receivables

| | As at June 30, **2022** | As at December 31, **2021** |
|---|---|---|
| | $ | $ |
| Rents receivable | 4,893 | 4,497 |
| Allowance for expected credit losses | (983) | (944) |
| Net rents receivable | 3,910 | 3,553 |
| Unbilled recoveries | 613 | 587 |
| Other receivables | 359 | 1,388 |
| **Total** | **4,882** | **5,528** |

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 establishes an allowance for expected credit losses that represents its estimate of lifetime expected credit losses to be incurred in respect of its trade receivables. In assessing the adequacy of the allowance for expected credit losses on tenant receivables, management has considered the likelihood of collection of current receivables.

The Trust's assessment of expected credit losses is inherently subjective due to the forward-looking nature of the assessments. As a result, the value of the expected credit loss is subject to a degree of uncertainty and is made on the basis of assumptions.

## 5. Mortgage Loans Payable

Mortgage loans payable are secured by immovable hypothecs on investment properties having a fair value of approximately $1,129,284 as at June 30, 2022 (December 31, 2021 – $1,079,554).

| | As at June 30, **2022** | As at December 31, **2021** |
|---|---|---|
| | $ | $ |
| Fixed rate mortgage loans payable | 532,227 | 507,401 |
| Floating rate mortgage loans payable | 98,559 | 99,637 |
| Unamortized fair value assumption adjustments | 784 | 755 |
| Unamortized financing expenses | (2,792) | (2,583) |
| **Mortgage loans payable** | **628,778** | **605,210** |
| | | |
| Short-term portion | 54,095 | 91,185 |
| Weighted average interest rate | 3.62% | 3.49% |
| Weighted average term to maturity (years) | 4.57 | 4.66 |
| Range of annual rates | 2.30% - 6.80% | 2.30% - 6.80% |

As at June 30, 2022, the mortgage loan scheduled repayments are as follows:

| | **Scheduled repayments** | **Principal maturity** | **Total** |
|---|---|---|---|
| | $ | $ | $ |
| 2022[1] | 10,287 | 43,808 | 54,095 |
| 2023 | 18,495 | 33,841 | 52,336 |
| 2024 | 16,135 | 100,720 | 116,855 |
| 2025 | 13,757 | 52,853 | 66,610 |
| 2026 | 11,357 | 107,599 | 118,956 |
| Thereafter | 31,295 | 190,639 | 221,934 |
| | **101,326** | **529,460** | **630,786** |
| Unamortized fair value assumption adjustments | | | 784 |
| Unamortized financing expenses | | | (2,792) |
| | | | **628,778** |

(1) For the six-month period remaining

The Trust may enter into floating-for-fixed interest rate swap agreements on floating interest rate mortgages to hedge the variability in cash flows attributed to fluctuating interest rates. The Trust does not apply hedge accounting to such cash flow hedging relationships (see Note 9). The following table presents relevant information on interest rate swap agreements:

| Transaction date | Original principal amount | Effective fixed interest rate | Settlement basis | Maturity date | Outstanding amount | |
|---|---|---|---|---|---|---|
| | | | | | As at June 30, 2022 | As at December 31, 2021 |
| | $ | % | | | $ | $ |
| March 2013[(1)] | 7,150 | 4.12 | Monthly | April 2023 | 4,550 | 4,850 |
| June 2016 | 13,000 | 3.45 | Quarterly | June 2026 | 10,845 | 11,074 |
| November 2017 | 23,200 | 3.88 | Monthly | November 2027 | 21,675 | 22,015 |
| November 2017 | 23,075 | 3.90 | Monthly | December 2027 | 20,393 | 20,718 |
| **Total** | **66,425** | | | | **57,463** | **58,657** |

(1) The mortgage associated to this swap agreement has been repaid with the revolving credit facility (note 7).

## 6. Convertible Debentures

As at June 30, 2022, the Trust had two series of subordinated, convertible, redeemable debentures outstanding.

| | Capital | Interest rates: Coupon | Interest rates: Effective | Unit conversion price | Interest payments | Maturity |
|---|---|---|---|---|---|---|
| | | % | % | $ | | |
| Series G | 24,000 | 6.00 | 7.30 | 5.42 | Semi-annual | October 2024 |
| Series H | 20,292 | 7.00 | 8.28 | 3.64 | Semi-annual | October 2025 |

| | Series G | Series H | Total |
|---|---|---|---|
| | $ | $ | $ |
| **As at June 30, 2022** | | | |
| Non-derivative liability component upon issuance | 24,000 | 27,309 | 51,309 |
| Accretion of non-derivative liability component | - | 539 | 539 |
| | 24,000 | 27,848 | 51,848 |
| Conversion options exercised by holders | - | (8,837) | (8,837) |
| | 24,000 | 19,011 | 43,011 |
| Unamortized financing expenses | (678) | (770) | (1,448) |
| **Non-derivative liability component** | **23,322** | **18,241** | **41,563** |
| **Conversion and redemption options liability (asset) component at fair value** | **1,071** | **4,677** | **5,748** |

| | Series G | Series H | Total |
|---|---|---|---|
| | $ | $ | $ |
| **As at December 31, 2021** | | | |
| Non-derivative liability component upon issuance | 24,000 | 27,309 | 51,309 |
| Accretion of non-derivative liability component | - | 407 | 407 |
| | 24,000 | 27,716 | 51,716 |
| Conversion options exercised by holders | - | (7,152) | (7,152) |
| | 24,000 | 20,564 | 44,564 |
| Unamortized financing expenses | (807) | (938) | (1,745) |
| **Non-derivative liability component** | **23,193** | **19,626** | **42,819** |
| **Conversion and redemption options liability component at fair value** | **44** | **10,649** | **10,693** |

**Series G**

As of June 30, 2022, no conversion options have been exercised by holders on debentures.

**Series H**

As of June 30, 2022, conversion options have been exercised by holders on debentures representing a nominal amount of $9,708 (June 30, 2021 – $6,577).

## 7. Bank Loans

The Trust has access to two credit facilities. The first is an acquisition line of credit in the amount of $10,900, with a possible capacity of up to $23,000. This line of credit bears interest at a rate of 1% above the prime rate. As at June 30, 2022, $ 1,500 was due under the acquisition line of credit (December 31, 2021 – $0). The line of credit is secured by an immoveable first rank hypothec on one property having a fair value of $4,217 and by an immoveable second rank hypothec on five properties having a fair value of $91,525.

The second is a revolving credit facility in the amount of $40,000 with an accordion option of up to an additional $20,000. This revolving credit facility bears interest at a rate of 1% above prime rate or 2.25% above the Bankers' Acceptance rate. As at June 30, 2022, $22,674 was due under the revolving credit facility (December 31,2021- $35,468).

The revolving credit facility is secured by an immoveable first rank hypothec on one property having a fair value of $18,275 and by negative pledge of a selection of borrowing base properties having a fair value of $142,711.

## 8. Class B LP Units

| | Six-month period ended June 30, 2022 | | Year ended December 31, 2021 | |
|---|---|---|---|---|
| | Units | $ | Units | $ |
| Units outstanding, beginning of period | 347,265 | 1,417 | 397,265 | 1,402 |
| Exchange into Trust units | - | - | (50,000) | (216) |
| Fair value adjustment | - | (167) | - | 231 |
| **Units outstanding, end of period** | **347,265** | **1,250** | **347,265** | **1,417** |

The Class B LP Units are exchangeable into Trust units on a one-for-one basis at any time at the option of the holder.

The Class B LP Units are entitled to distribution equal to distribution declared on Trust units, on a one-to-one basis. Distributions on Class B LP Units are recognized in the statement of comprehensive income when declared.

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | $ | $ | $ | $ |
| Distribution to Class B LP unitholders | 26 | 26 | 52 | 56 |
| Distribution per Class B LP unit | 0.075 | 0.075 | 0.15 | 0.15 |

## 9. 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 equivalent, restricted cash, receivables, balance of sale, trade and other payables and distribution payable to unitholders, which approximated their carrying amount as at June 30, 2022 and December 31, 2021 because of their short-term maturity or because they bear interest at current market rates.

| As at June 30, 2022 | Carrying amount | | | Fair value |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| **Measured at fair value** | | | | |
| Conversion and redemption options of convertible debentures (note 6) | 5,748 | - | - | 5,748 |
| Interest rate swap asset | (3,514) | - | (3,514) | - |
| Class B LP Units (note 8) | 1,250 | 1,250 | - | - |
| **For which fair values are disclosed** | | | | |
| Mortgage loans payable (note 5) | 630,786 | - | 592,724 | - |
| Convertible debentures, including their conversion and redemption features (note 6) | 47,311 | 43,932 | - | - |
| Bank loans (note 7) | 24,174 | - | 24,174 | - |

| As at December 31, 2021 | Carrying amount | | | Fair value |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| **Measured at fair value** | | | | |
| Conversion and redemption options of convertible debentures (note 7) | 10,693 | - | - | 10,693 |
| Interest rate swap liability | 553 | - | 553 | - |
| Class B LP Units (note 8) | 1,417 | 1,417 | - | - |
| **For which fair values are disclosed** | | | | |
| Mortgage loans payable (note 5) | 607,038 | - | 614,158 | - |
| Convertible debentures, including their conversion and redemption features (note 6) | 53,512 | 48,376 | - | - |
| Bank loans (note 7) | 35,468 | - | 35,468 | - |

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 the Class B LP Units is determined with reference to the market price of the Trust units as at period end.

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 market price of the Trust units 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 Dollar 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 |
|---|---|
| | $ |
| **Six-months period ended June 30, 2022** | |
| Balance beginning of period | 10,693 |
| Conversion options exercised by holders | (665) |
| Changes for the period recognized in profit or loss under Net adjustment to fair value of derivative financial instruments | (4,280) |
| **Balance end of period** | **5,748** |

| | Conversion and redemption options of convertible debentures |
|---|---|
| | $ |
| **Year ended December 31, 2021** | |
| Balance beginning of year | 6,486 |
| Conversion options exercised by holders | (2,018) |
| Change for the period recognized in profit or loss under Net adjustment to fair value of derivative financial instruments | 6,225 |
| **Balance end of year** | **10,693** |

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 June 30, 2022:

| | Conversion and redemption options of convertible debentures | Volatility |
|---|---|---|
| | $ | % |
| **Volatility sensitivity** | | |
| **Increase (decrease)** | | |
| (0.50)% | 5,636 | 36.37 |
| June 30, 2022 | 5,748 | 36.87 |
| 0.50% | 5,861 | 37.37 |

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.

## 10. Unit-based Compensation

### a) 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:

| For the six-month periods ended June 30, | 2022 | 2021 |
|---|---|---|
| | Deferred units | Deferred units |
| Outstanding, beginning of period | 103,116 | 87,920 |
| Trustees' compensation | 4,452 | 4,171 |
| Distributions paid in units | 4,149 | 3,396 |
| **Outstanding, end of period** | **111,717** | **95,487** |

As at June 30, 2022, the liability related to the plan was $407 (December 31, 2021 - $410). The related revenue recorded in profit or loss amounted to $52 and $3, for the three and six-month periods ended June 30, 2022 (for the three and six-month periods ended June 30th, 2021 – revenue of $1 and an expense of $87).

### b) Employee unit purchase plan

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

As at June 30, 2022, the liability related to the plan was $0 (December 31, 2021 -$61). The related revenue recorded in profit and loss amounted to $0 and $14 for the three and six-month periods ended June 30, 2022 (for the three and six-month periods ended June 30, 2021 - $0 and $0). The 11,605 units related to 2021 purchases were issued in February 2022 (14,351 units related to 2020 purchases).

### c) Restricted unit compensation plan

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

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

| Six-month periods ended June 30, | 2022 | 2021 |
|---|---|---|
| | Restricted units | Restricted units |
| Outstanding, beginning of period | 161,536 | 139,724 |
| Granted | 92,304 | 95,058 |
| Cancelled | - | (1,524) |
| Settled | (90,671) | (71,722) |
| **Outstanding, end of period** | **163,169** | **161,536** |

As at June 30, 2022, the liability related to the plan was $317 (December 31, 2021 - $552). The related expense recorded in profit and loss amounted to $72 and $131 for the three and six-month periods ended June 30, 2022 (for the three and six-month periods ended June 30, 2021 – expense of $98 and $283).

### d) Cash settled share-based retirement compensation plan

On February 9, 2021, the Board of Trustees retroactively approved a cash settled phantom share-based retirement allowance plan (RA Plan) for the President and Chief Executive Officer with a start date of July 1, 2020, to form part of a long-term incentive compensation plan until retirement. Under this plan, phantom units are granted at set dates to July 1, 2026, based on a predetermined cash value. The number of phantom units granted at each vest date is based on the average closing trading price of the last 5 days prior to granting. The granted RA Plan units are to be paid out on retirement based on the average closing trading price of the last 20 days. As at June 30, 2022, the long-term obligation related to the plan was $554. The related expense recorded in profit and loss amounted to $7 and $64 for the three and six-month periods ended June 30, 2022 (for the three and six-month periods ended June 30, 2021 – expense of $64 and $435).

## 11. 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 trust units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32.

Trust units issued and outstanding are as follows:

| | Six-month period ended June 30, | | Year ended December 31, | |
|---|---|---|---|---|
| | | 2022 | | 2021 |
| | Units | $ | Units | $ |
| Trust units outstanding, beginning of period | 74,126,971 | 351,540 | 63,439,435 | 309,394 |
| Issue pursuant to a public issue | 9,584,100 | 38,545 | 7,809,650 | 30,266 |
| Trust unit issuance costs | - | (267) | - | (263) |
| | 83,711,071 | 389,818 | 71,249,085 | 339,397 |
| Issue pursuant to the distribution reinvestment plan (a) | 396,023 | 1,529 | 752,280 | 2,943 |
| Issue pursuant to the employee unit purchase plan (note 10 (b)) | 11,605 | 47 | 14,351 | 52 |
| Issue pursuant to the restricted unit compensation plan (note 10 (c)) | 104,649 | 421 | 71,722 | 256 |
| Class B LP units exchange into Trust units | - | - | 50,000 | 227 |
| Issue pursuant to conversion of convertible debentures (note 6) | 508,508 | 2,383 | 1,989,533 | 8,665 |
| **Trust units outstanding, end of period** | **84,731,856** | **394,198** | **74,126,971** | **351,540** |

### 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 3% discount.

## b) Distributions

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | $ | $ | $ | $ |
| Distributions to unitholders | 6,348 | 5,481 | 12,173 | 10,280 |
| Distributions per Trust unit | 0.075 | 0.075 | 0.15 | 0.15 |

## 12. Rental Revenues

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | $ | $ | $ | $ |
| Base rent and other lease generated revenues | 18,273 | 14,895 | 36,230 | 29,073 |
| Lease cancellation fees | - | 25 | - | 55 |
| Property tax and insurance recoveries | 6,528 | 5,137 | 12,104 | 9,394 |
| | 24,801 | 20,057 | 48,334 | 38,522 |
| Operating expenses recoveries and other revenues | 4,922 | 6,663 | 11,042 | 12,210 |
| Lease incentive amortization | (818) | (777) | (1,553) | (1,654) |
| Straight-line lease adjustment | 74 | 91 | 224 | 488 |
| | **28,979** | **26,034** | **58,047** | **49,566** |

## 13. Net Financial Expenses

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | $ | $ | $ | $ |
| Interest on mortgage loans payable | 5,610 | 4,606 | 11,412 | 9,152 |
| Interest on convertible debentures | 743 | 669 | 1,475 | 1,626 |
| Interest on bank loans | 197 | 88 | 504 | 308 |
| Interest on lease liabilities | 52 | 53 | 105 | 106 |
| Other interest expense | 41 | 8 | 51 | 23 |
| Accretion of non-derivative liability component of convertible debentures | 83 | 90 | 164 | 186 |
| Accretion of effective interest on mortgage loans payable and convertible debentures | 284 | 428 | 572 | 787 |
| Distribution - Class B LP Units | 26 | 26 | 52 | 56 |
| Fair value adjustment – Class B LP Units | (233) | (52) | (167) | 228 |
| Early repayment fees of a mortgage loan | - | 188 | 284 | 188 |
| Net adjustment to fair value of derivative financial instruments | (9,344) | 733 | (8,347) | 2,547 |
| | **(2,541)** | **6,837** | **6,105** | **15,207** |

## 14. Expenses by Nature

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | $ | $ | $ | $ |
| Depreciation | 26 | 27 | 56 | 42 |
| Employee compensation and benefits expense | 2,069 | 1,881 | 4,600 | 4,210 |

## 15. Earnings per Unit

BTB's trust units being puttable financial instruments presented as equity in accordance with IAS 32, the Trust is not required to report a profit or loss per trust 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 trust units outstanding as follows:

| | Three-month periods ended June 30, | | Six-month periods ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | $ | $ | $ | $ |
| Net income | 18,243 | 7,161 | 24,692 | 9,671 |
| Weighted average number of trust units outstanding – basic | 84,989,000 | 73,435,018 | 81,500,498 | 68,895,444 |
| Earnings per unit – basic | **0.21** | **0.10** | **0.30** | **0.14** |

## 16. Liquidity Risk Management

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they come due. 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;
- 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 June 30, 2022, the Trust was in compliance with all the covenants to which it was subject.

## 17. Operating Segments

For investment properties, discrete financial information is provided to the 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 retail, office and industrial.

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

- Industrial
- Off downtown core office
- Necessity-based retail

| | Industrial | Off downtown core office | Necessity-based retail | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Three-month period ended June 30, 2022** | | | | |
| Investment properties | 298,817 | 614,524 | 253,906 | **1,167,247** |
| Rental revenue from properties | 5,070 | 17,038 | 6,871 | **28,979** |
| Net operating income | 3,948 | 9,711 | 3,939 | **17,598** |
| **Three-month period ended June 30, 2021** | | | | |
| Investment properties | 180,049 | 495,320 | 246,666 | **922,035** |
| Rental revenue from properties | 3,798 | 14,310 | 7,926 | **26,034** |
| Net operating income | 2,588 | 7,877 | 5,109 | **15,574** |

| | Industrial | Off downtown core office | Necessity-based retail | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Six-month period ended June 30, 2022** | | | | |
| Rental revenue from properties | 10,443 | 34,014 | 13,590 | **58,047** |
| Net operating income | 7,956 | 18,371 | 7,505 | **33,832** |
| **Six-month period ended June 30, 2021** | | | | |
| Rental revenue from properties | 6,882 | 28,332 | 14,352 | **49,566** |
| Net operating income | 4,594 | 14,962 | 8,432 | **27,988** |

## 18. Commitments and Contingencies

### Litigation

The Trust is involved in litigation and claims which arise from time to time in the normal course of business. These litigation 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.


BTB
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# Unitholders Information

**Head office**
BTB Real Estate Investment Trust
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T 514 286 0188
www.btbreit.com

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

**Transfer agent**
Computershare Investor Services
1500 Robert-Bourassa Blvd
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T 514 982 7555
T Toll free: 1 800 564 6253
F 514 982 7850
service@computershare.com

**Taxability of distributions**
In 2021, for all Canadian unitholders, the distributions were fiscally treated as follow:

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

**Auditors**
KPMG LLP.
600 De Maisonneuve Blvd West
Suite 1500
Montréal, Québec, H3A 0A3

**Legal counsel**
De Grandpré Chait LLP.
800 Rene-Lévesque Blvd West
Suite 2600
Montréal, Québec, H3B 1X9

**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 3%.

For further information about the Distribution Reinvestment Plan, please refer to the Investor relations section of our website at www.btbreit.com or contact the Plan agent: Computershare Investor Services.


People and their stories are at the heart of our success.