



## **BSR REAL ESTATE INVESTMENT TRUST**

Condensed Consolidated Interim Financial Statements (In U.S. dollars)  
Three months ended September 30, 2018 and the period from  
January 9, 2018 (date of formation) to September 30, 2018  
(Unaudited)

**BSR REAL ESTATE INVESTMENT TRUST**  
Condensed Consolidated Interim Statement of Financial Position  
(Unaudited)

*In thousands of U.S. dollars*

	Note	September 30, 2018
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties	10	\$ 856,195
Prepayment embedded derivatives	22(e)	5,586
		861,781
<b>Current assets</b>		
Cash and cash equivalents		6,058
Restricted cash	7	11,862
Resident and other receivables, net	8	1,382
Prepaid expenses and other assets	9	2,402
		21,704
<b>Total assets</b>		<b>\$ 883,485</b>
<b>Liabilities and Unitholders' Equity</b>		
<b>Non-current liabilities</b>		
Loans and borrowings	12	\$ 359,215
Class B Units	14	219,772
Interest rate swaps	22(d)	531
Tenant in common interests	13	2,582
		582,100
<b>Current liabilities</b>		
Accounts payable and other liabilities	11	17,948
Interest rate swaps	22(d)	109
Loans and borrowings	12	34,034
		52,091
<b>Total liabilities</b>		<b>634,191</b>
<b>Unitholders' equity</b>		
Unitholders' equity		249,294
<b>Total liabilities and unitholders' equity</b>		<b>\$ 883,485</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income  
(Unaudited)

*In thousands of U.S. dollars*

*Refer to Note 1*

	Note	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Revenue:</b>			
Rental revenue		\$ 22,248	\$ 32,927
Other property income		3,349	4,884
	17	25,597	37,811
<b>(Expenses) Income:</b>			
Property operating expenses	18	(9,881)	(14,337)
General and administrative expenses		(1,470)	(2,362)
Fair value adjustment to investment properties	10	9,661	8,416
Fair value adjustment to investment properties (IFRIC 21)		(2,251)	(3,359)
Finance costs from operations	19	(4,383)	(6,497)
Distributions on Class B Units	19	(2,897)	(4,266)
Fair value adjustment to Class B Units	14, 19	231	11,810
Fair value adjustment to interest rate swaps	19, 22(d)	137	79
Fair value adjustment to prepayment embedded derivatives	19, 22(e)	(1,064)	(36)
Fair value adjustment to unit-based compensation	19, 27	4	6
Change in tenant in common interests	13, 19	(19)	27
Bargain purchase gain	6	—	75,331
		(11,932)	64,812
<b>Net income and comprehensive income</b>		<b>\$ 13,665</b>	<b>\$ 102,623</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

### Condensed Consolidated Interim Statement of Changes in Unitholders' Equity (Unaudited)

For the period from January 9, 2018 (date of formation) to September 30, 2018

*In thousands of U.S. dollars*

	REIT units	Distributions	Cumulative net income	Total
<b>Balance, beginning of period</b>	\$ —	\$ —	\$ —	\$ —
Units issued, net of issue costs	149,718	—	—	149,718
Net income and comprehensive income	—	—	102,623	102,623
Distributions	—	(3,047)	—	(3,047)
<b>Balance, end of period</b>	<b>\$ 149,718</b>	<b>\$ (3,047)</b>	<b>\$ 102,623</b>	<b>\$ 249,294</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

### Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

*In thousands of U.S. dollars*

*Refer to Note 1*

	Note	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Operating activities</b>			
Net income		\$ 13,665	\$ 102,623
Adjustments for:			
Fair value adjustment to investment properties	10	(9,661)	(8,416)
Fair value adjustment to Class B Units	14	(231)	(11,810)
Fair value adjustment to interest rate swaps	22(d)	(137)	(79)
Fair value adjustment to prepayment embedded derivatives	22(e)	1,064	36
Fair value adjustment to unit based compensation	27	(4)	(6)
Change in tenant in common interests	13	19	(27)
Unit-based compensation	27	205	441
Bargain purchase gain	6	—	(75,331)
Net income items related to financing activities from operations	19	4,383	6,497
Distributions on Class B Units	19	2,897	4,266
Change in non-cash operating assets and liabilities	26	1,239	422
<b>Cash provided by operating activities</b>		<b>13,439</b>	<b>18,616</b>
<b>Investing activities</b>			
Acquisition of investment property	6	—	(3,764)
Cash balances transferred in acquisition of BSR Initial Properties	6	—	2,400
Additions to investment properties	10	(4,913)	(6,935)
Deposits of restricted cash, net of withdrawals	7	(996)	(1,352)
<b>Cash used in investing activities</b>		<b>(5,909)</b>	<b>(9,651)</b>
<b>Financing activities</b>			
Proceeds from issuance of units, net of issuance costs	15	(794)	123,025
Proceeds from issuance of loans and borrowings	12	2,000	18,350
Principal payments of loans and borrowings	12	(1,960)	(132,894)
Payment of mortgage financing costs	12	(100)	(155)
Termination of interest rate swap agreement	22(d)	—	20
Distributions to Class B Unitholders	14	(3,300)	(3,300)
Distributions to Unitholders	15	(2,357)	(2,357)
Contributions from tenant in common interest	13	—	409
Interest paid		(4,190)	(6,005)
<b>Cash used in financing activities</b>		<b>(10,701)</b>	<b>(2,907)</b>
<b>Change in cash and cash equivalents during the period</b>		<b>(3,171)</b>	<b>6,058</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>9,229</b>	<b>—</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 6,058</b>	<b>\$ 6,058</b>

See accompanying notes to condensed consolidated interim financial statements.

## **BSR REAL ESTATE INVESTMENT TRUST**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018 (Unaudited)  
Amounts in thousands of U.S. dollars (except for per unit amounts)

### **(1) General information**

BSR Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust of the REIT dated January 9, 2018 (the "Declaration of Trust"), under the laws of the Province of Ontario, when one trust unit was issued for ten dollars. The REIT's Declaration of Trust was amended and restated on May 18, 2018. The principal business of the REIT is to acquire multi-family residential rental properties across the United States.

The operations of the REIT commenced on May 18, 2018 when it completed an Initial Public Offering ("IPO") of 13,500,000 units ("Units") for gross proceeds of \$135,000 or approximately \$119,218 net of underwriters' fees and other transaction costs. In connection with the IPO, the REIT indirectly acquired an interest in BSR Trust, LLC ("BSR"). This acquisition resulted in the REIT indirectly acquiring 47 garden-style, multi-family communities (the "BSR Initial Properties").

The Units trade on the Toronto Stock Exchange ("TSX") under the symbol "HOM.U". The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

### **(2) Basis of preparation**

#### **(a) Statement of compliance**

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standard Board ("IASB") and using accounting policies described herein.

These condensed consolidated interim financial statements were approved by the Board of Trustees on November 7, 2018.

#### **(b) Basis of measurement**

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, derivative financial instruments and Class B Units which have been measured at fair value. The condensed consolidated interim financial statements are presented in U.S. dollars, which is the REIT's functional currency.

### **(3) Summary of significant accounting policies**

The significant accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are described below:

#### **(a) Basis of consolidation**

These condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries, including BSR REIT Holdings, Inc. and BSR Trust, LLC. Subsidiaries are entities controlled by the REIT. The financial statements of the subsidiaries are prepared for the same reporting periods as the REIT using consistent accounting policies. All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated upon consolidation.

The REIT's subsidiaries include one entity which owns an interest in a single property located in the United States. The REIT does not have an ownership interest in the entity, but has determined that it controls the entity and as a result the revenues and expenses of the entity are included in the condensed consolidated interim financial statements. The interest of the owners of this entity is accounted for as a tenant in common interest liability and distributions to the owners of the entity are recorded as a finance cost.

## **BSR REAL ESTATE INVESTMENT TRUST**

Notes to Condensed Consolidated Interim Financial Statements

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Amounts in thousands of U.S. dollars (except for per unit amounts)

### **(b) Business combinations**

At the time of acquisition of property, whether through a controlling share investment or directly, the REIT considers whether the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired. If no significant processes, or only insignificant processes, are acquired, the acquisition is treated as an asset acquisition rather than a business combination.

The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The difference between the purchase price and the REIT's net fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, positive goodwill is recorded as an asset. Negative goodwill is immediately recognized in the consolidated statement of income. The REIT expenses transaction costs associated with business combinations in the period incurred. When an acquisition does not meet the criteria for business combination accounting treatment, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated to the assets and liabilities acquired based upon their relative fair values. No goodwill is recognized for asset acquisitions.

### **(c) Foreign currency transactions**

The functional and presentation currency of the REIT and its subsidiaries is the U.S. dollar.

### **(d) Investment property**

A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment property includes land and land improvements, building and building improvements, as well as furniture and equipment and certain intangibles, such as in-place leases, if any. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Unrealized gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Fair values are primarily determined internally by management or externally by external appraisers using the direct capitalization income method.

Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably. All repairs and maintenance costs are expensed as incurred.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Prior to its disposal, the carrying value of the investment property is adjusted to reflect its fair value. This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

### **(e) Cash and cash equivalents**

All cash and unrestricted, highly liquid investments with an initial maturity of three months or less, at issuance, are considered to be cash and cash equivalents and are recorded at their amortized cost. The REIT maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The REIT has not experienced any

## BSR REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

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losses in such accounts. Management of the REIT believes the REIT is not exposed to any significant credit risk on its cash and cash equivalents.

### **(f) Restricted cash**

Restricted cash consists of resident security deposits and escrow deposits held by lenders for property taxes, insurance, debt service and replacement reserves.

### **(g) Revenue recognition**

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with residents as operating leases. The REIT charges a fixed rate for the rental of apartment units, parking spaces and storage units. The leases allow for additional charges in respect of utility recoveries and services, such as liability insurance.

Base rent is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component is determined using an adjusted market assessment approach and the stand-alone selling price of the service components is determined using an expected cost plus a margin approach.

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance as well as consideration related to late rent, month-to-month leases and payments for early terminations. Revenue recognition commences when a resident has the right to use the property and is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred as prepaid rents. Revenue related to the service components of the REIT's leases is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers. These services consist primarily of the recovery of utility, property maintenance and amenity costs, as well as resident liability insurance premiums, and is recognized over time when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities. The presentation of revenue from lease components and revenue related to service components is presented in note 17.

Upon recognition of a receivable, management records a loss allowance for lifetime expected credit losses resulting from the inability of residents to meet the contractual obligations under their contracts. Such allowances are reviewed periodically based on the recovery experience of the REIT and the creditworthiness of the residents.

### **(h) Financial instruments**

The REIT classifies financial assets and liabilities according to their characteristics and management's intention for use on an ongoing basis. The following summarizes the REIT's classification and measurement of financial assets and liabilities:

<b>Financial assets</b>	<b>Classification</b>
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Resident and other receivables, net	Amortized cost
Prepayment embedded derivatives	Fair value
Interest rate swaps	Fair value
<b>Financial liabilities</b>	<b>Classification</b>
Loans and borrowings	Amortized cost
Class B Units	Fair value
Interest rate swaps	Fair value
Accounts payable and other liabilities	Amortized cost
Tenant in common interests	Amortized cost

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Financial assets are not reclassified subsequent to their initial recognition unless a change takes place with regard to the business model for managing financial assets. In such an event, the classification of financial assets would be re-assessed.

#### *Non-derivative financial assets*

The REIT initially recognizes financial assets (including assets designated as at fair value through profit or loss), on the trade date, which is the date that the REIT becomes a party to the contractual provisions of the instrument. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The REIT has adopted the practical expedient to determine expected credit losses (“ECL”) on resident and other receivables using a provision matrix based on historical credit loss experience adjusted for current and forecasted future economic conditions to estimate ECL. Resident receivables are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the REIT has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### *Non-derivative financial liabilities*

The REIT initially recognizes financial liabilities on the trade date, which is the date that the REIT becomes a party to the contractual provisions of the instrument.

The REIT derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Loans and borrowings, accounts payable and other liabilities and tenant in common interests are initially recognized at fair value less directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financing fees and other costs incurred in connection with debt financing are recorded net of the related debt obligation and amortized using the effective interest method.

The Class B Units of BSR Trust, LLC (“Class B Units”) are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with International Accounting Standards 32, Financial Instruments – Presentation (“IAS 32”). The Class B Units are redeemable for cash or Units of the REIT on a one-for-one basis subject to customary anti-dilution adjustments at the option of BSR Trust, LLC and, therefore, the Class B Units meet the definition of a financial liability under IAS 32. Further, the Class B Units are designated as financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The Class B Units are, in all material aspects, economically equivalent to the Units on a per unit basis. The distributions paid on Class B Units are accounted for as finance costs.

Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32; in which case, the puttable instruments may be presented as equity. The Units meet the exemption conditions of IAS 32 and are, therefore, presented as equity.

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For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018 (Unaudited)  
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#### *Derivative and embedded derivative financial instruments*

The REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments are designated and valued at fair value through profit and loss in the unaudited condensed consolidated interim financial statements.

The REIT considers whether a contract contains an embedded derivative when it becomes a party to the contract. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through the statement of comprehensive income. Under IFRS 9, Financial Instruments ("IFRS 9"), early redemption options contained in certain loans and borrowings of the REIT meet the definition of an embedded derivative, are bifurcated from the financial liability and measured at fair value. The net change in fair value of prepayment embedded derivatives for each period presented in the accompanying unaudited condensed consolidated interim financial statements are outlined in note 22(e).

#### **(i) Finance costs**

Finance costs consist of interest expense on loans and borrowings, amortization of deferred financing costs, amortization of premiums and discounts on loans and borrowings, payments on swap contracts, distributions to tenant in common interest liability holders, distributions on Class B Units and any change in tenant in common interests. Finance costs also includes fair value adjustments to Class B Units, interest rate swaps, prepayment embedded derivatives and unit-based compensation.

Finance costs associated with financial liabilities presented at amortized costs are recognized in net income using the effective interest method.

#### **(j) Tenant in common interests**

Tenant in common interests represent the ownership interests in certain legal entities not wholly owned by BSR that are included in the REIT. Under IAS 32, the tenant in common interests meet the definition of a financial liability and are measured at amortized cost. Tenant in common interest holders receive a fixed distribution payable on their interest which is accounted for as a finance cost in the unaudited condensed consolidated interim statements of comprehensive income. Further, tenant in common interest holders are indemnified for the performance of the respective entity; however, upon the sale of an investment property under a tenant in common agreement the tenant in common interest holder would receive their interest in the proceeds from the investment property sale based on the respective tenant in common agreement. As such, changes in the overall fair value of the respective investment property are allocated to the tenant in common interests based on the respective ownership of the tenant in common interest holders, which approximates the remeasurement of the liability based on the estimated change in expected cash flows at each statement of financial position date. The changes in the tenant in common interests for each respective period presented in the accompanying unaudited condensed consolidated interim financial statements are outlined in note 13.

#### **(k) Levies**

In accordance with IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), the REIT recognizes the annual property tax liabilities at the point in time when the realty tax obligation is imposed. This is the obligating event that gives rise to a liability to pay the property taxes.

Additionally, as a pro rata property tax basis adjustment is most often included in the property purchase price in the United States, this is included in the REIT's assessment of the fair value of investment property.

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### Notes to Condensed Consolidated Interim Financial Statements

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#### **(l) Employee benefits**

##### *(i) Short-term employee benefits:*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized as the amount expected to be paid under the short-term cash bonus plan if the REIT has a present legal or constructive obligation to pay as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### *(ii) Defined contribution plan:*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no further legal or constructive obligation. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the condensed consolidated statements of net income and comprehensive income in the periods during which related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

##### *(iii) Unit-based payment plans:*

The REIT maintains an Executive Incentive Plan for its employees and trustees. Awards under the Executive Incentive Plan, such as Deferred Trust Units ("DTU"), Restricted Trust Units ("RTU") and Performance Units ("PU") may be settled by Units issued from treasury or, if so elected by the participant and subject to the approval of the Board of Trustees, cash payable upon vesting. All such awards are accounted for as cash-settled awards, as the Units are puttable. The fair value of the payable is recognized as an expense with a corresponding increase in liabilities, over the employees' or trustees' service period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

#### **(m) Income taxes**

##### *(i) Canadian status:*

The REIT is a mutual fund trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through Trust ("SIFT") pursuant to the Income Tax Act (Canada) is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a mutual fund trust that is not a SIFT trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

##### *(ii) U.S. REIT status:*

The REIT is classified as a U.S. corporation for U.S. federal income tax purposes under current Treasury Regulations. Further, pursuant to section 7874 of the United States Internal Revenue Code of 1986, as amended (the "Code") the REIT is treated as a U.S. corporation for all purposes under the Code and, as a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding it is organized as a Canadian entity. In general, a company that elects real estate investment trust status, distributes at least 90% of its real estate investment trust taxable income to its shareholders in any taxable year and complies with certain other requirements is not subject to U.S. federal income taxation to the extent of the income it distributes. If it fails to qualify as a real estate investment trust in any taxable year, it will be subject to U.S. federal income tax at regular corporate income tax rates on its taxable income. Even if it qualifies for taxation as a real estate investment trust, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The REIT has

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reviewed the real estate investment trust requirements and has determined that it qualifies as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income or excise taxes has been made with respect to the income of the REIT.

Certain of the REIT's operations or a portion thereof are conducted through taxable real estate investment trust subsidiaries ("TRS"). A TRS is a corporation that has not elected REIT status and has made a joint election with a real estate investment trust to be treated as a TRS. As such, it is subject to U.S. federal and state corporate income tax. No provision was required to be recorded by the REIT in its condensed consolidated interim financial statements in respect of its TRS.

#### **(4) Critical accounting judgments, estimates and assumptions**

Preparing the unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions in the application of the policies outlined in note 3. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

##### ***Critical accounting judgments***

The following are the critical judgment used in applying the REIT's accounting policies that have the most significant effect on the unaudited condensed consolidated interim financial statements:

##### ***Investment property acquisitions***

The REIT assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the REIT obtains control of the business.

##### ***Use of estimates and assumptions***

Management makes estimates and assumptions that affect carrying values of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported income for the year. Actual results could differ from those estimates. The estimates and assumptions that are critical in determining the unaudited condensed consolidated interim financial statements relate to the following:

##### ***Valuation of investment properties***

The estimates used when determining the fair value of investment properties are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. In addition, there is a normalized management fee allowance and capital expenditure reserve taken into consideration when determining future property cash flows. Management determines fair value internally using internal financial information, external market data and capitalization rates provided by independent industry experts. Should the underlying assumptions change, actual results could differ from the estimates. The critical estimates and assumptions underlying the valuation of investment properties are outlined in note 10.

## BSR REAL ESTATE INVESTMENT TRUST

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### (5) Accounting standards issued but not yet effective

The following standards are not yet effective for the period ended September 30, 2018 and have not been applied in preparing these unaudited condensed consolidated interim financial statements:

#### (a) IFRS 16, Leases (“IFRS 16”)

On January 13, 2016, the IASB issued IFRS 16. IFRS 16 will replace IAS 17, Leases (“IAS 17”). The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability, representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16. The REIT has reviewed the potential impact of this standard and has concluded that the standard will not have a material impact.

### (6) Business combination and asset acquisition

#### *BSR Initial Properties*

On May 18, 2018, the REIT indirectly acquired BSR Trust, LLC’s existing portfolio of 47 income producing properties, referred to as the BSR Initial Properties. As a result of the transactions, the REIT acquired all issued and outstanding Class A units, Class C units and Common units of BSR Trust, LLC in exchange for the issuance of \$500 of Units and \$231,582 of Class B Units.

## BSR REAL ESTATE INVESTMENT TRUST

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The impact of the acquisition of BSR Initial Properties, which is accounted for as a business combination using the purchase method of accounting, is as follows:

	Fair values of acquired net assets
<i>Assets:</i>	
Investment property	\$ 818,483
Resident and other receivables	2,300
Prepaid expenses and other assets - including \$3,807 prepaid equity issuance costs	6,330
Prepayment embedded derivatives	4,679
Restricted cash	10,479
Cash and cash equivalents	2,400
	<u>844,671</u>
<i>Liabilities</i>	
Loans and borrowings - including mark-to-market adjustment discount of \$7,960	(487,832)
Interest rate swaps	(699)
Accounts payable and other liabilities	(16,527)
Due to related party	(30,000)
Tenant in common interests	(2,200)
	<u>(537,258)</u>
Net assets acquired	307,413
Excess of fair value of net assets acquired over consideration paid	(75,331)
	<u>\$ 232,082</u>
<i>Consideration given by the REIT consists of the following:</i>	
REIT Units	\$ 500
Class B Units	231,582
	<u>\$ 232,082</u>

### *Brandon Place*

On June 1, 2018, the REIT acquired a 200 unit garden-style residential community, Brandon Place, located in Oklahoma City, Oklahoma, for \$22,231, which was settled for cash of \$3,764, the assumption of \$436 of working capital, the assumption of the existing mortgage with a fair value of \$19,846, including a discount on the assumed mortgage of \$128 and a prepayment premium derivative valued at \$943.

### (7) Restricted cash

	September 30, 2018
Tenant security deposits	\$ 778
Replacement reserve	4,191
Lender escrow deposits	6,893
<b>Restricted cash</b>	<b>\$ 11,862</b>

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### (8) Resident and other receivables, net

	September 30, 2018
Resident receivables, net	\$ 323
Utility reimbursements and other receivables	1,059
<b>Resident and other receivables, net</b>	<b>\$ 1,382</b>

### (9) Prepaid expenses and other assets

	September 30, 2018
Prepaid insurance	\$ 1,145
Other assets	1,257
<b>Prepaid expenses and other assets</b>	<b>\$ 2,402</b>

### (10) Investment property

Reconciliations of the carrying value for investment properties at the beginning and end of each financial period are set out below:

	Period from January 9, 2018 to September 30, 2018
<b>Investment properties, beginning of period</b>	<b>\$ —</b>
Property acquisition on May 18, 2018 - BSR Initial Properties	818,483
Property acquisition on June 1, 2018 - Brandon Place	22,231
Additions to investment properties	7,065
Change in fair value of investment properties	8,416
	856,195
IFRIC 21 fair value adjustment	1,079
IFRIC 21 real estate tax liability adjustment	(1,079)
<b>Investment properties, end of period</b>	<b>\$ 856,195</b>

The REIT used an internal valuation process to value the investment properties as of September 30, 2018. The fair value of each investment property was determined using the direct capitalization income method. The stabilized future estimated cash flows are divided by an overall capitalization rate. The capitalization rates were derived in part from a combination of third-party information and the observation of industry trends (Level 3 inputs). Assumptions used to derive capitalization rates include property age, amenities, renovations, geographic region and location.

A significant increase (decrease) in estimated rents or occupancy rates per annum in isolation would result in a significantly higher (lower) fair value. A significant increase (decrease) in capitalization rate estimates in isolation would result in significantly lower (higher) fair value. Generally, a change in estimated rents is accompanied by a directionally similar change in the rent growth per annum assumption and an opposite change in future vacancy rate estimates.

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The high, low, and overall weighted average capitalization rates are set out below:

	September 30, 2018
<b>Capitalization rates</b>	
High	10.0%
Low	5.0%
Weighted average	6.2%

The fair values of investment properties are most sensitive to changes in capitalization rates. As of September 30, 2018, a 25 basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by \$33,134 while a 25 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by \$35,914.

### (11) Accounts payable and other liabilities

	September 30, 2018
Trade payables	\$ 544
Accrued capital expenditures	989
Accrued property tax liabilities	7,640
Accrued and other liabilities	3,697
Distributions payable	1,656
Interest payable on loans and borrowings	1,132
Tenant security deposits	778
Rent received in advance	1,512
<b>Accounts payable and other liabilities</b>	<b>\$ 17,948</b>

### (12) Loans and borrowings

	September 30, 2018
Fixed or economically hedged to fixed rate mortgage notes payable	\$ 330,559
Variable rate mortgage notes payable	24,970
Net unamortized discount on mortgage notes payable	(6,876)
Net unamortized deferred financing costs	(154)
Credit Facility	44,750
<b>Total loans and borrowings</b>	<b>393,249</b>
Less: current portion of loans and borrowings	(34,034)
<b>Non-current loans and borrowings</b>	<b>\$ 359,215</b>

#### *Mortgage notes payable*

The REIT's weighted average contractual interest rate on mortgage notes payable as of September 30, 2018 was approximately 3.8%, which excludes the finance cost impact of the amortization of discounts on mortgage notes payable and the amortization of deferred financing costs. With the inclusion of these items, the REIT's weighted average effective interest rate on mortgage notes payable as of September 30, 2018 was approximately 4.0%. Mortgage notes payable as of September 30, 2018 mature at various dates from 2019 through 2056.

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#### *Credit Facility*

The REIT maintains a revolving credit facility (the “Credit Facility”). The Credit Facility is secured by eight of the REIT’s investment properties and is due on January 30, 2022, with an option to extend for one additional year, subject to meeting certain conditions. The Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Credit Facility, plus 1.65% to 2.15% based on meeting certain leverage ratios as defined in the Credit Facility. Alternatively, the REIT has the ability to borrow using base rate loans at a rate equal to 0.65% to 1.15% plus the greatest of the bank’s prime rate, the Federal Funds Rate plus 0.5%, or the one-month LIBOR rate, plus 1.0%. As of September 30, 2018, the balance outstanding on the Credit Facility was \$44,750 at a variable interest rate of 4.4%.

#### *Total loans and borrowings*

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of September 30, 2018, are as follows in the schedule below. Contractual Interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of September 30, 2018.

	<b>Principal</b>	<b>Balloon payment</b>	<b>Contractual Interest</b>	<b>Total payments</b>
2018	\$ 801	\$ —	\$ 3,902	\$ 4,703
2019	3,780	35,001	14,739	53,520
2020	3,507	14,095	13,611	31,213
2021	3,175	13,697	12,879	29,751
2022	3,111	44,750	10,653	58,514
Thereafter	96,170	182,192	93,227	371,589
	<b>\$ 110,544</b>	<b>\$ 289,735</b>	<b>\$ 149,011</b>	<b>\$ 549,290</b>

The REIT’s debt agreements contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. As of September 30, 2018, the REIT was in compliance with all financial covenants of its debt agreements.

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The following schedule presents the cash flows and non-cash changes within total loans and borrowings:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Loans and borrowings, beginning of period</b>	\$ 393,118	\$ —
<i>Cash flows</i>		
Proceeds from issuance of loans and borrowings	2,000	18,350
Principal payments of loans and borrowings	(1,960)	(132,894)
Payment of mortgage financing costs	(100)	(155)
	(60)	(114,699)
<i>Non-cash changes</i>		
Loans assumed in property acquisition on May 18, 2018 - BSR Initial Properties	—	487,832
Loan assumed in property acquisition on June 1, 2018 - Brandon Place	—	19,846
Amortization of deferred financing costs	1	1
Amortization of net discount on mortgage notes payable	190	269
	191	507,948
<b>Loans and borrowings, end of period</b>	<b>\$ 393,249</b>	<b>\$ 393,249</b>

### (13) Tenant in common interests

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Tenant in common interests, beginning of period</b>	\$ 2,563	\$ —
<i>Cash changes</i>		
Contributions from tenant in common interest	—	409
<i>Non-cash changes</i>		
Tenant in common interests assumed on May 18, 2018 - BSR Initial Properties	—	2,200
Change in tenant in common interests	19	(27)
<b>Tenant in common interests, end of period</b>	<b>\$ 2,582</b>	<b>\$ 2,582</b>

### (14) Class B Units

On May 18, 2018, the Partnership issued Class B Units with a fair value of \$231,582. The Class B Units are economically equivalent to Units and are entitled to receive distributions equal to those provided to holders of Units. These Class B Units have been classified as a liability in accordance with IFRS.

Class B Units are measured at fair value with any changes in fair value recorded in profit or loss. The fair value adjustments of Class B Units are calculated using the REIT Unit closing price as of the end of the reporting period. An increase in the REIT Unit closing price over the period results in a fair value loss whereas a decrease in the REIT Unit closing price over the period results in a fair value gain.

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The following table presents the outstanding units and the change in fair value of the Class B Units for the period from January 9, 2018 to September 30, 2018:

	Units	Value
<b>Class B Units, beginning of period</b>	—	\$ —
<i>Non-cash changes</i>		
Class B Units issued, May 18, 2018	23,158,236	231,582
Fair value adjustments	—	(11,810)
<b>Class B Units, end of period</b>	<b>23,158,236</b>	<b>\$ 219,772</b>

#### (15) Unitholders' equity

The REIT is authorized to issue an unlimited number of Units. Units are ordinary units of the REIT, each of which represents a unitholders' proportionate undivided beneficial interest and voting rights in the REIT.

Units outstanding, classified as equity:

	Units	Value
Units outstanding, classified as equity, as of January 9, 2018	—	\$ —
Units issued on IPO closing, May 18, 2018	13,500,000	135,000
Units issued for acquisition consideration, May 18, 2018	50,000	500
Units issued in settlement of loan payable, May 18, 2018	3,000,000	30,000
	16,550,000	165,500
Less: Issue costs (including \$794 during the three months ended September 30, 2018)	—	(15,782)
Less: Distributions	—	(3,047)
<b>Units outstanding, classified as equity, as of September 30, 2018</b>	<b>16,550,000</b>	<b>\$ 146,671</b>

#### (16) Segment reporting

The REIT owns, manages and operates multifamily properties located in the United States. Management, when measuring the REIT's performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the REIT has a single reportable segment for disclosure purposes in accordance with IFRS.

#### (17) Revenue

Base rent is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component is determined using an adjusted market assessment approach and the stand-alone selling price of the service components is determined using an expected cost plus a margin approach.

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance as well as consideration related to late rent, month-to-month leases and payments for early terminations. Revenue recognition commences when a resident has the right to use the property and is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred as prepaid rents. Revenue related to the service components of the REIT's leases is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers. These services consist primarily of the recovery of utility, property maintenance and amenity costs, as well as resident liability insurance premiums, and is recognized over time when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

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Revenue from lease components and revenue related to service components is as follows:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
Lease revenue	\$ 21,051	\$ 31,184
Revenue from services	4,546	6,627
<b>Total revenue</b>	<b>\$ 25,597</b>	<b>\$ 37,811</b>

### (18) Property operating expenses

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
Employee wages and benefits	\$ 3,994	\$ 5,990
Utility costs	2,296	3,283
Repairs and maintenance expense	1,468	2,052
Other property based costs	2,123	3,012
<b>Property operating expense</b>	<b>\$ 9,881</b>	<b>\$ 14,337</b>

### (19) Finance costs

Finance costs incurred and charged to income are as follows:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Finance costs from operations</b>		
Interest expense at stated rate	\$ 4,129	\$ 6,151
Amortization of deferred financing costs	1	1
Amortization of net discount on loans and borrowings	190	269
Interest expense on interest rate swaps	51	64
Distributions to tenant in common interests	12	12
<b>Finance costs from operations</b>	<b>4,383</b>	<b>6,497</b>
Distributions on Class B Units	2,897	4,266
Fair value adjustment to Class B Units	(231)	(11,810)
Fair value adjustment to interest rate swaps	(137)	(79)
Fair value adjustment to prepayment embedded derivatives	1,064	36
Fair value adjustment to unit-based compensation	(4)	(6)
Change in tenant in common interests	19	(27)
<b>Finance costs</b>	<b>\$ 7,991</b>	<b>(1,123)</b>

### (20) Operating leases

The REIT leases apartments of multifamily properties to residents under noncancelable operating leases. The leases generally have a term of one year, or less. There were no residents that accounted for more than 10% of the REIT's total rental revenue for the three months ended September 30, 2018 or the period from January 9, 2018 to September 30, 2018.

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At September 30, 2018, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows:

	September 30, 2018
1 year	\$ 45,827
2 years	3,356
	<b>\$ 49,183</b>

#### (21) Commitments and contingencies

The REIT's Little Rock, Arkansas headquarters is leased under an operating lease with a term that expires in March 2021 (see note 25). This lease requires monthly payments of \$11. Also, the REIT leases office equipment under noncancelable operating leases that expire at various times in the future. Lease expense was \$46 and \$77 for the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, respectively, and is included in general and administrative expenses in the unaudited condensed consolidated statements of comprehensive income.

The following table summarizes the REIT's operating lease commitments at September 30, 2018:

	September 30, 2018
1 year	\$ 230
2 years	185
3 years	70
	<b>\$ 485</b>

The REIT is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such matters will not have a material adverse effect on these unaudited condensed consolidated interim financial statements.

#### (22) Financial instruments

##### (a) Risk management

The REIT's activities expose it to market risk, credit risk and liquidity risk. Risk management is carried out by management of the REIT.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. In addition to the interest rate risk of variable rate mortgages, there is interest rate risk associated with the REIT's fixed rate mortgages payable due to the expected requirement to refinance such mortgages payable in the year of maturity. To manage exposure to interest rate risk, the REIT endeavours to manage maturities of fixed rate mortgages payable and match the nature of the mortgage payable with the cash flow characteristics of the underlying asset. This risk is also minimized through the REIT's current strategy of having the majority of its mortgages payable in fixed term arrangements. As such, the REIT's cash flows are not significantly impacted by a change in market interest rates.

As of September 30, 2018, the REIT's mortgage debt was 93% fixed or economically hedged to fixed rates, which excludes the Credit Facility. With the Credit Facility included, as of September 30, 2018, the REIT's mortgage debt was 83% fixed or economically hedged to fixed rates.

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Management manages a portion of its variable-rate mortgages payable using interest rate swaps that alter its exposure to the impact of changing interest rates. The interest rate swaps are not designated as hedging instruments and as a result, the changes in fair value are recognized in earnings as an adjustment to finance costs in the condensed consolidated interim statements of comprehensive income. As of September 30, 2018, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a \$697 change in the REIT's finance costs over the next 12 months.

The REIT has no exposure to currency or other market price risk.

The REIT's assets consist primarily of multifamily properties. Credit risk arises from the possibility that residents in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting residents of sound financial standing and by diversifying its mix of residents. It also monitors resident payment patterns and discusses potential resident issues with property managers on a regular basis. Cash carries minimal credit risk as all funds are maintained with reputable financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk is the risk that the REIT will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The REIT manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. As at September 30, 2018, the REIT had a working capital deficiency of \$30,387. In the normal course of business, a portion of the REIT's borrowings under mortgage notes payable and Credit Facility with a maturity date less than one year will be considered current liabilities prior to being replaced with longer-term financing. Of the total deficiency, \$31,081 relating to balloon payments within the current portion of mortgage notes payable is expected to be refinanced with long-term mortgages.

The following table provides information on the carrying balance and the non-discounted contractual maturities of financial liabilities with fixed repayment terms, including estimated interest payments:

	Carrying amount	Contractual cash flows	1 year	2 years	3 years	4 years	More than 4 years
Loans and borrowings	\$ 393,249	\$ 400,279	\$ 34,855	\$ 17,938	\$ 20,590	\$ 47,835	\$ 279,061
Interest payable	1,132	149,012	15,108	13,812	13,059	11,177	95,856
Interest rate swaps	640	733	109	164	141	116	203
Tenant in common interests	2,582	2,582	67	67	67	67	2,314
Capital improvements liability	989	989	989	—	—	—	—
Accounts payable and other liabilities	15,827	15,827	15,827	—	—	—	—
	<b>\$ 414,419</b>	<b>\$ 569,422</b>	<b>\$ 66,955</b>	<b>\$ 31,981</b>	<b>\$ 33,857</b>	<b>\$ 59,195</b>	<b>\$ 377,434</b>

#### **(b) Fair value of financial instruments**

The fair value of a financial instrument 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. Fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs.

Fair value measurements recognized in the unaudited condensed consolidated interim statements of financial position are categorized using the following fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

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- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has recorded Class B units at their fair value, which has been assessed to equal the closing market price of the units at each valuation date (Level 2).

The following information relates to estimated fair values of the REIT's financial instruments:

Cash and cash equivalents, restricted cash, resident and other receivables and accounts payable and other liabilities (excluding interest rate swaps) are carried at amortized cost, which, due to their short-term nature, approximates fair value.

Tenant in common interests are carried at amortized cost, which approximates fair value.

Interest rate swaps and prepayment embedded derivatives are held at fair value. Refer to note 22(d) and note 22(e) for further information.

Loans and borrowings are carried at amortized cost. The REIT estimates the fair value of loans and borrowings based on the rates that could be obtained for similar debt instruments with similar terms and maturities. The fair value of loans and borrowings qualifies as Level 2 in the fair value hierarchy above. There were no transfers of assets between fair value levels during the periods presented herein.

#### (c) Loans and borrowings

	September 30, 2018
Carrying amount	\$ 393,249
Fair value	\$ 388,057

#### (d) Interest rate swaps

The REIT has entered into receive-variable based on 1 Month USD – LIBOR/pay fixed interest rate swap agreements related to certain mortgage loans. The interest rate swaps are not designed as a hedge for accounting purposes. These swaps are used to manage interest rate exposure over the period of the interest rate swaps. The differential to be paid or received on all swap agreements is accrued as interest rates change and is recognized in finance costs over the life of the respective agreements. The interest rate swaps contain no credit risk-related contingent features.

The following table is a summary of the aggregate current and non-current carrying value and fair value of interest rate swaps held for the periods presented herein:

	September 30, 2018
<i>Interest rate swaps</i>	
Current portion	\$ (109)
Non-current portion	(531)
<b>Interest rate swaps, end of period</b>	<b>\$ (640)</b>

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The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of September 30, 2018:

	Maturity date	Fixed rate	Original notional amount	Notional amount as of September 30, 2018	Carrying value and fair value as of September 30, 2018
<i>Interest rate swap agreement</i>					
Bank of America	6/1/2019	1.71%	\$ 15,000	\$ 12,958	\$ 71
Raymond James	9/1/2025	5.07%	12,265	6,000	(711)
			\$ 27,265	\$ 18,958	\$ (640)

The valuation of these instruments was determined using discounted cash flow analyses based on the contractual terms of the derivatives, including the period to maturity of each instrument, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values determined are based on significant other observable inputs (Level 2). In addition, the REIT considered its own and the respective counterparties' risk of non-performance in determining the fair value of its derivative financial instruments by estimating the current and potential future exposure under the derivative financial instruments that both the REIT and the counterparties were at risk for as of the valuation date. This total expected exposure was then discounted using discount factors that contemplate the creditworthiness of the REIT and the counterparties to arrive at a credit charge. This credit charge was then netted against the value of the derivative financial instruments determined using the discounted cash flow analysis described above to arrive at a total estimated fair value of the interest rate swap agreements.

Changes in fair value are recognized as net change in fair value of interest rate swaps in the accompanying unaudited condensed consolidated interim statements of comprehensive income.

The following table summarizes the beginning and ending fair value and the unrealized gain (loss) for the interest rate swaps for each period presented:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Interest rate swaps, beginning of period</b>	<b>\$ (777)</b>	<b>\$ —</b>
<i>Cash changes</i>		
Termination of interest rate swap agreement	—	(20)
<i>Non-cash changes</i>		
Interest rate swaps, acquired on May 18, 2018 - BSR Initial Properties	—	(699)
Fair value adjustment to interest rate swaps	137	79
<b>Interest rate swaps, end of period</b>	<b>\$ (640)</b>	<b>\$ (640)</b>

### (e) *Prepayment embedded derivatives*

Certain mortgages payable (note 12) contain prepayment options which represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value being recognized as net change in fair value of prepayment embedded derivatives in the unaudited condensed consolidated interim statements of comprehensive income.

The fair value of the prepayment embedded derivatives has been determined using a LIBOR based interest rate swap options ("swaptions") as a proxy. The swaptions were structured to mirror the financial conventions of the

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respective loans, including payment periods, accrual basis, principal amortization, prepayment dates and prepayment premiums. The swaptions were structured as fixed receiver with a strike rate set on market as of the date of the loan agreement with exercise premiums to match the underlying loans plus a cost of refinancing upon exercise. The resulting swaption price would represent a proxy for the value of the prepayment rights embedded in the underlying loans. The fair values determined are based on significant other observable inputs (Level 2).

The following table summarizes the beginning and ending fair value and the unrealized gain (loss) for the prepayment embedded derivatives for each period presented:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
<b>Prepayment embedded derivatives, beginning of period</b>	\$ 6,650	\$ —
<i>Non-cash changes</i>		
Prepayment embedded derivatives, acquired on May 18, 2018 - BSR Initial Properties	—	4,679
Prepayment embedded derivative, acquired on June 1, 2018 - Brandon Place	—	943
Fair value adjustment to prepayment embedded derivatives	(1,064)	(36)
<b>Prepayment embedded derivatives, end of period</b>	<b>\$ 5,586</b>	<b>\$ 5,586</b>

### (23) Capital management

The REIT's policy is to maintain an appropriate capital base to support ongoing operations, maintain creditor and market confidence and sustain future developments of the business. Capital consists of cash and cash equivalents, loans and borrowings, Class B Units and Unitholders' equity. The REIT monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also making appropriate distributions to the unitholders on a regular basis.

In managing its capital structure, the REIT monitors performance and adjusts its capital based on its investment strategies and changes to economic conditions. To maintain or adjust its capital structure, the REIT may issue equity or new debt, issue new debt to replace existing debt (with different characteristics) or reduce existing debt.

### (24) Employee benefit plan

Management of the REIT has adopted a defined contribution plan under Internal Revenue Service ("IRS") code section 401(k) for all eligible employees. Employees become eligible after 60 days of service with BSR. A participant may elect to defer up to the maximum percentage of compensation permissible under Code Section 401(k).

Management of the REIT elects to match employee deferrals at its discretion. Employer matching contributions to the Plan totaled \$31 and \$46 during the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, respectively.

### (25) Related party transactions

The unaudited condensed consolidated interim financial statements include the following related party transactions:

- Distributions on Class B Units of \$1,763 and \$2,621 were declared to key management personnel during the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018,

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018 (Unaudited)  
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respectively. Key management personnel of the REIT are those persons having the authority and responsibility for planning, directing and controlling the activities of the REIT directly or indirectly.

- Compensation expenses include \$684 and \$1,015 paid to key management personnel during the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, respectively.
- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT's Chief Executive Officer. The current operating lease term expires in 2021 (see note 21).
- The REIT issued 3,000,000 Units with a value of \$30,000 to an affiliate of the Chief Executive Officer in settlement of a related party loan.

#### (26) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Three months ended September 30, 2018	Period from January 9, 2018 to September 30, 2018
Resident and other receivables, net	\$ (217)	\$ 918
Prepaid expenses and other assets	(75)	557
Accounts payable and other liabilities	1,531	(1,053)
	<b>\$ 1,239</b>	<b>\$ 422</b>

#### (27) Deferred unit compensation and unit-based compensation

##### *Remuneration of trustees (deferred unit compensation)*

The REIT adopted the Omnibus Equity Incentive Plan effective as of May 18, 2018. The purpose of the Equity Incentive Plan is to promote a greater alignment of interests between the non-executive Trustees and the Unitholders. Under the Equity Incentive Plan, Trustees have the option to elect to receive up to 100% of all fees that are otherwise payable in cash in the form of Deferred Units. A Deferred Unit award is an award denominated in notional units that entitles the participant to receive Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the Units in the future. The REIT shall match 100% of the total value of the annual board retainer fee that a Trustee elects to receive in the form of Deferred Units. Accordingly, the number of Deferred Units to be awarded to a Trustee is equal to (i) the value of all fees that the Trustee elects to receive in the form of Deferred Units plus an additional 100% of the annual board retainer fee elected to be received in the form of Deferred Units pursuant to the REIT's obligation to match, (ii) divided by the volume-weighted average trading price of a Unit on the TSX for the five trading days prior to the date of the award. Elections are irrevocable for the year in respect of which they are made. The Deferred Units earn additional Deferred Units for distributions that would otherwise have been payable in cash. Deferred Units granted to Trustees vest immediately upon grant.

For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, \$134 and \$335 of deferred unit compensation expense was recognized in general and administrative expenses in the unaudited condensed consolidated interim statements of net income and comprehensive income, respectively. The Deferred Units are measured at fair value at each reporting period and the change in fair value is recognized in Fair value adjustment to unit-based compensation in the unaudited condensed consolidated interim statements of net income and comprehensive income.

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For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018 (Unaudited)

Amounts in thousands of U.S. dollars (except for per unit amounts)

	Units	Value
<b>Deferred trust units, beginning of period</b>	—	\$ —
<i>Non-cash changes</i>		
Deferred trust units issued	35,153	335
Fair value adjustments		(1)
<b>Deferred trust units issued, end of period</b>	<b>35,153</b>	<b>\$ 334</b>

### *Unit-based compensation*

The Equity Incentive Plan provides for awards of Restricted Units, Performance Units and Deferred Units and other awards denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Units.

Restricted Trust Units (“RTUs”) and Performance Units (“PUs”) are awarded to members of the senior executive team to align the interests of the senior executive team more closely with the interests of the Unitholders. RTUs and PUs are denominated in notional units that entitles the participant to receive Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the Units in the future. RTUs vest in three equal instalments over a three-year period from the initial award and will be settled by Units issued from treasury or, if so elected by the participant and subject to the approval of the Board of Trustees, cash payable upon vesting. PUs will vest subject to performance criteria and targets established and set forth in the award agreements, and to the extent earned, will vest and become nonforfeitable on the third anniversary of the initial award.

The RTUs and PUs are considered a financial liability due to the contractual obligation for the Trust to deliver trust units at the option of the participant, subject to board approval. The RTUs and PUs are measured at fair value with changes in fair value recognized in Fair value adjustment to unit-based compensation in the condensed consolidated interim statement of net income and comprehensive income. For the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, unit-based compensation expense of \$71 and \$106 has been recognized in general and administrative expense, respectively. Fair value gains of \$3 and \$5 for the three months ended September 30, 2018 and the period from January 9, 2018 to September 30, 2018, respectively, have been recognized in fair value adjustment to unit-based compensation in the unaudited condensed consolidated interim statement of income and comprehensive income.

### **(28) Subsequent events**

On October 25, 2018, the REIT acquired Towne Park, a 237-unit, garden style residential community in Springdale, Arkansas for a contractual purchase price of \$28.9 million. The transaction was funded using the REIT’s Credit Facility.