

BSR Real Estate Investment Trust

Form 51-102F4

Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

BSR Real Estate Investment Trust (the “**REIT**”)
333 Bay Street, Suite 3400
Toronto, Ontario
M5H 2S7

1.2 Executive Officer

Susan Koehn, Chief Financial Officer
Tel: 501.371.6335
Fax: 501.374.3383

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

In connection with the completion of the REIT’s initial public offering on May 18, 2018 (the “**IPO**”), the REIT indirectly acquired an interest in BSR Trust, LLC (“**BSR**”), which as of the closing of the IPO (the “**Closing**”) owned 47 multi-suite residential properties located across five bordering states in the United States (the “**BSR Initial Properties**”), and the right to acquire one additional multi-suite residential property located in Oklahoma City, Oklahoma (“**Brandon Place**”, and together with the BSR Initial Properties, the “**Initial Properties**”), which was subsequently acquired on June 1, 2018.

Prior to the Closing, ownership and profit interests in BSR were held by approximately 400 members (the “**Legacy BSR Holders**”). Upon Closing, and following certain pre-Closing reorganization events involving BSR, a subsidiary of the REIT merged with and into BSR (the “**Merger**”), with BSR continuing as the surviving entity (the surviving entity is referred to as “**BSR Operating LLC**”). As a result, the Initial Properties are indirectly held by the REIT, through its indirect ownership of BSR Operating LLC.

The Initial Properties are further described in the final prospectus of the REIT dated May 11, 2018 (the “**Prospectus**”), which has been filed on SEDAR at www.sedar.com.

2.2 Acquisition Date

May 18, 2018.

2.3 Consideration

In connection with the Merger, all of the issued and outstanding securities of BSR held by the Legacy BSR Holders were exchanged for 23,158,236 new class B units of BSR Operating LLC (“**Class B Units**”) pursuant to a prescribed exchange formula taking into account the relative economic terms of the different classes of securities of BSR. The Class B Units are economically equivalent to Units and are redeemable by the holder thereof for cash or units of the REIT (“**Units**”) (on a one-for-one basis subject to customary anti-dilution adjustments), as determined by BSR Operating LLC in its sole discretion.

The net proceeds of the IPO were used by the REIT to repay approximately US\$122.3 million of indebtedness owing by BSR and to fund transaction costs associated with the IPO.

2.4 Effect on Financial Position

See the pro forma financial statements and the accompanying notes incorporated by reference and attached as Schedule “A” to this Business Acquisition Report. The unaudited pro forma condensed consolidated financial statements are presented for informational purposes only and are not necessarily indicative of what the REIT’s results of operations and financial position would have been had the transaction been completed on the dates indicated. In addition, the pro forma financial statements do not purport to project the future results of operations or financial position of the REIT.

The REIT presently has no plans or proposals for material changes in the REIT’s business affairs or the affairs of the acquired business that may have a significant effect on the results of operations and financial position of the REIT.

2.5 Prior Valuations

No valuation opinion of the Initial Properties has been obtained by the REIT or, to the knowledge of the REIT, by BSR or the prior owners of the Initial Properties within the last 12 months that was required by securities legislation or a Canadian exchange or market.

However, in connection with the IPO, BSR retained Newmark Knight Frank – Valuation & Advisory to provide an independent opinion as to the aggregate market value of the Initial Properties on a portfolio basis, as of January 1, 2018 (the “**Appraisal**”). A description of the Appraisal is set out in the “Assessment and Valuation of the Initial Properties — Independent Appraisal” section in the Prospectus, which section of the Prospectus is incorporated by reference into this section 2.5. A copy of the summary of the Appraisal is available under the REIT’s profile on SEDAR at www.sedar.com.

2.6 Parties to Transaction

The parties involved with the Merger were the REIT, BSR, BSR REIT Holdings, Inc. (“**US Holdco**”) and BSR Merger Sub, LLC (“**MergerSub**”). US Holdco is a wholly owned subsidiary of the REIT. MergerSub was a wholly owned subsidiary of US

Holdco, which was formed to merge with and into BSR, with BSR continuing as the surviving entity.

Following the Closing, the Legacy BSR Holders retained an aggregate approximate 66% ownership interest in the REIT (determined as if all redeemable securities are redeemed for Units). Certain of the Legacy BSR Holders are members or affiliates of the Bailey family or are members or affiliates of the Hughes family (collectively, the “**Bailey/Hughes Holders**”), who together founded BSR. As of the Closing, the Bailey/Hughes Holders together owned 17,210,733 Class B Units and 3,037,159 Units, together representing an aggregate approximate 51% ownership interest in the REIT, (determined as if all redeemable securities are redeemed for Units).

In connection with the IPO, the REIT, BSR Operating LLC and the Bailey/Hughes Holders entered into an investor rights agreement (the “**Investor Rights Agreement**”) which governs the rights of the Bailey/Hughes Holders as holders of Units. Pursuant to the Investor Rights Agreement, the Bailey/Hughes Holders were granted, among other things, the right to nominate up to three trustees of the REIT under certain circumstances. John S. Bailey and W. Daniel Hughes, Jr. are each Bailey/Hughes Holders and serve as Bailey/Hughes Holders’ nominees on the REIT’s board. John. S. Bailey also serves as Chief Executive Officer of the REIT, and certain members of senior management are Legacy BSR Holders.

Additional disclosure concerning the Merger, the relationship of the parties thereto with the REIT, and the rights of the Bailey/Hughes Holders is set out in the Prospectus.

2.7 Date of Report

August 1, 2018.

Item 3 Financial Statements and Other Information

Exemptive Relief from Certain Provisions of National Instrument 51-102

The REIT applied for, and has obtained, exemptive relief pursuant to Part 13 of National Instrument 51-102 – Continuous Disclosure Obligations (“**NI 51-102**”), from certain requirements in Item 3 of Form 51-102F4 and Part 8 of NI 51-102 in respect of six Initial Properties (collectively, the “**Specified Initial Properties**”), so that the REIT does not need to include financial statements for the Specified Initial Properties for certain periods prior to their date of acquisition by BSR, as more specifically set out in the table below (collectively, the “**Excluded Financial Statements**”). The Specified Initial Properties were acquired by BSR within the last three years. The decision document for the exemptive relief is dated July 9, 2018 and the Ontario Securities Commission has confirmed with the REIT that the decision document will be made available on the Ontario Securities Commission’s website located at www.osc.gov.on.ca.

Specified Initial Property	Period For Which Financial Statements Are Not Included in This Prospectus
The Pointe, Beaumont, TX	January 1, 2015 – July 8, 2015
Willow Lake, Longview, TX	January 1, 2015 – November 9, 2015
Westend Lodge, Beaumont, TX	January 1, 2015 – May 3, 2016
Mountain Ranch, Fayetteville, AR	January 1, 2015 – February 27, 2017
Windhaven Park, Dallas, TX	September 30, 2017 – October 10, 2017
Brandon Place, Oklahoma City, OK	January 1, 2015 – December 31, 2017

Pro Forma Financial Statements of the REIT

The following unaudited pro forma condensed consolidated financial statements of the REIT, as set out under the heading “Index to Financial Statements” in the Prospectus available under the REIT’s profile on the SEDAR website at www.sedar.com, are incorporated by reference into this Item 3:

- Unaudited pro forma condensed consolidated financial statements as at and for the year ended December 31, 2017

The following unaudited pro forma condensed consolidated financial statements of the REIT are attached as Schedule “A” hereto:

- Unaudited pro forma condensed consolidated financial statements as at and for the three months ended March 31, 2018 and for the year ended December 31, 2017.

Financial Statements and Financial Forecast

The following financial statements and the related notes thereto and auditors’ report thereon, as set out under the heading “Index to Financial Statements” in the Prospectus available under the REIT’s profile on the SEDAR website at www.sedar.com, are incorporated by reference into this Item 3:

Initial Properties (other than the Excluded Financial Statements)

- Audited combined and carve-out financial statements as of December 31, 2017 and December 31, 2016 and for the years ended December 31, 2017 and December 31, 2016.

Windhaven

- Audited carve-out financial statements as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2017 and the year ended December 31, 2016.

Readers should note that the financial statements as at and for year ended December 31, 2015 that are contained in the Prospectus are not required to be included in this Business Acquisition Report.

The REIT has obtained the consent of the auditors of the above noted financial statements and reports, to incorporate by reference their audit reports in this Business Acquisition Report.

The following interim financial statements are attached as Schedule “B” hereto:

Initial Properties (other than the Excluded Financial Statements)

- Unaudited combined and carve-out financial statements as of March 31, 2018 for the three months ended March 31, 2018 and March 31, 2017.

Financial Forecast

The following are incorporated by reference in this Item 3:

- Audited financial forecast included in the Prospectus consisting of the consolidated statements of forecasted net income and comprehensive income for each of the three-month periods ending June 30, 2018, September 30, 2018, December 31, 2018 and March 31, 2019 and the 12 month period ending March 31, 2019 (including the related notes thereto and the auditor’s report thereon) under the heading “Financial Forecast” in the Prospectus, which is available under the REIT’s profile on the SEDAR website at www.sedar.com.
- The disclosure under the heading “Forecast Non-IFRS Reconciliation” in the Prospectus, which is available under the REIT’s profile on the SEDAR website at www.sedar.com.

The REIT has obtained the consent of the auditors of the above noted financial forecast and report, to incorporate by reference their audit report in this Business Acquisition Report.

SCHEDULE A

See attached.

Pro Forma Condensed Consolidated Financial Statements
(In U.S. dollars)

BSR REAL ESTATE INVESTMENT TRUST

As at and for the three months ended March 31, 2018
and for the year ended December 31, 2017

(Unaudited)

BSR REAL ESTATE INVESTMENT TRUST

Pro Forma Condensed Consolidated Statement of Financial Position
(In thousands of U.S. dollars unless otherwise noted)

March 31, 2018
(Unaudited)

	BSR REIT	BSR Initial Properties	Brandon Place	Note 3	Pro forma adjustments	Total
Assets						
Current:						
Cash and cash equivalents	\$ -	\$ 7,898	\$ -	(a) (a)	\$ (824) (839)	
				(b)	123,819	
				(c)	(3,764)	
				(f)	(37,300)	
				(g)	(85,000)	\$3,990
Restricted cash	-	10,070	-		-	10,070
Tenant and other receivables	-	2,717	-		-	2,717
Prepaid expenses and other assets	-	955	436	(a) (b)	3,807 (3,807)	1,391
	-	21,640	436		(3,908)	18,168
Non-current:						
Investment property	-	818,483	22,231		-	840,714
Prepayment embedded derivatives	-	5,623	943	(c)	(944)	5,622
Restricted cash	-	28	-		-	28
	-	\$ 824,134	\$ 23,174		\$ (944)	\$ 846,364
Total assets	\$ -	\$ 845,774	\$ 23,610		\$ (4,852)	\$ 864,532
Liabilities and Unitholders' Equity						
Current:						
Accounts payable and other liabilities	\$ -	\$ 10,793	\$ -		\$ -	\$ 10,793
Interest rate swaps	-	206	-		-	206
Loans and borrowings	-	17,294	217	(a)	(824)	16,687
	-	28,293	217		(824)	27,686
Non-current:						
Loans and borrowings	-	480,903	19,629	(c) (f) (g)	(9,854) (37,300) (85,000)	368,378
Due to related party Class B redeemable units ("Class B Units")	-	30,003	-	(g)	(30,000)	3
Interest rate swaps	-	585	-	(c)	231,582	231,582
Tenant in common interests	-	2,200	-		-	2,200
	-	513,691	19,629		69,428	602,748
Total liabilities	-	541,984	19,846		68,604	630,434
Unitholders' equity:						
Net parent investment	-	303,790	3,764	(c) (c)	(3,764) (303,790)	-
Unitholders' equity	-	-	-	(b) (c) (c) (g)	120,012 500 83,586 30,000	234,098
Total unitholders' equity	-	303,790	3,764		(73,456)	234,098
Total liabilities and unitholders' equity	\$ -	\$ 845,774	\$ 23,610		\$ (4,852)	\$ 864,532

See accompanying notes to pro forma condensed consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Pro Forma Condensed Consolidated Statement of Income and Comprehensive Income
(In thousands of U.S. dollars unless otherwise noted)

Three months ended March 31, 2018
(Unaudited)

	BSR REIT	BSR Initial Properties	Brandon Place	Notes	Pro forma adjustments	Total
Revenue:						
Rental	\$ -	\$ 20,981	\$ 510		\$ -	\$ 21,491
Other	-	3,076	72		-	3,148
	-	24,057	582		-	24,639
Expenses:						
Direct property	-	9,615	182		-	9,797
Real estate taxes	-	7,940	309		-	8,249
Change in tenant in common interests	-	(2,939)	-	(j)	2,939	-
Fair value adjustment of investment properties	-	5,153	-	(o)	(5,153)	-
IFRIC 21 fair value adjustment of investment property	-	(5,758)	(232)		-	(5,990)
Interest and other financing charges:						
Interest	-	5,497	212	(j)	(1,217)	4,492
Distributions on Class B Units	-	-	-	(k)	2,895	2,895
General and administrative	-	1,296	-	(l)	177	1,473
Other	-	2,132	-	(j)	(1,227)	-
				(j)	273	-
				(j)	(1,178)	-
	-	22,936	471		(2,491)	20,916
Net income and comprehensive income	\$ -	\$ 1,121	\$ 111		\$ 2,491	\$ 3,723

See accompanying notes to pro forma condensed consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Pro Forma Condensed Consolidated Statement of Income and Comprehensive Income
(In thousands of U.S. dollars unless otherwise noted)

Year ended December 31, 2017
(Unaudited)

	BSR REIT	BSR Initial Properties	Windhaven Park	Brandon Place	Note 3	Pro forma adjustments	Total
Revenue:							
Rental	\$ -	\$ 75,234	\$ 4,403	\$ 2,039	(i)	\$ 489	\$ 82,165
Other	-	11,559	593	288		-	12,440
	-	86,793	4,996	2,327		489	94,605
Expenses:							
Direct property	-	34,650	1,391	729		-	36,770
Real estate taxes	-	7,044	981	309		-	8,334
Change in tenant in common interests	-	784	-	-	(j)	(784)	-
Fair value adjustment of investment properties	-	(46,382)	(2,980)	-	(o)	49,362	-
IFRIC 21 fair value adjustment of investment property	-	431	(245)	-	(o)	603	603
Interest and other financing charges: Interest	-	20,201	1,031	847	(j)	(5,703)	16,376
Distributions on Class B Units	-	-	-	-	(k)	11,580	11,580
General and administrative	-	4,732	265	-	(l)	894	5,891
Other	-	1,286	-	-	(j)	6,053	-
	-	-	-	-	(j)	(1,485)	6,309
Bargain purchase gain	-	-	-	-	(c)	455	-
	-	22,746	443	1,885		(83,586)	(83,586)
	-					(22,611)	2,463
Net income and comprehensive income	\$ -	\$ 64,047	\$ 4,553	\$ 442		\$ 23,100	\$ 92,142

See accompanying notes to pro forma condensed consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

1. Basis of presentation:

BSR Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust dated January 9, 2018, and governed by the laws of the Province of Ontario. On this date, one trust unit was issued for \$10 cash.

The REIT issued trust units for cash pursuant to its initial public offering (the "Offering"), which closed on May 18, 2018 (the "Closing"). On closing of the transactions contemplated in the prospectus (the "Closing"), the REIT indirectly acquired an interest in BSR Trust, LLC, which as of closing owned 47 multi-suite residential properties located in the United States (the "BSR Initial Properties"), and the right to acquire one additional multi-suite residential property located in Oklahoma City, Oklahoma ("Brandon Place", and together with the BSR Initial Properties, the "Initial Properties") that was subsequently acquired.

These pro forma condensed consolidated financial statements have been prepared from:

- (a) The unaudited condensed, combined and carve-out interim statement of financial position as at March 31, 2018 and the unaudited condensed, combined and carve-out interim statement of income and comprehensive income for the three months ended March 31, 2018 of the BSR Initial Properties;
- (b) The audited statement of comprehensive income for the year ended December 31, 2017 of the BSR Initial Properties;
- (c) The audited statement of comprehensive income for the nine months ended September 30, 2017 of Windhaven Park;
- (d) The unaudited balance sheet as at March 31, 2018 and the unaudited statements of comprehensive income for the year ended December 31, 2017 and the three months ended March 31, 2018 of Brandon Place.
- (e) The unaudited balance sheet of the REIT as at March 31, 2018.

The pro forma condensed consolidated statement of financial position give effect to the transactions in note 3 as if they had occurred on March 31, 2018. The pro forma condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and year ended December 31, 2017 gives effect to the transactions in note 3 as if they had occurred on January 1, 2017.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

The pro forma condensed consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the REIT.

2. Summary of significant accounting policies:

The pro forma condensed consolidated financial statements have been prepared using the following policies in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and incorporate the principal accounting policies expected to be used to prepare the REIT's financial statements.

(a) Basis of consolidation:

The consolidated 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 on consolidation.

The REIT's subsidiaries include entities, each of which owns an interest in a single property located in the United States. The REIT does not have an ownership interest in the entities, but has determined that it controls the entities and as a result the revenues and expenses of these entities are included in the pro forma condensed consolidated financial statements. The interest of the respective owners of these entities is accounted for as a tenant in common interests liability and the net income attributable to the owners of the entities is recorded as a finance cost.

(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.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

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 statements 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 properties:

A property is determined to be 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 properties include land and building structures situated on the properties. 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 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 cost can be measured reliably.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

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:

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates net realizable value.

(f) Restricted cash:

Restricted cash can only be used for specified purposes. Amounts are usually restricted by the financial institution which holds the debt on the property.

(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 as well as for services such as amenities and property maintenance. 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.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

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 where the REIT has determined it is acting as a principal, 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.

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 with residents. Such allowances are reviewed periodically based on the recovery experience of the REIT and the creditworthiness of the residents.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(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:

Financial assets and liabilities	Classification
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Tenant and other receivables	Amortized cost
Accounts payable and other liabilities	Amortized cost
Mortgage notes payable	Amortized cost
Credit facility	Amortized cost
Tenant in common interests	Amortized cost
Derivatives and embedded derivatives	Fair value through profit or loss
Class B Units	Fair value through profit or loss

(i) 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 tenant and other receivables using a provision matrix based on historical credit loss experience adjusted for current and forecasted future economic conditions to estimate ECL.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

Financial assets and liabilities are offset and positioned when, and only when, the REIT has the 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.

(ii) 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.

Accounts payable and other liabilities, mortgage notes payable, credit facility and tenant in common interests liabilities 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 trust units of the REIT ("REIT Units") 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 fair value through profit and loss 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 REIT Units on a per unit basis. The distributions paid on Class B Units are accounted for as finance costs.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

The REIT Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. 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 REIT Units meet the exemption conditions of IAS 32 and are, therefore, presented as equity.

(iii) Derivative financial instruments:

The REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements.

(i) Finance costs:

Finance costs comprise interest expense on borrowings, payments on swap contracts, gain (loss) on change in fair value of swap contracts, distributions on Class B Units classified as liabilities, gain (loss) on change in fair value of Class B Units and income allocations to non-controlling interest liability holders.

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

(j) 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 or profit-sharing plans if the REIT has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(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 legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the statements of forecasted 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 Omnibus Equity Incentive Plan (the "Incentive Plan") for its employees, directors and trustees. Awards under the Incentive Plan, such as deferred units, restricted units and performance units may be settled by REIT 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 REIT Units are puttable. The fair value of the amount 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.

(k) Income taxes:

(i) Canadian mutual fund 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.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(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 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.

(iii) Current taxes:

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(iv) Deferred taxes:

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (a) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and (b) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Levies:

In accordance with IFRS Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), the REIT recognizes the full amount of annual property tax liabilities at the point in time when the realty tax obligation is imposed.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(m) Sources of estimation uncertainties:

In making estimates, the REIT relies on external information and observable conditions where possible, supplemented by internal analysis as required. There are no known trends, commitments, events or even uncertainties that management believes will materially affect the methodology or assumptions utilized in making estimates in these consolidated financial statements. The estimates used in determining the recorded amount for assets and liabilities in these consolidated financial statements include the following:

(i) 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.

(ii) Other:

Estimates are also made in the determination of the fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the REIT to its counterparties, the credit risk of the REIT's counterparties relative to the REIT, estimated future cash flows and discount rates.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

2. Summary of significant accounting policies (continued):

(n) Critical judgements:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill is recognized. The REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the acquisition transaction.

3. Pro forma adjustments:

The pro forma adjustments to the pro forma condensed consolidated financial statements have been prepared to account for the impact of the acquisition transactions contemplated by the prospectus as described below:

(a) Initial transactions:

The pro-forma condensed consolidated financial statements reflect that prior to the Closing, BSR Trust, LLC:

- (i) paid \$824 in regular principal repayments on mortgages payable;
- (ii) funded \$839 of costs relating to the Offering in addition to the \$2,968 paid prior to March 31, 2018.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(b) Initial public offering:

On Closing, the REIT raised gross proceeds of \$135,000 pursuant to the Offering through the issuance of 13,500,000 REIT Units at \$10 per REIT Unit (the "Offering Price"). Costs relating to the Offering, including underwriters' fees, were \$14,988 and were charged directly to unitholders' equity.

(c) Acquisitions:

On Closing, 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 REIT Units and \$231,582 of Class B Units.

On June 1, 2018 the REIT indirectly acquired one additional multi-suite residential property, Brandon Place, located in Oklahoma City, Oklahoma for \$22,231 for cash of \$3,764, and the assumption of a mortgage with a fair value of \$19,846, including a mark-to-market discount of \$128 and a prepayment premium derivative valued at \$943.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

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

	Book value of BSR Initial Properties	Initial transactions	Brandon Place	Fair value adjustment	Fair values of acquired net assets
Investment property	\$ 818,483	\$ –	\$ 22,231	\$ –	\$ 840,714
Tenant and other receivables	2,717	–	–	–	2,717
Prepaid expenses and other assets	955	3,807	436	–	5,198
Prepayment embedded derivatives	5,623	–	943	(944)	5,622
Restricted cash	10,098	–	–	–	10,098
Cash and cash equivalents	7,898	(1,663)	–	–	6,235
Loans and borrowings	(498,197)	824	(19,846)	9,854	(507,365)
Interest rate swaps	(791)	–	–	–	(791)
Accounts payable and other liabilities	(10,793)	–	–	–	(10,793)
Due to related parties	(30,003)	–	–	–	(30,003)
Tenant in common interests	(2,200)	–	–	–	(2,200)
Net assets acquired	<u>\$ 303,790</u>	<u>\$ 2,968</u>	<u>\$ 3,764</u>	<u>\$ 8,910</u>	319,432
Excess of fair value of net assets required over consideration paid					(83,586)
					<u>\$ 235,846</u>
Consideration given by the REIT consists of the following:					
REIT Units					\$ 500
Class B Units					231,582
Cash					3,764
Consideration given by the REIT					<u>\$ 235,846</u>

The actual calculation and allocation of the purchase price for the transaction outlined above will be based on the assets purchased and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of these assets and liabilities will vary from the pro forma amounts and the variation may be material.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(d) Mortgages payable:

The net assets acquired include mortgages on 39 of the Initial Properties with an outstanding principal balance of \$357,665 (including a mark-to-market discount of \$12,766 and premium for embedded derivatives relating to early prepayment of \$5,622), resulting in a weighted average interest rate on such debt of 3.84%. The mortgages are generally secured by first charges on the income properties.

(e) Interest rate swaps:

To manage interest rate risk on variable rate mortgages, the Initial Properties have entered into interest rate swap agreements (the "Swap Agreements") which were assumed by the REIT on Closing. In the Swap Agreements, the REIT has agreed to exchange the difference between fixed and variable rate interest on a principal amount of \$28,236. The Swap Agreements effectively fix the interest at a rate of the variable rate mortgages to rates ranging between 3.71% and 5.07% and mature between February 2019 and September 2025. The Swap Agreements will not be designated as a hedge and will be marked to fair value each reporting period through finance cost in the consolidated statement of net income and comprehensive income.

(f) Revolving credit facility:

A wholly owned subsidiary of the REIT has a \$71,500 revolving credit facility (the "Credit Facility"). The Credit Facility is secured by seven 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%.

On Closing, the REIT repaid \$37,300 of the \$64,700 outstanding under the Credit Facility prior to Closing.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(g) Repayment of debt:

On Closing, proceeds of the Offering were used to fully repay obligations of BSR Trust, LLC in respect of the Centennial Bank credit facilities in an amount of \$85,000. Further, the \$30,000 obligation in respect of a related party loan was repaid on Closing through the issuance of 3,000,000 REIT Units valued at \$30,000.

(h) Sources and uses of cash:

Sources:	
Proceeds from the Offering	\$ 135,000
Uses:	
Offering costs and expenses	(9,650)
Partial repayment of Credit Facility	(37,300)
Repayment of Centennial term loan	(85,000)
Acquisition of Brandon Place	(3,764)
Cash reduction to working capital of the REIT	\$ (714)

(i) Rental revenue

The pro forma consolidated statement of income and comprehensive income has been adjusted by \$489 for the year ended December 31, 2017 to remove the amortization of pre-acquisition straight-line rental revenue.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(j) Finance costs:

The pro forma consolidated statement of income and comprehensive income has been adjusted by \$1,217 for the three months ended March 31, 2018 to reflect:

- (i) A \$27 decrease in interest expense related to the new Credit Facility;
- (ii) A \$139 increase in interest expense related to the refinancing of \$53,989 of mortgages payable with proceeds from the Credit Facility and the additional refinancing of \$54,750 of variable rate mortgages payable related to the Initial Properties with \$58,016 of fixed rate mortgages;
- (iii) A \$1,259 decrease in interest expense related to the repayment of the Centennial Bank credit facilities and related party loan payable on Closing;
- (iv) A \$127 decrease in interest expense related to the distributions of tenant in common interests settled prior to Closing;
- (v) An increase of \$258 for amortization of mark-to market and prepayment embedded derivative fair value premiums; and
- (vi) A \$201 decrease for the impact of reduced deferred financing cost amortization.

The pro forma consolidated statement of income and comprehensive income has been adjusted by \$5,703 for the year ended December 31, 2017 to reflect:

- (i) A \$1,150 increase in interest expense related to the new Credit Facility;
- (ii) A \$2,617 decrease in interest expense related to the refinancing of \$53,989 of mortgages payable with proceeds from the Credit Facility and the additional refinancing of \$54,750 of variable rate mortgages payable related to the Initial Properties with \$58,016 of fixed rate mortgages;
- (iii) A \$3,919 decrease in interest expense related to the repayment of the Centennial Bank credit facilities and related party loan payable on Closing;

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

- (iv) A \$509 decrease in interest expense related to the distributions of tenant in common interests settled prior to Closing;
- (v) An increase of \$1,456 for amortization of mark-to market and prepayment embedded derivative fair value premiums; and
- (vi) A \$1,264 decrease for the impact of reduced deferred financing cost amortization.

For purposes of the pro forma condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2018, the acquisition of the Initial Properties was assumed to occur on January 1, 2017. Accordingly, the \$1,227 change in fair value of prepayment embedded derivatives, the \$273 change in fair value of interest rate swaps and the \$2,939 change in value of the tenant in common interests that were previously recognized have been reversed. For purposes of preparing the pro forma condensed consolidated statement of income and comprehensive income, no changes in the fair value of swaps and prepayment embedded derivatives have been assumed. In addition, \$1,178 of costs associated with the repayment of mortgages payable related to the initial properties, comprised of \$4,809 of prepayment penalties offset by \$3,631 from the write off of mark to market adjustments were excluded from other expenses for the three months ended March 31, 2018 as the repayment of mortgages was assumed to occur on January 1, 2017. For purposes of the pro forma condensed consolidated statements of income and comprehensive income of the year ended December 31, 2017, the acquisition of the Initial Properties was assumed to occur on January 1, 2017. Accordingly, the \$1,485 change in fair value of prepayment embedded derivatives, the \$455 change in fair value of interest rate swaps and the \$784 change in value of the tenant in common interests that were previously recognized have been reversed. For purposes of preparing the pro forma condensed consolidated statement of income and comprehensive income, no changes in the fair value of swaps and prepayment embedded derivatives have been assumed. In addition, the \$5,892 of financing costs, including prepayment penalties and related capitalized borrowing costs, associated with the repayment of mortgages payable related to the initial properties and borrowing from a new credit facility and \$161 of prepayment penalties related to refinancing variable rate mortgages with fixed rate mortgages were included in other expenses for the year ended December 31, 2017.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(k) Class B Redeemable Units:

On Closing, BSR Trust, LLC issued Class B Units with a fair value of \$231,582. The Class B Units are economically equivalent to REIT Units and are entitled only to receive distributions on the same per unit basis as holders of REIT Units. Distributions of \$2,895 and \$11,580 has been recorded as financing costs for the three months ended March 31, 2018 and year ended December 31, 2017, respectively. However, no assurance can be given that actual distributions will be at this level.

As the Class B Units are financial liabilities designated as fair value through profit and loss, they will be adjusted to their fair value on an ongoing basis with any fair value adjustments being included in the pro forma condensed consolidated statement of income and comprehensive income. As a pro forma assumption of such fair value changes is a prediction rather than an objectively determinable pro forma adjustment, these pro forma condensed consolidated financial statements assume no change in the fair value of the Class B Units during the three months ended March 31, 2018 and year ended December 31, 2017. However, the actual REIT financial statements will include fair value changes and such changes could be material. For illustrative purposes, a 10% change in the market value of a REIT Unit, into which Class B Units may be exchanged, would result in a fair value change of approximately \$23,158.

(l) General and administrative expenses:

General and administrative expenses include legal fees, audit fees, salaries and benefits for the REIT's employees, trustee fees, annual report costs, transfer agent fees, insurance and other miscellaneous costs. General and administrative expenses have been increased by \$177 and \$894 for the three months ended March 31, 2018 and year ended December 31, 2017, respectively, to reflect management's best estimate of additional expenses of the REIT.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
and year ended December 31, 2017
(Unaudited)

3. Pro forma adjustments (continued):

(m) Equity Incentive Plan

Under the terms of the Incentive Plan, the Board of Trustees may from time to time, at its discretion, grant trustee, officers, employees and consultants restricted units, performance units, deferred units, options or other awards. The restricted units, performance units and deferred units are notional units with a fair value based on the REIT Units' closing trading price.

On Closing, the REIT granted 51,000 restricted units which vest three years from the date of grant. The REIT also granted 38,250 performance units which also vest three years from the date of grant subject to certain performance objectives being met. The grant date fair value of the restricted units and the performance units has been calculated as the number of restricted units and performance units granted times the Offering Price. The number of performance units that vest will range between 0% and 200% of the number granted.

The pro forma consolidated financial statements assume that trustees elect to receive their annual retainers in the form of deferred units.

The compensation expense for the restricted units and deferred units was determined based on the fair value of the award at the grant date using the issuance price of the REIT Units on Closing and in the case of the performance units, a Monte Carlo pricing model. The expenses are included within general and administrative expenses.

(n) Income taxes:

It is assumed that the REIT will meet the real estate investment trust requirements under the Code, to not be a SIFT trust pursuant to the Income Tax Act (Canada), and to make the necessary distributions to not be subject to Canadian or U.S. federal income tax.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
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(Unaudited)

3. Pro forma adjustments (continued):

(o) Fair value adjustment of investment properties:

For purposes of the pro forma condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and year ended December 31, 2017, the acquisition of the Initial Properties was assumed to occur on January 1, 2017. Accordingly, the change in fair value of investment properties that was previously recognized has been reversed. The pro forma condensed consolidated statement of net income and comprehensive income also reflects an adjustment of \$603 for the year ended December 31, 2017 to reflect the impact of increases in straight-line rent.

4. Unitholders' equity:

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

On Closing, the REIT issued 13,500,000 REIT Units for \$120,012, net of issue costs of \$14,988.

5. Related party transactions:

The pro forma condensed consolidated financial statements include the following transactions with related parties:

(a) Class B Units:

Distributions on the Class B Units of \$1,774 and \$7,096 are paid to key management personnel for the three months ended March 31, 2018 and year ended December 31, 2017, respectively.

(b) Employee benefits:

Operating expenses include \$684 and \$2,737 paid to key management personnel for the three months ended March 31, 2018 and year ended December 31, 2017, respectively.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Pro Forma Condensed Consolidated Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

As at and for the three months ended March 31, 2018
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(Unaudited)

5. Related party transactions (continued):

(c) Office Lease:

Lease payments of \$32 and \$129 are paid to an irrevocable trust controlled by the family of the REIT's Chief Executive Officer in respect of the corporate office of BSR Trust, LLC for the three months ended March 31, 2018 and year ended December 31, 2017, respectively.

(d) The issuance of 3,000,000 REIT Units with a value of \$30,000 to an affiliate of the chief executive officer in settlement of a related party loan.

6. Additional commitments and contingencies:

In connection with the Offering, the REIT has agreed to indemnify the underwriters against certain liabilities, including liabilities under applicable securities legislation, or to contribute to payments the underwriters may be required to make in respect of those liabilities. The REIT has agreed to indemnify, in certain circumstances, the Trustees and the officers of the REIT.

SCHEDULE B

See attached.

BSR INITIAL PROPERTIES

Condensed Combined and Carve-Out Interim Financial Statements (unaudited)

Three Months Ended March 31, 2018 and March 31, 2017

BSR INITIAL PROPERTIES

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BSR INITIAL PROPERTIES

Condensed Combined and Carve-Out Interim Statements of Financial Position

Amounts in thousands of U.S. dollars

	<u>Note</u>	<u>March 31,</u> <u>2018</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2017</u>
Current assets:			
Cash and cash equivalents		\$ 7,898	8,808
Restricted cash	7	10,070	12,928
Resident and other receivables, net	8	2,717	1,636
Prepaid expenses and other assets	9	955	1,192
Total current assets		<u>21,640</u>	<u>24,564</u>
Noncurrent assets:			
Investment property	10	818,483	818,007
Prepayment embedded derivatives	17(e)	5,623	6,850
Restricted cash - bond sinking fund	7	28	113
Total noncurrent assets		<u>824,134</u>	<u>824,970</u>
Total assets		<u>\$ 845,774</u>	<u>849,534</u>
Current liabilities:			
Accounts payable and other liabilities	11	\$ 10,793	15,300
Interest rate swaps	17(d)	206	263
Loans and borrowings	12	17,294	4,629
Total current liabilities		<u>28,293</u>	<u>20,192</u>
Noncurrent liabilities:			
Loans and borrowings	12	480,903	488,358
Due to related party	21	30,003	28,329
Interest rate swaps	17(d)	585	801
Tenant in common interests	22	2,200	15,327
Total noncurrent liabilities		<u>513,691</u>	<u>532,815</u>
Total liabilities		<u>541,984</u>	<u>553,007</u>
Net parent investment		<u>303,790</u>	<u>296,527</u>
Total liabilities and net parent investment		<u>\$ 845,774</u>	<u>849,534</u>

The accompanying notes are an integral part of these condensed combined and carve-out interim financial statements.

BSR INITIAL PROPERTIES

Condensed Combined and Carve-Out Interim Statements of Comprehensive Income (unaudited)

Amounts in thousands of U.S. dollars

	<u>Note</u>	<u>Three Months Ended</u> <u>March 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2017</u>
Rental revenue	24	\$ 20,981	17,164
Other property income		3,076	2,541
Total revenue		<u>24,057</u>	<u>19,705</u>
Property operating expenses	23	(9,615)	(7,834)
Real estate taxes	3(i)	(7,940)	(6,199)
General and administrative expenses		(1,296)	(1,107)
Interest expense, net	13	(5,497)	(4,579)
Change in fair value of investment property	10	(5,153)	6,751
Change in fair value of investment property (IFRIC 21)	3(i)	5,758	4,426
Net change in fair value of interest rate swaps	17(d)	273	201
Net change in fair value of prepayment embedded derivatives	17(e)	(1,227)	(371)
Loss on extinguishment of debt	12	(1,178)	(27)
Change in tenant in common interests	22	2,939	1,021
Net income and comprehensive income		<u>\$ 1,121</u>	<u>11,987</u>

The accompanying notes are an integral part of these condensed combined and carve-out interim financial statements.

BSR INITIAL PROPERTIES

Condensed Combined and Carve-Out Interim Statements of Net Parent Investment

Amounts in thousands of U.S. dollars

Net parent investment at December 31, 2016	\$	217,140
Net income and comprehensive income (unaudited)		11,987
Net transfers [note 2(d)] (unaudited)		(1,202)
Net parent investment at March 31, 2017 (unaudited)	\$	<u>227,925</u>
Net parent investment at December 31, 2017	\$	296,527
Net income and comprehensive income (unaudited)		1,121
Net transfers [note 2(d)] (unaudited)		6,142
Net parent investment at March 31, 2018 (unaudited)	\$	<u>303,790</u>

The accompanying notes are an integral part of these condensed combined and carve-out interim financial statements.

BSR INITIAL PROPERTIES

Condensed Combined and Carve-Out Interim Statements of Cash Flows (unaudited)

Amounts in thousands of U.S. dollars

	Note	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities:			
Net income		\$ 1,121	11,987
Adjustments for:			
Interest expense, net	13	5,497	4,579
Loss on extinguishment of debt	12	1,178	27
Change in fair value of investment property	10	5,153	(6,751)
Change in tenant in common interests	22	(2,939)	(1,021)
Net change in fair value of prepayment embedded derivatives	17(e)	1,227	371
Net change in fair value of interest rate swaps	17(d)	(273)	(201)
Restricted unit compensation		68	68
Net effect of changes in operating accounts:			
Resident and other receivables, net	8	(1,081)	(337)
Prepaid expenses and other assets	9	237	179
Accounts payable and accrued expenses	11	(1,851)	(2,944)
Security deposits and prepaid rent		(225)	(245)
Net cash from operating activities		<u>8,112</u>	<u>5,712</u>
Cash flows from investing activities:			
Acquisition of investment property	6, 10	(44)	(12,358)
Additions to investment property	10	(7,520)	(7,912)
Proceeds from insurance settlements	10	559	—
Deposits of restricted cash, net of withdrawals		2,924	2,124
Net cash used in investing activities		<u>(4,081)</u>	<u>(18,146)</u>
Cash flows from financing activities:			
Capital (distributions to) contributions from BSR	20	(1,367)	962
Proceeds from issuance of loans and borrowings	12	129,881	6,280
Principal payments of loans and borrowings	12	(119,376)	(3,872)
Payment of mortgage financing costs	12	(1,801)	(298)
Prepayment penalties	12	(4,811)	(27)
Proceeds from due to related party	21	1,674	12,664
Settlement of tenant in common interest	22	(344)	—
Distributions to members of BSR		(2,835)	(2,231)
Distributions to tenant in common interests	13	(139)	(143)
Interest paid		(5,823)	(4,299)
Net cash used in (provided by) financing activities		<u>(4,941)</u>	<u>9,036</u>
Net decrease in cash and cash equivalents		(910)	(3,398)
Cash and cash equivalents at beginning of year		8,808	10,899
Cash and cash equivalents at end of year		<u>\$ 7,898</u>	<u>7,501</u>
Supplemental disclosure of cash flow information:			
Accounts payable capitalized to investment property		\$ 569	1,301
Debt assumed upon property acquisition	6	—	19,966
Acquisition of investment property through equity	6	432	—
Settlement of tenant in common interest through equity	22	9,844	—

The accompanying notes are an integral part of these condensed combined and carve-out interim financial statements.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

(1) General Information

BSR Trust, LLC (“BSR”) is a Delaware Limited Liability Company that owns, acquires and manages multifamily housing communities in the South Central United States.

The BSR Initial Properties, as presented in these unaudited condensed combined and carve-out interim financial statements, are not a legal entity. It represents the carve-out and combination of 47 multifamily properties and related property management activities (the “Portfolio”), located in various regions throughout the United States, from the consolidated financial statements of BSR. For all periods presented in these unaudited condensed combined and carve-out interim financial statements, the Portfolio was under the common ownership and control of BSR.

On May 18, 2018, BSR indirectly sold the BSR Initial Properties to BSR Real Estate Investment Trust (the “REIT”), a newly created, unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario, Canada. These unaudited condensed combined and carve-out interim financial statements present the financial position, results of operations and cash flows of the Portfolio for the periods presented as if the Portfolio had been accounted for on a stand-alone combined basis.

These unaudited condensed combined and carve-out interim financial statements are not necessarily indicative of the results that would have been attained had the Portfolio been operated as a separate legal entity for the periods presented and, therefore, are not necessarily indicative of future operating results.

(2) Basis of Preparation

(a) Statement of Compliance

These unaudited condensed combined and carve-out interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and do not include all the information required for full annual financial statements. These interim financial statements should be read in conjunction with the BSR Initial Properties’ annual financial statements as of and for the years ended December 31, 2017 and 2016 which have been prepared in accordance with IFRS as issued by the IASB.

(b) Basis of Measurement

These unaudited condensed combined and carve-out interim financial statements have been prepared on a historical cost basis except for investment properties, prepayment embedded derivatives and interest rate swaps which have been measured at fair value.

(c) Basis of Accounting

These unaudited condensed combined and carve-out interim financial statements, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the statements of financial position, statements of comprehensive income, statements of net parent investment and statements of cash flows for the periods presented.

(d) Basis of Presentation

Assets, liabilities and costs that were related to the larger business of BSR were assessed in order to allocate these items between the Portfolio and the remainder of the business of BSR. Assets and liabilities directly aligned to

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

investment properties or business functions which are excluded from the Portfolio have been fully removed from the unaudited condensed combined and carve-out interim financial statements.

There are certain corporate overhead functions performed and corporate assets used for the Portfolio as well as for the larger business of BSR. These functions include, but are not limited to, executive oversight, legal, finance, human resources, financial reporting and tax planning as well as shared corporate assets. The costs of such services and assets have been fully allocated to the Portfolio based on the corporate overhead required to manage the items in the Portfolio. Management of BSR believes this allocation is reasonable; however, it may not be indicative of the actual expense that would have been incurred had the Portfolio been operating as a stand-alone combined entity apart from BSR. The cost allocated for these functions is included in general and administrative expenses in the combined and carve-out statements of comprehensive income for the periods presented.

The Portfolio holds its interests in the investment properties and property management activities in specific limited liability entities, which are commonly controlled by BSR. All intercompany transactions and balances between properties within the Portfolio have been eliminated upon combination.

The unaudited condensed combined and carve-out interim financial statements are presented in United States dollars, which is the functional currency of the Portfolio, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

As these financial statements have been prepared on a combined and carve-out basis, it is not meaningful to show share capital or provide an analysis of reserves. Therefore, amounts which reflect the carrying value of investments of BSR's members in the Portfolio are disclosed as net parent investment. Net transfers on the combined and carve-out statements of net parent investment represent contributions from and distributions to the members of BSR. In addition, the combined entities have no historical capital structure since the Portfolio was not an existing legal entity during the periods presented.

The condensed combined and carve-out interim financial statements were authorized for issue by the Board of Trustees of BSR REIT on July 31, 2018.

(3) Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these unaudited condensed combined and carve-out interim financial statements are described below and have been applied consistently to all periods presented:

(a) 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 using the direct capitalization income method or externally by external appraisers using the income approach.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

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 classified as held for sale when the property is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of investment properties, its sale is highly probable and expected to be completed with one year. 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.

(b) 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 Portfolio maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of \$250. The Portfolio has not experienced any losses in such accounts. Management of the Portfolio believes the Portfolio is not exposed to any significant credit risk on its cash and cash equivalents.

(c) Restricted Cash

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

(d) Tenant in Common Interests

Tenant in common (“TIC”) interests represent the ownership interests in certain legal entities not wholly owned by BSR that are included in the Portfolio. Under International Accounting Standard (“IAS”) 32, Financial Instruments: Presentation, the TIC interests meet the definition of a financial liability and are measured at amortized cost. TIC interest holders receive a fixed distribution payable on their interest which is accounted for as interest expense in the combined and carve-out statements of comprehensive income. Further, TIC interest holders are indemnified from the impact from the performance of the respective entity; however, upon the sale of an investment property under a TIC agreement the TIC interest holder would receive their interest in the proceeds from the investment property sale based on the respective TIC agreement. As such, changes in the overall fair value of the respective investment property are allocated to the TIC interests based on the respective ownership of the TIC interest holders, which approximates the remeasurement of the liability based on the estimated change in expected cash flows at each combined and carve-out statement of financial position date. The changes in the TIC interests for each respective period presented in the accompanying unaudited condensed combined and carve-out interim financial statements are outlined in note 22.

(e) Revenue Recognition

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

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

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 tenant 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 Portfolio'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 where the Portfolio has determined it is acting as a principal, as well as tenant 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.

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

Payments made in advance of scheduled due dates are deferred as prepaid rents and are included in accounts payable and other liabilities in the accompanying combined and carve-out statements of financial position.

(f) Income Taxes

No provision for income taxes has been recorded in the accompanying unaudited condensed combined and carve-out interim financial statements, as those entitled to the net parent investment of the Portfolio and the members of BSR are required to report their share of the Portfolio's earnings in their respective income tax returns. The Portfolio's tax returns and the amounts of allocable income or loss are subject to examination by federal and state taxing authorities. If such examinations result in changes to income tax or loss, the tax liability of those entitled to the net parent investment of the Portfolio could be changed accordingly.

The Portfolio evaluates the uncertainties of tax positions taken or expected to be taken on a return based on the probability of whether the position taken will be sustained upon examination by tax authorities. As of December 31, 2017, the Portfolio had no amounts related to unrecognized income tax benefits and no amounts related to the accrued interest and penalties. The Portfolio recognizes tax positions taken or to be taken in a tax return when they become probable. The Portfolio concluded that it has no material uncertain tax liabilities to be recognized as of March 31, 2018 (unaudited) or December 31, 2017. The Portfolio is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

In certain instances, the Portfolio may be subject to certain state and local taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law in the United States. The most significant change is the reduction of the statutory corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Many of the provisions in the 2017 Tax Act expire in seven years (at the end of 2025). Management does not expect the 2017 Tax Act to have a significant impact to the Portfolio; however, the provisions in the new legislation may have an impact to certain of our unitholders.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

(g) Financial Instruments

Financial Assets

The Portfolio classifies its non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market as loans and receivables. All financial assets are initially measured at fair value, plus any related transaction costs, and subsequently are measured at amortized cost using the effective interest method, less any impairment losses.

The Portfolio 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 Portfolio becomes a party to the contractual provisions of the instrument. The Portfolio 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 Portfolio 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 Portfolio 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.

Financial Liabilities

The Portfolio classifies non-derivative financial liabilities on initial recognition as other financial liabilities, measured at amortized cost. The Portfolio initially recognizes loans and borrowings on the date they are originated. All other financial liabilities are recognized initially on the trade date at which the Portfolio becomes a party to the contractual provisions of the instrument. Loans, borrowings, and other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities and related financing fees are recognized at amortized cost using the effective interest rate method.

The Portfolio derecognizes a financial liability when its contractual obligations are discharged, canceled or expired.

Derivative and Embedded Derivative Financial Instruments

The Portfolio 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 combined and carve-out interim financial statements.

The Portfolio 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 Portfolio meet the definition of an embedded derivative, are bifurcated from the financial liability and measured at fair value at each combined and carve-out statement of financial position date. The net change in fair value of prepayment embedded derivatives

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

for each period presented in the accompanying unaudited condensed combined and carve-out interim financial statements are outlined in note 17(e).

(h) Interest Expense, Net

Net interest expense consists of interest expense on loans and borrowings, amortization associated with loan fees incurred in connection with obtaining long-term financings, amortization of premiums and discounts and distributions paid to tenant in common interests, net of interest income.

(i) Levies

In accordance with IFRS Interpretations Committee (“IFRIC”) 21, Levies (“IFRIC 21”), the Portfolio recognizes the full amount of 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 price in the United States, this is included in the Portfolio’s assessment of the fair value of investment property.

(j) Equity Based Compensation

During the year ended December 31, 2016, management of BSR issued restricted common units (“RCU”) to employees under BSR’s 2016 Long-Term Incentive Plan (“2016 LTIP”). Through the 2016 LTIP, BSR issued 367,500 RCU to employees, of which 24% were time based awards and 76% were performance based awards. For the performance based awards, the probability of achieving the performance condition is assessed quarterly. The Portfolio recognizes the fair value of all equity based compensation awards granted to employees by tranche, rateably over each tranche’s service period.

(4) Critical Accounting Judgments, Estimates and Assumptions

Preparing the unaudited condensed combined and carve-out 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 judgments used in applying the Portfolio’s accounting policies that have the most significant effect on the amounts in the unaudited condensed combined and carve-out interim financial statements:

Investment Property Acquisitions

The Portfolio 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 Portfolio obtains control of the business.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

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

Use of Estimates and Assumptions

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

Valuation of Investment Properties

Critical assumptions relating to the estimates of fair values of investment properties include the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of investment properties are outlined in note 10.

(5) Change in Accounting Policy

(a) IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

The Portfolio adopted IFRS 15 “Revenue from Contracts with Customers” on January 1, 2018 in the unaudited condensed combined and carve-out interim financial statement and applied the requirements of the standard retrospectively. IFRS 15 replaced many reporting standards commonly used in the real estate industry, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 15 Agreements for the Construction of Real Estate.

The standard applies a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. The standard also includes additional disclosure requirements for revenue accounted for under the standard. The implementation of IFRS 15 did not have a significant impact on the Portfolio’s revenue streams.

A substantial portion of the Portfolio’s revenue consists of rental revenues from leasing arrangements which are specifically excluded from the revenue guidance.

Upon the adoption of IFRS 15, there was no impact on the historical financial statements.

(b) IFRS 9, Financial Instruments (“IFRS 9”)

In 2014, the IASB issued IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”), and related interpretations. IFRS 9 introduces revised guidance on the classification and measurement of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Portfolio implemented the new requirements for classification and measurement, impairment and general hedging on January 1, 2018, retrospectively with no impact to historical comparative periods.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: (i) amortized cost, (ii) fair value through other comprehensive income (“FVOCI”), and (iii) fair value through profit and loss (“FVTPL”). Financial liabilities are classified and measured on two categories: (i) amortized cost or (ii) FVTPL.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

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

The following table summarizes the Portfolio's classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS did not result in significant changes in measurement or the carrying amount of financial assets and financial liabilities:

Financial assets	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Resident and other receivables, net	Loans and receivables	Amortized cost
Prepayment embedded derivatives	FVTPL	Fair value
Restricted cash - bond sinking fund	Loans and receivables	Amortized cost

Financial liabilities	Classification	Measurement
Loans and borrowings	Other financial liabilities	Amortized cost
Interest rate swaps	FVTPL	Fair value
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Tenant in common interests	Other financial liabilities	Amortized cost
Due to related party	Other financial liabilities	Amortized cost

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.

IFRS 9 replaced the "Incurred Loss" model in IAS 39 with a forward-looking Expected Credit Loss ("ECL") model. The ECL model requires a more timely recognition of expected credit losses using judgment determined on a probability-weighting basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at FVTOCI. The adoption of the ECL model did not have a material impact on the Portfolio's condensed combined and carve-out interim financial statements.

The Portfolio 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.

Accounting Standards Issued but Not Yet Effective

The following standards are not yet effective for the period ended March 31, 2018 and have not been applied in preparing these unaudited condensed combined and carve-out interim financial statements:

(c) *IFRS 16, Leases ("IFRS 16")*

IFRS 16, issued in January 2016, introduces a single on-balance sheet model of accounting for leases by lessees under a single model that eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17, Leases, and related interpretations, and is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 has also been applied. The Portfolio has reviewed the potential impact of this standard and has concluded that the standard will not have a material impact.

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

(6) Asset and Land Acquisitions*Mountain Ranch*

On February 28, 2017, the Portfolio indirectly acquired from a third party, an investment property called Mountain Ranch with 360 apartment units located in Fayetteville, Arkansas for a gross purchase price of \$32,324, including transaction costs of \$45. The purchase was settled in cash and with the assumption of \$19,966 of existing debt.

Wimbledon Green II – Land (unaudited)

On January 19, 2018, the Portfolio indirectly acquired 6.74 acres of undeveloped land located in Little Rock, Arkansas for a gross purchase price of \$476, including transaction costs of \$44. The purchase was settled through the issuance of equity.

(7) Restricted Cash and Restricted Cash – Bond Sinking Fund

	March 31, 2018	December 31, 2017
	(unaudited)	
Current:		
Tenant security deposits	\$ 744	763
Replacement reserve	3,483	3,772
Lender escrow deposits	5,843	8,393
Total current restricted cash:	<u>\$ 10,070</u>	<u>12,928</u>
Noncurrent:		
Restricted cash - bond sinking fund	\$ 28	113
Total noncurrent restricted cash	<u>\$ 28</u>	<u>113</u>

(8) Resident and Other Receivables, Net

	March 31, 2018	December 31, 2017
	(unaudited)	
Resident receivables, net	\$ 691	768
Other receivables	2,026	868
Resident and other receivables, net	<u>\$ 2,717</u>	<u>1,636</u>

BSR INITIAL PROPERTIES

Notes to the Condensed Combined and Carve-Out Interim Financial Statements

March 31, 2018 and March 31, 2017

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

(9) Prepaid Expenses and Other Assets

	March 31, 2018	December 31, 2017
	(unaudited)	
Prepaid insurance	\$ 223	\$ 677
Other prepaid assets	732	515
Prepaid expenses and other assets	<u>\$ 955</u>	<u>\$ 1,192</u>

(10) Investment Property

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

	Three months Ended March 31, 2018	Year ended December 31, 2017
	(unaudited)	
Balance, beginning of year	\$ 818,007	\$ 635,484
Property acquisitions	476	102,166
Additions to investment property	5,712	33,975
Proceeds from insurance claims	(559)	—
Change in fair value of investment property	(5,153)	46,382
Balance, end of period	<u>\$ 818,483</u>	<u>\$ 818,007</u>
IFRIC 21 real estate tax liability adjustment	(5,758)	—
IFRIC 21 fair value adjustment	5,758	—
Balance, end of period, including IFRIC 21 considerations	<u>\$ 818,483</u>	<u>\$ 818,007</u>

The Portfolio used an internal valuation process to value the investment properties as of March 31, 2018. The Portfolio used a combination of third party appraisers and an internal valuation process to value the investment properties held as of December 31, 2017. 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.

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

BSR INITIAL PROPERTIES

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

	March 31, 2018	December 31, 2017
	(unaudited)	
Capitalization rate:		
High	10.0%	10.0%
Low	5.3%	5.3%
Weighted average	6.2%	6.2%

The fair values of investment properties are most sensitive to changes in capitalization rates. As of March 31, 2018, a 25-basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by \$31,582 (unaudited) while a 25 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by \$34,227 (unaudited).

(11) Accounts Payable and Other Liabilities

	March 31, 2018	December 31, 2017
	(unaudited)	
Trade payables	\$ 721	700
Accrued capital expenditures	569	2,377
Accrued liabilities	5,927	8,283
Interest payable on loans and borrowings	1,019	1,623
Tenant security deposits	745	763
Rent received in advance	1,789	1,527
Other liabilities	23	27
Accounts payable and other liabilities	<u>\$ 10,793</u>	<u>15,300</u>

(12) Loans and Borrowings

	March 31, 2018	December 31, 2017
	(unaudited)	
Fixed rate mortgage notes payable	\$ 321,633	318,515
Variable rate mortgage notes payable	24,970	79,720
Net unamortized premium on mortgage notes payable	6,095	9,948
Net unamortized deferred financing costs	(4,201)	(2,596)
Bank of Montreal credit facility	64,700	—
Centennial Bank credit facilities	85,000	87,400
Total	<u>498,197</u>	<u>492,987</u>
Less current portion	<u>17,294</u>	<u>4,629</u>
Noncurrent loans and borrowings	<u>\$ 480,903</u>	<u>488,358</u>

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Centennial Bank Term Loan, Line of Credit and Revolver

On May 20, 2015, BSR entered into an \$80,000 term loan (“Centennial Bank Term Loan”) and \$5,000 line of credit (“Centennial Bank Line of Credit”). The Centennial Bank Term Loan and Centennial Bank Line of Credit bear a fixed rate of interest of 4.25% which both mature on May 15, 2019. As of March 31, 2017, there was \$5,000 (unaudited) outstanding on the Centennial Bank Line of Credit. As of December 31, 2017, there was \$5,000 outstanding on the Centennial Bank Line of Credit. Additionally, on October 31, 2017 BSR entered into a \$35,000 revolving credit facility with Centennial Bank (“Centennial Bank Revolver”). The Centennial Bank Revolver bears a fixed interest rate of 6.5% and matures on May 15, 2019. As of March 31, 2018, there was no balance outstanding on the Centennial Bank Revolver (unaudited). As of December 31, 2017, there was \$2,400 outstanding on the Centennial Bank Revolver.

The Centennial Bank Term Loan, Centennial Bank Line of Credit and the Centennial Bank Revolver contain customary affirmative and negative covenants and contain financial covenants that, among other things, require the Portfolio to maintain a minimum debt service coverage ratio and leverage ratio tests. The Portfolio was in compliance with debt covenants for all periods presented.

The Portfolio has a \$1,600 line of credit with Bank of America which had no amount outstanding as of March 31, 2018 (unaudited) or December 31, 2017.

Bank of Montreal Credit Facility (unaudited)

On January 30, 2018, the Portfolio entered into a revolving credit facility with the Bank of Montreal (the “Bank of Montreal Credit Facility”). The Bank of Montreal Credit Facility is secured by seven of the Portfolio’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 Bank of Montreal Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Bank of Montreal Credit Facility, plus 1.65% to 2.15% based on meeting certain leverage ratios as defined in the Bank of Montreal Credit Facility. Alternatively, the Portfolio 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%.

In January and February 2018, BSR refinanced eight property level mortgages payable with outstanding balances totalling \$53,989 (unaudited) through the Bank of Montreal Credit Facility for \$59,900 (unaudited). As a result of this refinance, BSR incurred financing costs totalling \$5,892 (unaudited), including prepayment penalties and related costs. BSR incurred a net loss on extinguishment of these mortgages of \$1,178 (unaudited) as a result of the refinance of these mortgages through the Bank of Montreal Credit Facility.

Mortgage Notes Payable

The Portfolio’s weighted average effective interest rates on mortgage notes payable as of March 31, 2018 and December 31, 2017 was approximately 3.86% (unaudited) and 3.93%, respectively. Mortgage notes payable as of March 31, 2018 mature at various dates from 2019 through 2056 (unaudited).

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Scheduled maturities of principal and interest on all outstanding borrowings as of March 31, 2018, are as follows:

	<u>Principal</u> (unaudited)	<u>Balloon payment</u> (unaudited)	<u>Interest</u> (unaudited)	<u>Total payments</u> (unaudited)
2018 (9 months)	\$ 2,489	—	14,545	17,034
2019	3,529	128,259	15,801	147,589
2020	3,230	14,094	13,486	30,810
2021	2,887	13,696	12,780	29,363
2022	2,811	64,700	9,983	77,494
Thereafter	78,423	182,186	80,669	341,277
Total	<u>\$ 93,368</u>	<u>402,935</u>	<u>147,264</u>	<u>643,567</u>

The Portfolio's debt agreements contain customary representations, warranties, and events of default, which require the Portfolio to comply with affirmative and negative covenants. As of March 31, 2018 (unaudited) and December 31, 2017, the Portfolio was in compliance with all covenants of its debt agreements.

Reconciliation of Movements of Loans and Borrowings to Cash Flows Arising from Financing Activities

The following schedule presents the cash flows and non-cash changes within total loans and borrowings for the three months ended March 31, 2018. Reconciliations of liability movements within other financing activities can be found in note 17(d) for interest rate swaps and note 22 for tenant in common interests.

	<u>Three Months Ended</u> <u>March 31, 2018</u> (unaudited)
Loans and borrowings - Beginning balance as of January 1, 2018	\$ 492,987
Cash flows	
Proceeds from issuance of loans and borrowings	129,881
Principal payments of loans and borrowings	(119,376)
Payment of mortgage financing costs	(1,801)
	<u>8,704</u>
Non-cash changes	
Amortization of net premium on mortgage notes payable	(62)
Amortization of deferred financing costs	201
Loss on extinguishment of debt	(3,633)
	<u>(3,494)</u>
Loans and borrowings - Ending balance as of March 31, 2018	<u>\$ 498,197</u>

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(13) Interest Expense, Net

Interest expense incurred and charged to income is recorded as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	(unaudited)
Interest expense at stated rate	\$ 5,137	4,230
Amortization of deferred financing costs	201	243
Amortization of net premium on mortgage notes payable	(62)	(182)
Interest expense on interest rate swaps	82	145
Distributions to tenant in common interests	139	143
	<u>\$ 5,497</u>	<u>4,579</u>

(14) Segment Reporting

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

(15) Operating Leases

The Portfolio 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 tenants that accounted for more than 10% of the Portfolio's total rental revenue for the three months ended March 31, 2018 (unaudited) and March 31, 2017 (unaudited).

At March 31, 2018, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows (unaudited):

1 year	\$ 38,238
2 years	4,504
Greater than 2 years	—
Total	<u>\$ 42,742</u>

(16) Commitments and Contingencies

Commitments

The Portfolio's Little Rock, Arkansas headquarters is leased under an operating lease with a term that expires in March 2021. This lease requires monthly payments of \$11 (unaudited). Also, the Portfolio leases office equipment under noncancelable operating leases that expire at various times in the future.

Lease expense amounted to \$48 (unaudited) and \$60 (unaudited) for the periods ended March 31, 2018 and March 31, 2017, respectively, and is included in general and administrative expenses in the accompanying unaudited condensed combined and carve-out statements of comprehensive income. The following table summarizes the Portfolio's operating lease commitments at March 31, 2018 (unaudited):

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1 year	\$	198
2-5 years		283
Greater than 5 years		—
Total	\$	<u>481</u>

(17) Financial Instruments

(a) Risk Management

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

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 Portfolio'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 Portfolio endeavors 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 Portfolio's current strategy of having the majority of its mortgages payable in fixed term arrangements. As such, the Portfolio's cash flows are not significantly impacted by a change in market interest rates.

At March 31, 2018, the Portfolio's total loans and borrowings (excluding the Centennial Bank credit facilities) were 78% fixed (unaudited) and 22% variable (unaudited). Management manages a portion of its variable-rate mortgages payable using an interest rate swap that alters 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 interest expense in the condensed combined and carve-out statements of comprehensive income. For the three months ended March 31, 2018, a 100 basis-point change in interest rates, assuming all other variables are constant, would have resulted in a \$212 (unaudited) change in the Portfolio's interest expense.

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

The Portfolio'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 Portfolio 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 highly reputable financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk is the risk that the Portfolio will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The Portfolio manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations.

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, as of March 31, 2018 (unaudited):

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>More than 4 Years</u>
Loans and borrowings	\$ 498,197	496,303	16,948	118,251	20,239	78,232	262,633
Interest payable on loans and borrowings .	1,019	147,264	19,269	14,500	13,274	12,206	88,015
Interest rate swaps	791	860	201	144	140	120	255
Capital improvements liability	569	569	569	—	—	—	—
Accounts payable and other liabilities	9,205	9,205	9,205	—	—	—	—
	<u>\$ 509,781</u>	<u>654,201</u>	<u>46,192</u>	<u>132,895</u>	<u>33,653</u>	<u>90,558</u>	<u>350,903</u>

The Portfolio 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 combined and carve-out interim financial statements.

(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 combined and carve-out 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
- 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).

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

Cash and cash equivalents, restricted cash, resident and other receivables, restricted cash – bond sinking fund 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 and due to related party are carried at amortized cost, which approximates fair value.

Interest rate swaps and prepayment embedded derivatives are held at fair value. Refer to note 17(d) and note 17(e) for further information.

Loans and borrowings are carried at amortized cost. The Portfolio 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.

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(c) Loans and Borrowings

	March 31, 2018	December 31, 2017
	(unaudited)	
Carrying amount	\$ 498,197	\$ 492,987
Fair value	491,408	495,782

(d) Interest Rate Swaps

The Portfolio has entered into receive-variable based on 1 Month USD – LIBOR/ pay fixed interest rate swap agreements related to three mortgage loans. The interest rate swaps are not designed as a hedge for accounting purposes. These swaps are utilized 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 interest expense 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:

	March 31, 2018	December 31, 2017
	(unaudited)	
Interest rate swaps		
Current portion	\$ (206)	\$ (263)
Non-current portion	(585)	(801)
	<u>\$ (791)</u>	<u>\$ (1,064)</u>

The following table is a summary of the Portfolio’s interest rate swap agreements and the respective carrying values as of March 31, 2018 (unaudited):

	Maturity date	Fixed rate	Original notional amount	Notional amount at March 31, 2018	Carrying value and fair value at March 31, 2018
				(unaudited)	(unaudited)
Interest rate swap agreement:					
Bank of America	6/1/2019	1.71%	\$ 15,000	13,208	69
Morgan Keegan & Company, Inc.	9/1/2025	5.07%	12,265	6,680	(878)
Bank of America	2/10/2019	1.85%	9,153	8,404	18
			<u>\$ 36,418</u>	<u>28,292</u>	<u>(791)</u>

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

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other observable inputs (Level 2). In addition, the Portfolio 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 BSR 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 BSR 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 condensed combined and carve-out 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 March 31, 2018 (unaudited)	Year ended December 31, 2017
Interest rate swaps		
Balance, beginning of period	\$ (1,064)	\$ (1,519)
Non-cash		
Unrealized gain (loss) for the period	273	455
Balance, end of period	<u>\$ (791)</u>	<u>\$ (1,064)</u>

(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 on the combined and carve-out 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 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:

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	Three Months Ended March 31, 2018 (unaudited)	Year ended December 31, 2017
Prepayment embedded derivatives:		
Balance, beginning of period	\$ 6,850	8,335
Unrealized gain (loss) for the period	(1,227)	(1,485)
	<u>\$ 5,623</u>	<u>6,850</u>

(18) Capital Management

The Portfolio's policy is to preserve a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Capital consists of total net parent investment. The Portfolio monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also distributing appropriate amounts to those entitled to net parent investment on a regular basis.

BSR has the authority to issue a total of 100,000,000 units, which may be allocated between preferred and common units in such amounts as determined by the Board of Directors of BSR in its sole discretion.

Series A and Series C preferred unitholders earn a cumulative priority return equal to 7% per annum and 5% per annum, respectively, based on the face value per unit. After the cumulative preferred returns have been received by the preferred unitholders, cash is distributed to common unitholders until they reach a current 7% return. Thereafter, available cash is distributed pro-rata between preferred and common unitholders based on units outstanding, on an as-converted to common units' basis. In addition, if BSR's Board of Directors determines in its sole discretion to sell units to the public in an initial public offering or to otherwise register BSR's units in accordance with federal securities laws, all Series A preferred units will be automatically converted into an identical number of common units and Series C units will convert to common units on a conversion ratio of 1 to 2,500.

Cash distributions to members of BSR amounted to \$2,835 (unaudited) and \$2,231 (unaudited) for the three months ended March 31, 2018 and March 31, 2017, respectively.

Preferred and common units are relevant to the Portfolio on a combined and carve-out basis as BSR used proceeds from the issuance of these units to repay loans and other borrowings and to acquire additional investment properties which are included in the Portfolio.

(19) Employee Benefit Plan

401(k) Plan

Management of the Portfolio 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 and dollar amounts permissible under Code Section 401(k). Management of the Portfolio elects to match employee deferrals at its discretion. Employer matching contributions to the Plan totaled \$16 (unaudited) and \$22 (unaudited) during the three months ended March 31, 2018 and March 31, 2017, respectively.

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(20) (Distributions to) Contributions from BSR

BSR may make additional capital contributions to the Portfolio to fund operating or capital expenditures. Further, the Portfolio may fund expenses of BSR as needed. For the periods below, the Portfolio distributed to or received contributions from BSR for the following amounts:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	(unaudited)
(Distributions to) contributions from BSR	(1,367)	962

(21) Related Party Transactions

Key Management Personnel Compensation

Key management personnel of the Portfolio are those persons having the authority and responsibility for planning, directing and controlling the activities of the Portfolio directly or indirectly.

Key management personnel compensation is comprised of the following:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	(unaudited)
Short-term employee benefits	\$ 320	262
Share-based payments	29	29
Post-employment benefits	5	4
	<u>\$ 354</u>	<u>295</u>

Other Related Party Transactions

The Portfolio leases its Little Rock, Arkansas corporate headquarters from an entity owned by BSR's Chief Executive Officer's family under an operating lease with a term expiring in 2018 (see note 16).

On January 5, 2017, BSR entered into a \$30,000 revolving line of credit with BSR's Chief Executive Officer. The loan agreement is subject to a variable interest rate based on the Wall Street Journal Prime Rate plus 50 bps with a minimum rate of 4.75% and a maximum rate of 5.25% with a maturity date of December 31, 2019.

Through this arrangement, on February 28, 2017, BSR's Chief Executive Officer loaned BSR \$12,661 (unaudited) to fund the acquisition of Mountain Ranch Apartments. While the loan was scheduled to mature on December 31, 2019, BSR repaid the loan in full on May 12, 2017.

Additionally, during September and October 2017, BSR's Chief Executive Officer loaned BSR a total of \$28,329 to fund the acquisition of Windhaven. Consistent with the terms of the agreement, the loan is schedule to mature on December 31, 2019 and is included in due to related party on the combined and carve-out statements of financial position. In January 2018, BSR's Chief Executive Officer loaned BSR an additional \$1,671 (unaudited).

Interest expense paid on related party loans for the three months periods ended March 31, 2018 and March 31, 2017 amounted to \$356 (unaudited) and \$46 (unaudited), respectively, and is included in interest expense, net in the unaudited condensed combined and carve-out interim statements of comprehensive income.

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(22) Tenant in Common Interests

	Three Months Ended March 31, 2018 (unaudited)	Year Ended December 31, 2017
Beginning balance of tenant in common interests	\$ 15,327	15,363
Cash flows		
Settlement of tenant in common interest	(344)	—
Non-cash changes		
Change in tenant in common interests	(2,939)	784
Settlement of tenant in common interest through equity	(9,844)	(820)
Ending balance of tenant in common interests	<u>\$ 2,200</u>	<u>15,327</u>

(23) Property Operating Expenses

	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2017 (unaudited)
Employee wages and benefits	\$ 3,856	3,353
Utility costs	2,212	1,834
Repairs and maintenance expense	1,637	1,049
Other property based costs	1,910	1,598
	<u>\$ 9,615</u>	<u>7,834</u>

(24) Revenue

	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2017 (unaudited)
Lease revenue	\$ 21,185	17,376
Revenue from services	2,872	2,329
	<u>\$ 24,057</u>	<u>19,705</u>

(25) Subsequent Events

On May 18, 2018, the REIT indirectly acquired the Portfolio of 47 income producing properties from BSR Trust, LLC, through an initial public offering in Canada that closed on May 18, 2018. The gross proceeds from the initial public offering were \$135.0 million (unaudited). 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 (unaudited) of REIT Units and \$231,582 (unaudited) of Class B Units.