



## **BSR REAL ESTATE INVESTMENT TRUST**

Condensed Consolidated Interim Financial Statements (In U.S. dollars)  
For the three and nine months ended September 30, 2020 and the three and nine months ended  
September 30, 2019 (Unaudited)

## BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

*In thousands of U.S. dollars*

	Note	September 30, 2020	December 31, 2019
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	8	\$ 1,205,275	\$ 1,057,383
Right-of-use asset	18	65	163
Prepayment embedded derivatives	20(e)	17,843	10,202
		1,223,183	1,067,748
<b>Current assets</b>			
Cash and cash equivalents		6,825	36,994
Restricted cash	5	12,881	13,000
Resident and other receivables, net	6	2,384	2,940
Prepaid expenses and other assets	7	3,126	2,019
		25,216	54,953
<b>Total assets</b>		<b>\$ 1,248,399</b>	<b>\$ 1,122,701</b>
<b>Liabilities and Unitholders' Equity</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	10	\$ 576,037	\$ 528,622
Lease liability	18	69	168
Class B Units	12	214,665	263,302
Convertible debentures	13	38,920	—
Interest rate swaps	20(d)	5,383	993
Tenant in common interests	11	3,792	3,792
		838,866	796,877
<b>Current liabilities</b>			
Accounts payable and other liabilities	9	29,422	26,819
Interest rate swaps	20(d)	1,705	312
Loans and borrowings	10	18,979	13,689
		50,106	40,820
<b>Total liabilities</b>		<b>888,972</b>	<b>837,697</b>
<b>Unitholders' equity</b>			
Unitholders' equity		359,427	285,004
<b>Total liabilities and unitholders' equity</b>		<b>\$ 1,248,399</b>	<b>\$ 1,122,701</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

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

*In thousands of U.S. dollars*

		Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	Note				
<b>Revenue:</b>					
Rental revenue		\$ 25,880	\$ 24,290	\$ 74,035	\$ 72,954
Other property income		3,969	3,550	10,624	10,588
	15	29,849	27,840	84,659	83,542
<b>Expenses (Income):</b>					
Property operating expenses	16	10,222	10,194	28,398	30,099
Real estate taxes		—	—	14,708	9,645
General and administrative expenses		1,847	1,757	5,716	5,296
Fair value adjustment to investment properties	8	(24,397)	4,126	(16,504)	(12,132)
Fair value adjustment to investment properties (IFRIC 21)		4,394	3,191	(2,399)	(819)
Finance costs from operations	17	7,899	5,543	20,726	16,621
Loss on disposition of investment properties	4	—	882	1,085	1,863
Distributions on Class B Units	17	2,707	2,858	8,182	8,647
Depreciation of right-of-use asset	18	33	33	98	98
Fair value adjustment to derivatives and other financial liabilities	17	(12,512)	12,653	(41,241)	62,646
Fair value adjustment to unit-based compensation	25	(125)	108	(251)	313
Change in tenant in common interests	11,17	—	—	—	43
		(9,932)	41,345	18,518	122,320
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 39,781</b>	<b>\$ (13,505)</b>	<b>\$ 66,141</b>	<b>\$ (38,778)</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

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

*In thousands of U.S. dollars*

	Units	Distributions	Cumulative net income (loss)	Total Unitholders' Equity
<b>Balance, as of January 1, 2019</b>	\$ 149,678	(5,117)	\$ 143,952	\$ 288,513
Net loss and comprehensive loss	—	—	(38,778)	(38,778)
Units issued, net of issuance costs (Note 14)	57,619	—	—	57,619
Distributions	—	(6,473)	—	(6,473)
<b>Balance, as of September 30, 2019</b>	<b>\$ 207,297</b>	<b>\$ (11,590)</b>	<b>\$ 105,174</b>	<b>\$ 300,881</b>
<b>Balance, as of January 1, 2020</b>	\$ 208,633	\$ (14,374)	\$ 90,745	\$ 285,004
Net income and comprehensive income	—	—	66,141	66,141
Units issued, net of issuance costs (Note 14)	17,720	—	—	17,720
Units purchased for cancellation under the normal course issuer bid	(770)	—	—	(770)
Distributions	—	(8,668)	—	(8,668)
<b>Balance, as of September 30, 2020</b>	<b>\$ 225,583</b>	<b>\$ (23,042)</b>	<b>\$ 156,886</b>	<b>\$ 359,427</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

	Note	Nine months ended September 30, 2020	Nine months ended September 30, 2019
<b>Operating activities</b>			
Net income (loss) and comprehensive income (loss)		\$ 66,141	\$ (38,778)
Adjustments for:			
Fair value adjustment to investment properties	8	(16,504)	(12,132)
Fair value adjustment to derivatives and other financial liabilities	17	(41,241)	62,646
Fair value adjustment to unit-based compensation	25	(251)	313
Change in tenant in common interests	11	—	43
Depreciation of right-of-use asset	18	98	98
Unit-based compensation	25	1,204	912
Finance costs from operations	17	20,726	16,621
Loss on disposition of investment properties	4	1,085	1,863
Accrued distributions on Class B Units	17	8,182	8,647
Change in non-cash operating assets and liabilities	24	785	2,607
<b>Cash provided by operating activities</b>		<b>40,225</b>	<b>42,840</b>
<b>Investing activities</b>			
Acquisition of investment properties	4, 8	(201,324)	(123,599)
Net proceeds from sale of investment properties	4, 8	76,691	95,778
Escrowed rent guaranty cash received		1,063	—
Additions to investment properties	8	(10,202)	(20,454)
Restricted cash withdrawals, net of deposits	5	(9)	295
<b>Cash used in investing activities</b>		<b>(133,781)</b>	<b>(47,980)</b>
<b>Financing activities</b>			
Proceeds from issuance of units, net of issuance costs	14	-	53,104
Proceeds from issuance of convertible debentures, net of issuance costs	13	38,027	-
Proceeds from issuance of loans and borrowings	10	236,323	201,458
Principal payments of loans and borrowings	10	(172,819)	(203,892)
Payment of mortgage financing costs	10	(833)	(1,664)
Principal payments of lease liability	18	(99)	(94)
Redemption of Class B Units in exchange for cash	12	(3,151)	(99)
Distributions paid to Class B Unitholders	12	(8,223)	(8,664)
Distributions paid to Unitholders		(8,606)	(6,238)
Units purchased for cancellation under the normal course issuer bid	14	(770)	—
Unit issuance costs	14	(34)	—
Interest paid		(16,428)	(15,664)
<b>Cash provided by financing activities</b>		<b>63,387</b>	<b>18,247</b>
<b>Change in cash and cash equivalents during the period</b>		<b>(30,169)</b>	<b>13,107</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>36,994</b>	<b>7,577</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 6,825</b>	<b>\$ 20,684</b>

See accompanying notes to condensed consolidated interim financial statements.

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

#### (1) Description of the entity

BSR Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust of the REIT dated January 9, 2018 (the "Declaration of Trust"), under the laws of the Province of Ontario. The REIT's Declaration of Trust was amended and restated on April 23, 2020. The principal business of the REIT is to acquire multi-family residential rental properties across the United States.

The operations of the REIT commenced on May 18, 2018 when it completed an Initial Public Offering ("IPO") of 13,500,000 units ("Units") for gross proceeds of \$135,000 or approximately \$119,178 net of underwriters' fees and other transaction costs. In addition, on May 18, 2018, \$30,000 in debt was converted to 3,000,000 Units. In connection with the IPO, the REIT indirectly acquired an interest in BSR Trust, LLC ("BSR") and 47 garden-style, multi-family communities.

On September 17, 2019, the REIT completed a follow-on offering of 3,797,300 Units ("September 2019 Offering") for total gross proceeds of \$40,251 or \$37,948 net of issue and other transaction costs. Concurrently with the closing of the September 2019 Offering, the REIT completed a non-brokered private placement ("Concurrent Private Placement") of 1,416,000 Units for proceeds of \$15,010.

As of September 30, 2020, the REIT owns 40 multifamily garden-style residential properties located across four bordering states in the Sunbelt region of the United States, which stretches across the South Atlantic and Southwest portions of the United States. The REIT currently operates in Arkansas, Texas, Oklahoma and Mississippi. The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

#### (2) Basis of preparation

##### (a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Trustees on August 12, 2020.

##### (b) Basis of measurement

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

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

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

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS. These condensed consolidated interim financial statements follow the same accounting policies as described in the consolidated financial statements for the year ended December 31, 2019 with the exception of the following accounting policy on convertible debentures and new accounting amendment that was issued by the IASB which are applicable to the period:

##### *Convertible debentures*

The convertible debentures are convertible into Units. As Units are redeemable at the option of the holder and are therefore considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has elected to classify and measure its

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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convertible debentures as financial liabilities measured at fair value through profit and loss ("FVTPL") with the changes in fair value being recognized in the consolidated statements of net income (loss) and comprehensive income (loss).

#### ***IFRS amendment adopted in 2020:***

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"), that seek to clarify whether a transaction is to be accounted for as an asset acquisition or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The REIT adopted the amendments in its condensed consolidated interim financial statements on January 1, 2020. The adoption of the amendments to IFRS 3 did not have a material impact on the financial statements.

#### **(4) Asset acquisitions and dispositions**

##### ***(a) Asset acquisitions***

All acquisition contractual purchase prices noted below are presented prior to working capital adjustments and closing costs.

In March 2019, the REIT acquired Wimberly Apartments, a 372-unit multifamily complex in Grand Prairie, Texas for a contractual purchase price of \$53,050. The transaction was funded using the REIT's Credit Facility and the assumption of an existing mortgage with a fair value of \$32,353, including a discount on the assumed mortgage of \$240, and the assumption of \$106 of working capital.

In August 2019, the REIT acquired Cielo and Madrone, two adjacent garden-style apartment communities located in Austin, Texas, totalling 554 apartment units. These properties were acquired for a contractual purchase price of \$104,450. The transaction was funded using net proceeds from the September 2019 Offering and Concurrent Private Placement as well as cash on hand, the REIT's Credit Facility and the assumption of \$1,431 of working capital deficit.

In October 2019, the REIT acquired Satori, a 300-unit garden-style community in in Richmond, Texas, for a contractual purchase price of \$56,308. The transaction was funded through a new mortgage for \$36,600, the REIT's Credit Facility and the assumption of \$326 of working capital deficit. BSR and the seller entered into a Rent Guaranty Escrow Agreement, allowing the REIT to collect up to \$1,063 through June 2020 to supplement rental income as the property is being leased. This agreement was valued at \$1,063 with the outstanding rent guaranty held as a current asset within resident and other receivables, net.

In October 2019, the REIT acquired Auberry, a 216-unit garden-style community in Allen, Texas, for a total contractual purchase price of \$36,500. The transaction was funded using the REIT's Credit Facility and the assumption of an existing mortgage with a fair value of \$20,436, including a premium on the assumed mortgage of \$136, and the assumption of \$240 of working capital.

In March 2020, the REIT acquired Ariza at Plum Creek ("Ariza"), a 349-unit garden-style community in Kyle, Texas, for a total contractual purchase price of \$55,000. The transaction was funded with \$35,750 in mortgage debt, and the REIT's Credit Facility was used for the balance.

In June 2020, the REIT acquired Retreat at Wolf Ranch Apartments ("Wolf Ranch"), a 303-unit garden-style community in Georgetown, Texas for a total contractual purchase price of \$51,586. The transaction was funded with \$26,463 in mortgage debt, and the REIT's Credit Facility was used for the balance.

In July 2020, the REIT acquired Broadstone Park West, a 370-unit, garden-style residential community in Houston, Texas for a total contractual purchase price of \$51,000. The REIT funded the transaction through the issuance of

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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847,573 Units to the seller, on a private placement basis, cash and \$39,700 which was funded through the Credit Facility.

In September 2020, the REIT acquired Aura Castle Hills, a 276-unit garden-style residential community in Lewisville, Texas and the Dallas/Fort Worth MSA for a total contractual price of \$51,750. The transaction was funded using the REIT's Credit Facility.

#### **(b) Dispositions**

All disposition contractual purchase prices noted below are presented prior to working capital adjustments and selling costs. Proceeds from dispositions are used to retire loans and borrowings and to fund future acquisitions.

In April 2019, the REIT sold Briarwood and Spring Valley in Little Rock, Arkansas and Fox Trail and South Pointe in Shreveport, Louisiana for a combined contractual purchase price of \$32,080, totalling 773 apartment units.

In June 2019, the REIT sold Waterford and Bowman Heights in Little Rock, Arkansas for a combined contractual purchase price of \$22,150, totalling 336 apartment units.

In August 2019, the REIT sold Dove Creek and Longridge in Baton Rouge, Louisiana for a combined contractual purchase price of \$30,900, totalling 310 apartment units.

In September 2019, the REIT sold Summer Pointe in Shreveport, Louisiana for a contractual purchase price of \$13,900, totalling 200 apartment units.

In November 2019, the REIT sold 93 Twenty, Charleston Crossing, Inverness and Ridge Park in Tulsa, Oklahoma, Countryside Village in Moore, Oklahoma, and Ridgewood in Hot Springs, Arkansas for a contractual purchase price of \$74,415 for the 915 apartment units.

In January 2020, the REIT sold Westwood Village in Shreveport, Louisiana for a contractual purchase price of \$16,000 for the 248 apartment units.

In April 2020, the REIT sold Summer Green I, Summer Green II and Summer Brook located in Longview, Texas for a combined contractual purchase price of \$52.5 million for the 632 apartment units.

In May 2020, the REIT sold Summer Lake located in Longview, Texas for a contractual purchase price of \$17.3 million for the 252 apartment units.

Loss on disposition of investment properties of \$1,085 for the nine months ended September 30, 2020 (\$1,863 for the nine months ended September 30, 2019) represents the difference between the net sale proceeds (sale price less transactional closing costs) and the value of the investment properties on the date of disposition. Such loss is primarily comprised of selling costs, including legal fees, consulting fees, brokerage commissions and prepayment penalties. The loss on disposition of investment properties is recognized in the statement of net income (loss) and comprehensive income (loss) in the period of sale.

#### **(5) Restricted cash**

	September 30, 2020	December 31, 2019
Tenant security deposits	\$ 1,195	\$ 833
Replacement reserve	2,959	3,492
Lender escrow deposits	8,727	8,675
<b>Restricted cash</b>	<b>\$ 12,881</b>	<b>\$ 13,000</b>

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
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#### (6) Resident and other receivables, net

	September 30, 2020	December 31, 2019
Resident receivables, net	\$ 499	\$ 311
Utility reimbursements and other receivables	1,885	2,629
<b>Resident and other receivables, net</b>	<b>\$ 2,384</b>	<b>\$ 2,940</b>

#### (7) Prepaid expenses and other assets

	September 30, 2020	December 31, 2019
Prepaid insurance	\$ 1,637	\$ 864
Other assets	1,489	1,155
<b>Prepaid expenses and other assets</b>	<b>\$ 3,126</b>	<b>\$ 2,019</b>

#### (8) Investment properties

A reconciliation of the carrying value for investment properties at the beginning and end of the financial period is set out below:

	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Investment properties in use, beginning of period</b>	<b>\$ 1,041,917</b>	<b>\$ 934,801</b>
Property acquisitions	208,239	249,311
Property dispositions	(85,825)	(172,057)
Transfer of investment property under development to in use	16,433	—
Additions to investment properties	8,007	13,126
Change in fair value of investment properties	16,504	16,736
	1,205,275	1,041,917
IFRIC 21 fair value adjustment	4,305	—
IFRIC 21 real estate tax liability adjustment	(4,305)	—
<b>Investment properties in use, end of period</b>	<b>1,205,275</b>	<b>1,041,917</b>
<b>Investment property under development, beginning of period</b>	<b>15,466</b>	<b>2,750</b>
Additions to investment property under development	967	12,716
Transfer of investment property under development to in use	(16,433)	—
<b>Investment property under development, end of period</b>	<b>—</b>	<b>15,466</b>
<b>Investment properties, end of period</b>	<b>\$ 1,205,275</b>	<b>\$ 1,057,383</b>

The REIT used an internal valuation process to value the investment properties as of September 30, 2020. The REIT engages third party appraisers to prepare valuations on a portion of the portfolio annually, such that the entire portfolio is appraised at least once every three years.

The estimated 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.

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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The REIT also continues to review market capitalization, discount and terminal capitalization rates as well as its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic. The carrying value of the REIT's investment properties reflects its best estimate for the highest and best use as at September 30, 2020. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the REIT's business and operations, both in the short term and in the long term. In a long-term scenario, total rental income could be impacted by future demand and a decline in market rents and other fees, which ultimately impact the underlying valuation of investment property. The REIT could also experience COVID-19-related delays to repositioning initiatives.

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 applicable to the REIT are set out below:

	September 30, 2020	December 31, 2019
<b>Capitalization rates</b>		
High	10.0%	10.0%
Low	4.3%	4.5%
Weighted average	5.2%	5.7%

The fair values of investment properties are most sensitive to changes in capitalization rates. As of September 30, 2020, a 25 and 50 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by \$60,637 and \$127,699, respectively. A 25 and 50 basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by \$55,094 and \$105,371, respectively.

During the nine months ended September 30, 2020, the REIT capitalized \$265 of borrowing costs related to a development project under construction at an average interest rate of 4.5%. During the nine months ended September 30, 2019, the REIT capitalized \$151 of borrowing costs related to a development project under construction at an average interest rate of 4.0%.

#### (9) Accounts payable and other liabilities

	September 30, 2020	December 31, 2019
Trade payables	\$ 852	\$ 1,280
Accrued capital expenditures	653	1,881
Accrued property tax liabilities	15,047	11,159
Accrued and other liabilities	6,817	6,846
Distributions payable	1,892	1,873
Interest payable on loans and borrowings	1,197	1,289
Interest payable on convertible debentures	153	—
Tenant security deposits	1,201	833
Rent received in advance	1,610	1,658
<b>Accounts payable and other liabilities</b>	<b>\$ 29,422</b>	<b>\$ 26,819</b>

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
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#### (10) Loans and borrowings

	September 30, 2020	December 31, 2019
Fixed or economically hedged to fixed rate mortgage notes payable	\$ 360,332	\$ 358,779
Variable rate mortgage notes payable	36,601	49,740
Net unamortized discount on mortgage notes payable	(4,998)	(5,370)
Net unamortized deferred financing costs	(2,476)	(2,263)
Line of Credit	600	—
Credit Facility	204,957	141,425
<b>Total loans and borrowings</b>	<b>595,016</b>	<b>542,311</b>
Less: current portion of loans and borrowings	(18,979)	(13,689)
<b>Non-current loans and borrowings</b>	<b>\$ 576,037</b>	<b>\$ 528,622</b>

#### *Mortgage notes*

The REIT's weighted average contractual interest rate on mortgage notes as of September 30, 2020 and December 31, 2019 was approximately 3.9%, which excludes the finance cost impact of the amortization of discounts on mortgage notes and the amortization of deferred financing costs. With the inclusion of these items, the REIT's weighted average effective interest rate on mortgage notes as of September 30, 2020 and December 31, 2019 was approximately 4.2%. Mortgage notes as of September 30, 2020 mature at various dates from the fourth quarter of 2020 through 2056.

#### *Line of Credit*

On January 24, 2019, the REIT entered into a revolving line of credit (the "Line of Credit") for \$35,000, maturing on January 24, 2022, with a fixed interest rate of 6.5%. On June 21, 2019 the Line of Credit was amended with a fixed interest rate of 5.1%. As of September 30, 2020, there was a balance of \$600 on the Line of Credit.

#### *Credit Facility*

The REIT maintains a revolving credit facility (the "Credit Facility") with a maximum revolving credit availability of \$205,000. As of September 30, 2020, the Credit Facility was secured by 12 of the REIT's investment properties and is due on January 30, 2022, with an option by the REIT to extend for one additional year, subject to meeting certain conditions. The Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Credit Facility, plus 1.65% to 2.15% based on meeting certain leverage ratios as defined in the Credit Facility. Alternatively, the REIT has the ability to borrow using base rate loans at a rate equal to 0.65% to 1.15% plus the greatest of the bank's prime rate, the Federal Funds Rate plus 0.5%, or the one-month LIBOR rate, plus 1.0%. As of September 30, 2020 and December 31, 2019, the balance outstanding on the Credit Facility was \$204,957 and \$141,425, respectively, at a variable interest rate of 1.9% as of September 30, 2020 and 3.4% as of December 31, 2019. As noted below, the REIT entered into receive variable based on 1 Month USD – LIBOR/pay fixed interest rate swap agreements on a notional value of \$100,000 to manage interest rate exposure with respect to the Credit Facility.

During the nine months ended September 30, 2020, the REIT refinanced mortgages on five properties with outstanding balances totalling \$36,456 through the Credit Facility. As a result, the REIT incurred a loss on extinguishment of debt of \$1,648, which includes the non-cash write-off of a prepayment embedded derivative of \$1,408.

#### *Total loans and borrowings*

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of September 30, 2020, are in the schedule below. Contractual Interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of September 30, 2020.

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

	Principal	Balloon payment	Contractual Interest	Total payments
2020	\$ 826	\$ 3,633	\$ 4,933	\$ 9,392
2021	3,372	13,516	19,196	36,084
2022	4,187	205,557	15,102	224,846
2023	4,042	30,503	13,844	48,389
2024	3,757	34,113	13,000	50,870
Thereafter	79,974	219,010	75,506	374,490
	<b>\$ 96,158</b>	<b>\$ 506,332</b>	<b>\$ 141,581</b>	<b>\$ 744,071</b>

The REIT's debt agreements contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. As of September 30, 2020, the REIT was in compliance with all financial covenants of its debt agreements.

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

	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Loans and borrowings, beginning of period</b>	<b>\$ 542,311</b>	<b>\$ 471,001</b>
<i>Cash flows</i>		
Proceeds from issuance of loans and borrowings	236,323	279,085
Principal payments of loans and borrowings	(172,819)	(260,347)
Payment of mortgage financing costs	(833)	(2,019)
	62,671	16,719
<i>Non-cash changes</i>		
Loan assumed in property acquisition - Wimberly	—	32,353
Loan assumed in property acquisition - Auberry	—	20,436
Loan assumed in property disposition - Westwood Village	(10,960)	—
Unamortized net discount release on dispositions	138	598
Unamortized net premium release on mortgage refinances	(242)	—
Amortization of deferred financing costs	620	383
Amortization of net discount on mortgage notes payable	478	821
	(9,966)	54,591
<b>Loans and borrowings, end of period</b>	<b>\$ 595,016</b>	<b>\$ 542,311</b>

#### (11) Tenant in common interests

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
<b>Tenant in common interests, beginning of period</b>	<b>\$ 3,792</b>	<b>\$ 3,749</b>
<i>Non-cash changes</i>		
Change in tenant in common interests	—	43
<b>Tenant in common interests, end of period</b>	<b>\$ 3,792</b>	<b>\$ 3,792</b>

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

#### (12) Class B Units

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

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

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

The following table presents the outstanding units and the change in fair value of the Class B Units:

	Units		Value
<b>Class B Units, as of January 1, 2019</b>	<b>23,158,226</b>	<b>\$</b>	<b>185,266</b>
<i>Cash changes</i>			
Redemption of Class B Units in exchange for cash	(19,832)		(213)
<i>Non-cash changes</i>			
Redemption of Class B Units in exchange for Units	(537,352)		(5,881)
Fair value adjustments	—		84,130
<b>Class B Units, as of December 31, 2019</b>	<b>22,601,042</b>	<b>\$</b>	<b>263,302</b>
<i>Cash changes</i>			
Redemption of Class B Units in exchange for cash	(308,160)		(3,151)
<i>Non-cash changes</i>			
Redemption of Class B Units in exchange for Units	(696,775)		(8,591)
Fair value adjustments	—		(36,895)
<b>Class B Units, as of September 30, 2020</b>	<b>21,596,107</b>	<b>\$</b>	<b>214,665</b>

#### (13) Convertible debentures

On September 3, 2020, the REIT issued \$40 million of 5.00% convertible unsecured subordinated debentures (“convertible debentures”). Interest is payable semi-annually on March 31 and September 30 each year until maturity on September 30, 2025, with interest payments commencing on March 31, 2021. The convertible debentures are convertible at the option of the holder into Units at \$14.40 per Unit (the “Conversion Price”).

The convertible debentures will not be redeemable by the REIT prior to September 30, 2023. On or after September 30, 2023, but prior to September 30, 2024, the convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, at the REIT’s option, provided that the volume weighted average trading price of the US dollar denominated Units on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and after September 30, 2024, the convertible debentures will be redeemable by BSR, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest.

The convertible debentures are measured at fair value with any changes in fair value recorded in profit or loss. The fair value adjustments of convertible debentures are calculated using the publicly available closing price as of the end of the reporting period. An increase in the convertible debentures closing price over the period results in a fair value loss whereas a decrease in the convertible debentures closing price over the period results in a fair value gain.

The following table presents the issuance and change in fair value of the convertible debentures:

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Convertible debentures, beginning of period</b>	\$ —	\$ —
<i>Cash changes</i>		
Issuance of convertible debentures	40,000	—
<i>Non-cash changes</i>		
Fair value adjustments	(1,080)	—
<b>Convertible debentures, end of period</b>	<b>\$ 38,920</b>	<b>\$ —</b>

#### (14) Unitholders' equity

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

On March 26, 2019, the TSX accepted the REIT's notice of intention to make a normal course issuer bid for a portion of Units, over the 12-month period commencing March 28, 2019. The REIT purchased 89,900 Units for cancellation under the normal course issuer bid.

On September 17, 2019, the REIT completed the September 2019 Offering of 3,797,300 Units for total gross proceeds of \$40,251 or \$37,948 net of issue and other transaction costs. The REIT completed a Concurrent Private Placement for 1,416,000 Units for proceeds of \$15,010.

On July 30, 2020, the REIT partially funded the acquisition of Broadstone Park West through the issuance of 847,573 Units to the seller, on a private placement basis.

	Units	Value
<b>Units outstanding, classified as equity, as of January 1, 2019</b>	<b>16,550,000</b>	<b>\$ 149,678</b>
Units issued on completion of the September 2019 Offering, net of issue costs	3,797,300	37,948
Units issued on completion of the Concurrent Private Placement	1,416,000	15,010
Issuance of Units for unit-based compensation	11,345	116
Issuance of Units in exchange for Class B Units	537,352	5,881
<b>Units outstanding, classified as equity, as of December 31, 2019</b>	<b>22,311,997</b>	<b>\$ 208,633</b>
Issuance of Units for unit-based compensation	21,061	206
Issuance of Units in exchange for Class B Units	696,775	8,591
Units issued in private placement, net of issue costs	847,573	8,957
Unit issuance costs	—	(34)
Units purchased for cancellation under the normal course issuer bid	(89,900)	(770)
<b>Units outstanding, classified as equity, as of September 30, 2020</b>	<b>23,787,506</b>	<b>\$ 225,583</b>

#### (15) Revenue

Base rent is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling price 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 the rental 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

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

amenity costs 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 included as part of accounts payable and other liabilities.

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Lease revenue	\$ 24,945	\$ 23,181	\$ 71,214	\$ 69,534
Revenue from services	4,904	4,659	13,445	14,008
<b>Total revenue</b>	<b>\$ 29,849</b>	<b>\$ 27,840</b>	<b>\$ 84,659</b>	<b>\$ 83,542</b>

#### (16) Property operating expenses

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Employee wages and benefits	\$ 3,980	\$ 4,143	\$ 11,787	\$ 12,664
Utility costs	2,409	2,367	6,396	6,891
Repairs and maintenance expense	1,704	1,601	4,303	4,308
Other property based costs	2,129	2,083	5,912	6,236
<b>Property operating expense</b>	<b>\$ 10,222</b>	<b>\$ 10,194</b>	<b>\$ 28,398</b>	<b>\$ 30,099</b>

#### (17) Finance costs

Finance costs incurred and charged (recovered) as part of income (loss) are as follows:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
<b>Finance costs from operations</b>				
Interest expense at stated rate	\$ 4,906	\$ 5,250	\$ 14,941	\$ 15,618
Interest expense on lease liability	1	2	4	8
Amortization of deferred financing costs	256	101	620	212
Amortization of net discount on loans and borrowings	147	188	478	647
Loss on extinguishment of debt	—	—	1,648	61
Interest expense on convertible debentures	153	—	153	—
Convertible debenture issuance costs	1,973	—	1,973	—
Interest (income) expense on interest rate swaps	432	(30)	815	(10)
Distributions to tenant in common interests	31	32	94	85
<b>Finance costs from operations</b>	<b>7,899</b>	<b>5,543</b>	<b>20,726</b>	<b>16,621</b>
<b>Fair value adjustment to derivatives and other financial liabilities</b>				
Fair value adjustment to Class B Units	(13,232)	16,544	(36,895)	68,181
Fair value adjustment to convertible debentures	(1,080)	—	(1,080)	—
Fair value adjustment to interest rate swaps	(406)	787	5,783	1,591
Fair value adjustment to prepayment embedded derivatives	2,206	(4,678)	(9,049)	(7,126)
<b>Fair value adjustment to derivatives and other financial liabilities</b>	<b>(12,512)</b>	<b>12,653</b>	<b>(41,241)</b>	<b>62,646</b>

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

<b>Finance costs</b>				
Finance costs from operations	7,899	5,543	20,726	16,621
Fair value adjustment to derivatives and other financial liabilities	(12,512)	12,653	(41,241)	62,646
Distributions on Class B Units	2,707	2,858	8,182	8,647
Change in tenant in common interests	—	—	—	43
<b>Finance costs</b>	<b>\$ (1,906)</b>	<b>\$ 21,054</b>	<b>\$ (12,333)</b>	<b>\$ 87,957</b>

### (18) Leases

The REIT leases apartments of multifamily properties to residents under noncancelable operating leases. The leases generally have a term of one year, or less. There were no residents that accounted for more than 10% of the REIT's total rental revenue for the nine months ended September 30, 2020.

At September 30, 2020, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows:

	<b>September 30, 2020</b>
1 year	\$ 60,742
2 years	572
	<b>\$ 61,314</b>

The REIT's Little Rock, Arkansas headquarters is leased with a term that expires in March 2021 (see note 23). This lease requires monthly payments of \$11. The headquarters lease is accounted for as a right-of-use asset with a corresponding lease liability under IFRS 16. The REIT recognized \$4 in interest expense on the lease liability for the nine months ended September 30, 2020 (\$8 for the nine months ended September 30, 2019).

The following tables present the change in the right-of-use asset and corresponding lease liability for the nine months ended September 30, 2020:

	<b>Nine months ended September 30, 2020</b>	<b>Year ended December 31, 2019</b>
<b>Right-of-use asset, as of beginning of period</b>	<b>\$ 163</b>	<b>\$ 294</b>
Depreciation of right-of use asset	(98)	(131)
<b>Right-of-use asset, as of end of period</b>	<b>\$ 65</b>	<b>\$ 163</b>

	<b>Nine months ended September 30, 2020</b>	<b>Year ended December 31, 2019</b>
<b>Lease liability, as of beginning of period</b>	<b>\$ 168</b>	<b>\$ 294</b>
Principal payments on lease liability	(99)	(126)
<b>Lease liability, as of end of period</b>	<b>\$ 69</b>	<b>\$ 168</b>

The REIT recorded lease expenses of \$68 during the nine months ended September 30, 2020 for additional low-value leased office equipment.

### (19) Commitments and contingencies

The REIT is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty,

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

management believes that the final outcome of such matters will not have a material adverse effect on these condensed consolidated interim financial statements.

#### **(20) Financial instruments**

##### **(a) Risk management**

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

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

As of September 30, 2020, the REIT's mortgage debt was 91% fixed or economically hedged to fixed rates, which excludes the Credit Facility. With the Credit Facility and Line of Credit included, as of September 30, 2020, the REIT's debt was 77% fixed or economically hedged to fixed rates, excluding net unamortized discounts on mortgages payable and net unamortized deferred financing costs.

Management manages a portion of its variable-rate mortgages using interest rate swaps that alter its exposure to the impact of changing interest rates. The interest rate swaps are not designated as hedging instruments and as a result, the changes in fair value are recognized in earnings as an adjustment to finance costs in the consolidated statement of net loss and comprehensive loss. As of September 30, 2020, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a \$987 change in the REIT's finance costs over the next 12 months.

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

The REIT's assets consist primarily of multifamily properties. Credit risk arises from the possibility that residents in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting residents of sound financial standing and by diversifying its mix of residents. It also monitors resident payment patterns and discusses potential resident issues with property managers on a regular basis.

Cash carries minimal credit risk as all funds are maintained with reputable financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk is the risk that the REIT will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The REIT's liquidity is subject to macroeconomic, financial, competitive and other factors that are beyond the REIT's control including the recent COVID-19 disruption.

Liquidity risk is managed through cash flow forecasting. Management monitors forecasts of the REIT's liquidity requirements to ensure it has sufficient cash to meet operational needs through maintaining sufficient cash and/or availability on the undrawn Credit Facility and the Line of Credit and ensuring that it meets its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment, takes into consideration current and projected macroeconomic conditions, the REIT's cash collection efforts, debt financing plans, and covenant compliance required under the terms of debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing may no longer be available to the REIT at terms and conditions that are favorable to the REIT, or at all.

The REIT manages maturities of the fixed rate mortgages and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. As at September 30, 2020, the REIT had a working capital deficit of \$24,890. In the normal course of business, a portion of the REIT's borrowings under mortgage notes, the Credit

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

Facility and the Line of Credit with a maturity date less than one year will be considered current liabilities prior to being replaced with longer-term financing.

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

	Carrying amount	Contractual cash flows	1 year	2 years	3 years	4 years	More than 4 years
Loans and borrowings	\$ 595,016	\$ 602,490	\$ 20,400	\$ 209,639	\$ 34,631	\$ 3,944	\$ 333,876
Interest payable	1,197	141,581	19,393	16,131	14,199	13,295	78,563
Interest rate swaps	7,088	7,270	1,707	1,692	1,575	1,492	804
Convertible debentures	38,920	50,000	2,000	2,000	2,000	2,000	42,000
Lease liability	69	104	104	—	—	—	—
Tenant in common interests	3,792	3,792	125	125	125	125	3,292
Capital improvements liability	653	653	653	—	—	—	—
Accounts payable and other liabilities	27,572	27,572	27,572	—	—	—	—
	<b>\$ 674,307</b>	<b>\$ 833,462</b>	<b>\$ 71,954</b>	<b>\$ 229,587</b>	<b>\$ 52,530</b>	<b>\$ 20,856</b>	<b>\$ 458,535</b>

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

The following information relates to estimated fair values of the REIT's financial instruments not measured at fair value on the REIT's consolidated statement of financial position:

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

Tenant in common interests are carried at amortized cost.

The lease liability is carried at amortized cost, which approximates fair value.

Loans and borrowings are carried at amortized cost. For disclosure purposes in (c) below, the REIT estimates the fair value of loans and borrowings using discounted cash flows based on the rates that could be obtained for similar debt instruments with similar terms and maturities. The fair value of loans and borrowings qualifies as Level 2 in the fair value hierarchy above.

There were no transfers of assets between fair value levels during the periods presented herein.

#### **(c) Loans and borrowings**

	September 30, 2020	December 31, 2019
Carrying amount	\$ 595,016	\$ 542,311
Fair value	\$ 659,673	\$ 576,913

#### **(d) Interest rate swaps**

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

On June 10, 2019, the REIT entered into a receive-variable based on 1 Month USA – LIBOR/pay fixed interest rate swap on a notional value of \$80,000 at a fixed rate of 1.84%, maturing on June 10, 2024. On February 28, 2020, this swap was amended at a fixed rate of 1.70%, maturing on June 10, 2025.

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

On September 9, 2019, the REIT entered into a receive-variable based on 1 Month USA – LIBOR/pay fixed interest rate swap on a notional value of \$20,000 at a fixed rate of 1.21%. The swap began on January 2, 2020 and matures on August 30, 2024.

The following table is a summary of the aggregate current and non-current fair value of interest rate swaps in a liability position held for the period presented herein:

	September 30, 2020	December 31, 2019
<i>Interest rate swaps</i>		
Current portion	\$ (1,705)	\$ (312)
Non-current portion	(5,383)	(993)
<b>Interest rate swaps, end of period</b>	<b>\$ (7,088)</b>	<b>\$ (1,305)</b>

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of September 30, 2020:

	Maturity date	Fixed rate	Original notional amount	Notional amount	Carrying value and fair value
<i>Interest rate swap agreements, as of September 30, 2020</i>					
Raymond James	9/1/2025	5.07%	\$ 12,265	\$ 4,525	\$ (682)
Bank of Montreal	8/30/2024	1.21%	20,000	20,000	(826)
Bank of Montreal	6/10/2025	1.70%	80,000	80,000	(5,580)
			\$ 112,265	\$ 104,525	\$ (7,088)

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of December 31, 2019:

	Maturity date	Fixed rate	Original notional amount	Notional amount	Carrying value and fair value
<i>Interest rate swap agreements, as of December 31, 2019</i>					
Raymond James	9/1/2025	5.07%	\$ 12,265	\$ 5,285	\$ (905)
Bank of Montreal	8/30/2024	1.21%	20,000	20,000	345
Bank of Montreal	6/10/2024	1.84%	80,000	80,000	(745)
			\$ 112,265	\$ 105,285	\$ (1,305)

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

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

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

	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Interest rate swaps, beginning of period</b>	\$ (1,305)	(755)
<i>Cash changes</i>		
Termination of interest rate swap agreement	—	—
<i>Non-cash changes</i>		
Fair value adjustment to interest rate swaps	(5,783)	(550)
<b>Interest rate swaps, end of period</b>	<b>\$ (7,088)</b>	<b>\$ (1,305)</b>

#### (e) *Prepayment embedded derivatives*

Certain mortgages payable (note 10) contain prepayment options that represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value being recognized as net change in fair value of prepayment embedded derivatives in the consolidated statement of net income (loss) and comprehensive income (loss).

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:

	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Prepayment embedded derivatives, beginning of period</b>	\$ 10,202	\$ 6,964
<i>Non-cash changes</i>		
Prepayment embedded derivative elimination due to refinance of debt	(1,408)	—
Fair value adjustment to prepayment embedded derivatives	9,049	3,238
<b>Prepayment embedded derivatives, end of period</b>	<b>\$ 17,843</b>	<b>\$ 10,202</b>

#### (21) **Capital management**

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

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

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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

#### (22) Employee benefit plan

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

Management of the REIT elects to match employee deferrals at its discretion. Employer matching contributions to the Plan totalled \$166 for the nine months ended September 30, 2020 (\$95 for the nine months ended September 30, 2019).

#### (23) Related party transactions

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

- 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. Distributions on Units of \$1,279 were declared to Bailey/Hughes holders for the nine months ended September 30, 2020 (\$1,263 for the nine months ended September 30, 2019).
- Distributions on Class B Units of \$5,286 were declared to key management personnel, primarily the Bailey/Hughes Holders, for the nine months ended September 30, 2020 (\$5,339 for the nine months ended September 30, 2019). Key management personnel of the REIT are those persons having the authority and responsibility for planning, directing and controlling the activities of the REIT directly or indirectly.
- Compensation expenses include \$1,990 paid to key management personnel for the nine months ended September 30, 2020 (\$1,945 for the nine months ended September 30, 2019), which includes short-term employee compensation and benefits and unit-based compensation. The REIT’s Chief Executive Officer did not receive any compensation for services rendered during either of the periods presented.
- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT’s Chief Executive Officer and Executive Vice President & Chief Investment Officer. The current lease term expires in 2021 (see note 18).

#### (24) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Resident and other receivables, net	\$ (573)	\$ (468)
Prepaid expenses and other assets	(1,192)	(734)
Accounts payable and other liabilities	2,550	3,809
	<b>\$ 785</b>	<b>\$ 2,607</b>

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

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

The REIT adopted the Omnibus Equity Incentive Plan effective as of May 18, 2018. The purpose of the Equity Incentive Plan is to promote a greater alignment of interests between the non-executive Trustees and the Unitholders. Under the Equity Incentive Plan, Trustees have the option to elect to receive up to 100% of all fees that are otherwise payable in cash in the form of Deferred Units. A Deferred Unit award is an award denominated in notional units that entitles the participant to receive Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the Units in the future. Accordingly, the number of Deferred Units to be awarded to a Trustee is equal to (i) the value of all fees that the Trustee elects to receive in the form of Deferred Units, (ii) divided

## BSR REAL ESTATE INVESTMENT TRUST

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019  
(Unaudited)

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by the volume-weighted average trading price of a Unit on the TSX for the five trading days prior to the date of the award. Elections are irrevocable for the year in respect of which they are made. Deferred Units granted to Trustees vest immediately upon grant.

For the nine months ended September 30, 2020, \$486 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net income (loss) and comprehensive income (loss) (\$448 for the nine months ended September 30, 2019). The Deferred Units are measured at fair value at each reporting period and the change in fair value is recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss).

	Units	Value
<b>Deferred units, as of January 1, 2019</b>	<b>56,888</b>	<b>\$ 455</b>
<i>Non-cash changes</i>		
Deferred trust units issued	58,131	605
Fair value adjustments	—	280
<b>Deferred units issued, as of December 31, 2019</b>	<b>115,019</b>	<b>\$ 1,340</b>
<i>Non-cash changes</i>		
Deferred trust units issued	49,444	486
Fair value adjustments	—	(191)
<b>Deferred units issued, as of September 30, 2020</b>	<b>164,463</b>	<b>\$ 1,635</b>

#### *Unit-based compensation*

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

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

The RUs and PUs are considered a financial liability due to the contractual obligation for the Trust to deliver Units at the option of the participant, subject to board approval. The RUs and PUs are measured at fair value with changes in fair value recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss). On May 18, 2018, the REIT granted 51,000 and 38,250 RUs and PUs, respectively, with a grant date fair value of \$10.00 per Unit. On March 31, 2019, the REIT granted 39,646 and 59,469 RUs and PUs, respectively, with a grant date fair value of \$9.32 per Unit. On March 17, 2020, the REIT granted 40,251 and 60,376 RUs and PUs, respectively, with a grant date fair value of \$9.18 per Unit. On May 18, 2020, 18,764 RUs vested and were settled through the issuance of 12,948 Units with a weighted average Unit price of \$9.44. On January 1, 2020, 13,687 RUs vested and were settled through the issuance of 8,113 Units with a weighted average Unit price of \$11.65. The REIT granted an additional 8,125 RUs and 10,591 PUs for distributions that would otherwise have been payable in cash with a grant date fair value equivalent to the market value of the Units on each distribution date. On May 18, 2019, 17,909 RUs vested pursuant to the May 18, 2018 Omnibus Equity Incentive Plan and were settled through the issuance of 11,345 Units with a weighted average Unit price of \$10.22.

For the nine months ended September 30, 2020, unit-based compensation expense of \$718 has been recognized in general and administrative expense (\$464 for the nine months ended September 30, 2019). A fair value gain of \$60 for

## **BSR REAL ESTATE INVESTMENT TRUST**

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and the three and nine months ended September 30, 2019

(Unaudited)

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

the nine months ended September 30, 2020 has been recognized in fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss) (\$104 loss for the nine months ended September 30, 2019). As of September 30, 2020, 88,732 RUs and 168,686 PUs were unvested with a carrying amount of \$1,073 recorded in accounts payable and other liabilities in the condensed consolidated interim financial statements.

#### **(26) Subsequent events**

On October 5, 2020, the REIT issued an additional \$2.5m aggregate principal of convertible debentures pursuant to the partial exercise of the over-allotment option granted to a syndicate of underwriters, for aggregate gross proceeds of \$42.5 million.

In November 2020, the REIT sold Indian Hills, Overbrook I, Overbrook V, Woodland Oaks, Baystone and Vanderbilt for a combined contractual purchase price, prior to working capital adjustments and selling costs, of approximately \$130 million for the 1,483 apartment units.