



BSR REAL ESTATE INVESTMENT TRUST

Condensed consolidated interim financial statements (In U.S. dollars)
For the three and nine months ended September 30, 2022 and September 30, 2021
(Unaudited)

BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

In thousands of U.S. dollars

| | Note | September 30, 2022 | December 31, 2021 |
|--|-------|-----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Investment properties | 8 | \$ 2,055,606 | \$ 1,918,167 |
| Right-of-use asset | 17 | 334 | 33 |
| Note receivable | | 5,227 | 5,227 |
| Interest rate swaps | 19(d) | 11,779 | — |
| Prepayment embedded derivatives | 19(e) | 1,372 | 3,521 |
| | | 2,074,318 | 1,926,948 |
| Current assets | | | |
| Cash and cash equivalents | | 9,356 | 6,838 |
| Restricted cash | 5 | 6,998 | 6,868 |
| Interest rate swaps | 19(d) | 8,064 | — |
| Resident and other receivables, net | 6 | 3,386 | 4,240 |
| Prepaid expenses and other assets | 7 | 4,501 | 3,201 |
| | | 32,305 | 21,147 |
| Total assets | | \$ 2,106,623 | \$ 1,948,095 |
| Liabilities and Unitholders' Equity | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | \$ 716,694 | \$ 824,767 |
| Lease liability | 17 | 338 | 34 |
| Class B Units | 11 | 287,764 | 366,365 |
| Convertible debentures | 12 | 44,270 | 51,745 |
| Interest rate swaps | 19(d) | — | 938 |
| | | 1,049,066 | 1,243,849 |
| Current liabilities | | | |
| Accounts payable and other liabilities | 9 | 44,215 | 34,588 |
| Interest rate swaps | 19(d) | — | 1,375 |
| Loans and borrowings | 10 | 1,762 | 1,714 |
| | | 45,977 | 37,677 |
| Total liabilities | | 1,095,043 | 1,281,526 |
| Unitholders' equity | | | |
| Unitholders' equity | 13 | 1,011,580 | 666,569 |
| Subsequent events | 25 | | |
| Total liabilities and unitholders' equity | | \$ 2,106,623 | \$ 1,948,095 |

See accompanying notes to condensed consolidated interim financial statements.

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

In thousands of U.S. dollars

| | | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|------|---|---|--|--|
| | Note | | | | |
| Revenue: | | | | | |
| Rental revenue | | \$ 35,629 | \$ 27,830 | \$ 103,061 | \$ 75,268 |
| Other property income | | 4,920 | 3,875 | 13,820 | 10,253 |
| | 14 | 40,549 | 31,705 | 116,881 | 85,521 |
| Expenses (Income): | | | | | |
| Property operating expenses | 15 | 12,150 | 9,804 | 33,900 | 26,642 |
| Real estate taxes | | 1,045 | (210) | 29,580 | 16,814 |
| General and administrative expenses | | 2,177 | 2,116 | 6,805 | 6,126 |
| Fair value adjustment to investment properties | 8 | 23,449 | (162,302) | (115,598) | (308,466) |
| Fair value adjustment to investment properties (IFRIC 21) | | 5,635 | 5,606 | (8,961) | (2,064) |
| Finance costs from operations | 16 | 8,286 | 8,668 | 21,530 | 21,261 |
| Costs of disposition of investment properties | 4 | — | — | — | 1,689 |
| Distributions on Class B Units | 16 | 2,671 | 2,628 | 7,997 | 8,043 |
| Depreciation of right-of-use asset | 17 | 33 | 33 | 99 | 98 |
| Fair value adjustment to derivatives and other financial liabilities | 16 | (38,330) | 57,084 | (102,565) | 100,965 |
| Fair value adjustment to unit-based compensation | 24 | (354) | 1,285 | 444 | 2,067 |
| | | 16,762 | (75,288) | (126,769) | (126,825) |
| Net income and comprehensive income | | \$ 23,787 | \$ 106,993 | \$ 243,650 | \$ 212,346 |

See accompanying notes to condensed consolidated interim financial statements.

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

In thousands of U.S. dollars

| | Units | Distributions | Cumulative net income | Total Unitholders' Equity |
|---|------------|---------------|--------------------------|---------------------------------|
| Balance, as of January 1, 2021 | \$ 226,366 | \$ (26,025) | \$ 118,322 | \$ 318,663 |
| Net income and comprehensive income | — | — | 212,346 | 212,346 |
| Units issued, net of issuance costs (Note 13) | 76,270 | — | — | 76,270 |
| Distributions | — | (11,170) | — | (11,170) |
| Balance, as of September 30, 2021 | \$ 302,636 | \$ (37,195) | \$ 330,668 | \$ 596,109 |
| | | | | |
| Balance, as of January 1, 2022 | \$ 306,128 | \$ (41,095) | \$ 401,536 | \$ 666,569 |
| Net income and comprehensive income | — | — | 243,650 | 243,650 |
| Units issued, net of issuance costs (Note 13) | 115,083 | — | — | 115,083 |
| Distributions | — | (13,722) | — | (13,722) |
| Balance, as of September 30, 2022 | \$ 421,211 | \$ (54,817) | \$ 645,186 | \$ 1,011,580 |

See accompanying notes to condensed consolidated interim financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

In thousands of U.S. dollars

| | Note | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|------|---|---|
| Operating activities | | | |
| Net income and comprehensive income | | \$ 243,650 | \$ 212,346 |
| Adjustments for: | | | |
| Fair value adjustment to investment properties | 8 | (115,598) | (308,466) |
| Fair value adjustment to derivatives and other financial liabilities | 16 | (102,565) | 100,965 |
| Fair value adjustment to unit-based compensation | 24 | 444 | 2,067 |
| Depreciation of right-of-use asset | 17 | 99 | 98 |
| Unit-based compensation | 24 | 1,758 | 1,382 |
| Finance costs from operations | 16 | 21,530 | 21,261 |
| Costs of disposition of investment properties | 4 | — | 1,689 |
| Accrued distributions on Class B Units | 16 | 7,997 | 8,043 |
| Change in non-cash operating assets and liabilities | 23 | 5,952 | 2,789 |
| Cash provided by operating activities | | 63,267 | 42,174 |
| Investing activities | | | |
| Acquisition of investment properties | 4, 8 | — | (372,369) |
| Net proceeds from sale of investment properties | 4, 8 | — | 70,943 |
| Escrowed rent guaranty cash received | | 2,051 | 2,024 |
| Additions to investment properties | 8 | (22,037) | (8,681) |
| Proceeds from insurance settlements | 8 | 1,214 | — |
| Restricted cash withdrawals, net of deposits | 5 | (106) | 2,291 |
| Cash used in investing activities | | (18,878) | (305,792) |
| Financing activities | | | |
| Proceeds from issuance of units, net of issuance costs | 13 | 109,657 | 65,827 |
| Proceeds from issuance of loans and borrowings | 10 | 171,610 | 557,420 |
| Principal payments of loans and borrowings | 10 | (281,396) | (317,792) |
| Payment of mortgage financing costs | 10 | (672) | (4,481) |
| Principal payments of lease liability | 17 | (96) | (99) |
| Cash payment costs for debt refinances/repayments | | — | (1,609) |
| Redemption of Class B Units in exchange for cash | 11 | (139) | (238) |
| Distributions paid to Class B Unitholders | 11 | (7,970) | (8,075) |
| Distributions paid to Unitholders | | (13,405) | (10,874) |
| Interest paid | | (19,460) | (15,996) |
| Cash (used in) provided by financing activities | | (41,871) | 264,083 |
| Change in cash and cash equivalents during the period | | 2,518 | 465 |
| Cash and cash equivalents, beginning of period | | 6,838 | 5,264 |
| Cash and cash equivalents, end of period | | \$ 9,356 | \$ 5,729 |

See accompanying notes to condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and September 30, 2021 (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 May 11, 2022. The principal business of the REIT is to acquire and operate multi-family residential rental properties across the United States.

As of September 30, 2022, the REIT owns 31 multifamily garden-style residential properties located across three 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 and Oklahoma. 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 Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements were approved by the Board of Trustees on November 8, 2022.

(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, 2021, 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, 2021.

(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 2021, the REIT acquired Vale Frisco Apartments, a 349-unit garden-style residential community in the Dallas/Fort Worth MSA, and Adley at Gleannloch Apartments, a 260-unit garden-style residential community in the Houston MSA, for a combined total contractual purchase price of \$119,405. The transaction was funded using the REIT's Credit Facility. The REIT and the seller entered into a Rent Guaranty Escrow Agreement, allowing the REIT to collect up to \$2,325 through March 2022 to supplement rental income as these properties are being leased. This agreement was initially valued at \$2,325 with no rent guaranty outstanding as of September 30, 2022.

In May 2021, the REIT acquired Alleia Long Meadow Farms ("Alleia"), a 400-unit big house style residential community in the Houston MSA for a contractual purchase price of \$75,600. The transaction was funded using the Credit Facility. The REIT and the seller entered into a Rent Guaranty Escrow Agreement, allowing the REIT to collect

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up to \$2,080 through May 2022 to supplement rental income as this property is being leased up. This agreement was valued at \$2,080 with no rent guaranty outstanding as of September 30, 2022.

In July 2021, the REIT acquired Hangar 19, a 351-unit garden-style residential community in the Dallas/Fort Worth MSA for a total contractual purchase price of \$82,750. The transaction was funded using the REIT's Credit Facility.

In September 2021, the REIT acquired Aura 36Hundred, a 356-unit garden-style residential community in the Austin MSA for a total contractual purchase price of \$93,750. The transaction was funded with \$51,000 in mortgage debt and the Credit Facility.

In December 2021, the REIT acquired Aura Benbrook Apartments, a 301-unit garden-style residential community in the Dallas/Fort Worth MSA, Overlook by the Park Apartments, a 384-unit midrise suburban community in the Dallas/Fort Worth MSA, and The M at Lakeline Apartments, a 374-unit big house style residential community in the Austin MSA, for a combined contractual purchase price of \$273,600. The transaction was funded using the REIT's Credit Facility and cash on hand.

(b) Dispositions

All disposition contractual purchase prices noted below are presented prior to working capital adjustments and selling costs. Unless otherwise noted, existing loans and borrowings were not assumed by the purchasers. Proceeds from dispositions were used to retire and/or repay loans and borrowings and to fund future acquisitions.

In February 2021, the REIT sold Towne Park located in the Northwest Arkansas MSA for a contractual purchase price of \$31,715 for the 237 apartment units. As part of the sale, the buyer assumed the REIT's in-place mortgage financing of \$18,785.

In March 2021, the REIT sold Capri and Colony Square located in the Blytheville MSA for a combined contractual purchase price of \$3,100 for the 196 apartment units.

In April 2021, the REIT sold Mountain Ranch located in the Northwest Arkansas MSA for a contractual purchase price of \$49,500 million for the 360 apartment units.

In May 2021, the REIT sold Regency Woods located in the Pascagoula Mississippi MSA for a contractual purchase price of \$8,350 million for the 184 apartment units.

In November 2021, the REIT sold Windhaven Park Apartments and Heritage at Hillcrest Apartments, located in the Dallas/Fort Worth and Austin MSAs, respectively, for a combined contractual purchase price of \$147,900 for the 760 apartment units.

There were no investment property dispositions during the nine months ended September 30, 2022. Costs of disposition of investment properties of \$1,689 for the nine months ended September 30, 2021 represents the difference between the net sale proceeds and the value of the investment properties on the date of disposition. Such costs are primarily comprised of selling costs, including legal fees, consulting fees and brokerage commissions. The costs of disposition of investment properties are recognized in the statement of net income and comprehensive income in the period of sale.

(5) Restricted cash

| | September 30, 2022 | December 31, 2021 |
|--------------------------|-----------------------|----------------------|
| Tenant security deposits | \$ 1,707 | \$ 1,683 |
| Replacement reserve | 723 | 769 |
| Lender escrow deposits | 4,568 | 4,416 |
| Restricted cash | \$ 6,998 | \$ 6,868 |

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(6) Resident and other receivables, net

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|----------------------|
| Resident receivables, net | \$ 201 | \$ 470 |
| Utility reimbursements and other receivables | 3,185 | 3,770 |
| Resident and other receivables, net | \$ 3,386 | \$ 4,240 |

(7) Prepaid expenses and other assets

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|----------------------|
| Prepaid insurance | \$ 2,441 | \$ 1,003 |
| Other assets | 2,060 | 2,198 |
| Prepaid expenses and other assets | \$ 4,501 | \$ 3,201 |

(8) Investment properties

A reconciliation of the carrying value for investment properties is set out below:

| | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|
| Investment properties in use, beginning of period | \$ 1,918,167 | \$ 1,081,383 |
| Property acquisitions | — | 369,770 |
| Property dispositions | — | (92,415) |
| Additions to investment properties | 8,636 | 8,670 |
| Proceeds from insurance claim | (1,214) | — |
| Change in fair value of investment properties | 115,598 | 308,466 |
| | 2,041,187 | 1,675,874 |
| IFRIC 21 fair value adjustment | 8,961 | 4,838 |
| IFRIC 21 real estate tax liability adjustment | (8,961) | (4,838) |
| Investment property in use, end of period | 2,041,187 | 1,675,874 |
| Investment property under development, beginning of period | — | — |
| Additions to investment property under development | 14,419 | — |
| Investment property under development, end of period | 14,419 | — |
| Investment properties, end of period | \$ 2,055,606 | \$ 1,675,874 |

The REIT uses an internal valuation process to value the investment properties as of September 30, 2022. 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. As part of management's internal valuation program, the REIT considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations across the REIT's portfolio and updates, as deemed necessary, the valuation models to reflect current market data.

The estimated fair value of each investment property was determined using the direct capitalization income method. The stabilized future 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

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used to derive capitalization rates include property age, amenities, renovations, geographic region, capital expenditures assumptions and location.

A significant increase (decrease) in stabilized future cash flows 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 following table summarizes the significant unobservable inputs used in the valuation of the REIT's properties in use:

| | September 30, 2022 | December 31, 2021 |
|-----------------------------|-----------------------|----------------------|
| Capitalization rates | | |
| High | 5.7% | 5.5% |
| Low | 3.7% | 3.5% |
| Weighted average | 4.0% | 4.1% |

The estimated fair values of investment properties are most sensitive to changes in capitalization rates and stabilized future cash flows. The following table summarizes the potential impact of increases or decreases in these assumptions.

| | Change in weighted average capitalization rate assumption | | | | |
|--|---|----------------------|-------------|----------------------|----------------------|
| | Increase of 0.50% | Increase of 0.25% | No change | Decrease of 0.25% | Decrease of 0.50% |
| Change in stabilized future cash flows assumption | | | | | |
| Decrease of 1.0% | \$ (245,750) | \$ (139,748) | \$ (20,556) | \$ 114,450 | \$ 268,642 |
| No change | \$ (227,469) | \$ (120,396) | \$ — | \$ 136,370 | \$ 292,119 |
| Increase of 1.0% | \$ (209,187) | \$ (101,044) | \$ 20,556 | \$ 158,290 | \$ 315,597 |

In July 2022, the REIT entered into an agreement to jointly develop phase II of Aura 36Hundred in the Austin, Texas metropolitan statistical area. The 238 apartment unit development is expected to be completed in 2024 with a projected total cost of \$59.5 million. During the nine months ended September 30, 2022, the REIT capitalized \$71 of borrowing costs related to a development project under construction at an average interest rate of 3.3%.

(9) Accounts payable and other liabilities

| | September 30, 2022 | December 31, 2021 |
|---|-----------------------|----------------------|
| Trade payables | \$ 349 | \$ 839 |
| Accrued capital expenditures | 1,605 | 587 |
| Accrued property tax liabilities | 22,451 | 13,901 |
| Accrued and other liabilities | 12,236 | 11,554 |
| Distributions payable | 2,510 | 2,165 |
| Interest payable on loans and borrowings | 1,306 | 1,139 |
| Interest payable on convertible debentures | — | 530 |
| Tenant security deposits | 1,707 | 1,525 |
| Rent received in advance | 2,051 | 2,348 |
| Accounts payable and other liabilities | \$ 44,215 | \$ 34,588 |

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(10) Loans and borrowings

| | September 30, 2022 | December 31, 2021 |
|---|-----------------------|----------------------|
| Fixed or economically hedged to fixed rate mortgage notes payable | \$ 339,499 | \$ 340,774 |
| Variable rate mortgage notes payable | 160,000 | 148,500 |
| Net unamortized discount on mortgage notes payable | (567) | (602) |
| Net unamortized deferred financing costs | (5,956) | (7,686) |
| Credit Facility | 225,480 | 345,495 |
| Total loans and borrowings | 718,456 | 826,481 |
| Less: current portion of loans and borrowings | (1,762) | (1,714) |
| Non-current loans and borrowings | \$ 716,694 | \$ 824,767 |

Mortgage notes

The REIT's weighted average contractual interest rate on mortgage notes as of September 30, 2022 and December 31, 2021 was approximately 3.4% and 2.9%, respectively, which excludes the finance cost impact related to 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, 2022 and December 31, 2021 was approximately 3.4% and 3.1%, respectively. Mortgage notes as of September 30, 2022 mature at various dates from 2024 through 2056.

Credit Facility

The REIT maintains a revolving credit facility (the "Credit Facility") with a maximum revolving credit availability of \$500,000, of which \$392,797 was available as of September 30, 2022 based on borrowing base properties. As of September 30, 2022, the Credit Facility was secured by thirteen of the REIT's investment properties and is due on September 30, 2025. The Credit Facility currently bears interest at an Adjusted Term Secured Overnight Financing Rate ("SOFR"), as defined in the Credit Facility, plus 1.45% to 1.90% 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 0.45% to 0.90% plus the greatest of the bank's prime rate, the Federal Funds Rate plus 0.5%, or the term SOFR rate, plus 1.0%. As of September 30, 2022 and December 31, 2021, the balance outstanding on the Credit Facility was \$225,480 and \$345,495 at a variable interest rate of 4.6% and 1.7%, respectively.

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.

In July 2022 the REIT entered into three receive-variable based on 1 Month USD-SOFR CME/pay fixed interest rate swaps on an aggregate notional value of \$280,000 (note 19).

Loss on extinguishment of debt

During the nine months ended September 30, 2022, the REIT incurred a loss on extinguishment of debt of \$853 associated with the non-cash write-off of existing deferred financing costs associated with the refinancing of mortgages on four properties.

During the nine months ended September 30, 2021, the REIT incurred a loss on extinguishment of debt of \$4,323 associated with the refinancing of mortgages on two properties, as well as a defeasance premium and non-cash write-off of existing deferred financing costs associated with mortgages either assumed or defeased upon property dispositions.

Total loans and borrowings

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of September 30, 2022, are in the table below. Contractual interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of September 30, 2022.

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| | Principal | Balloon payment | Contractual Interest | Total payments |
|------------|------------------|-------------------|-------------------------|-------------------|
| 2022 | \$ 430 | \$ — | \$ 7,168 | \$ 7,598 |
| 2023 | 1,779 | — | 28,408 | 30,187 |
| 2024 | 1,842 | 160,000 | 26,396 | 188,238 |
| 2025 | 1,200 | 273,455 | 17,375 | 292,030 |
| 2026 | 840 | 28,900 | 8,394 | 38,134 |
| Thereafter | 37,193 | 219,340 | 34,815 | 291,348 |
| | \$ 43,284 | \$ 681,695 | \$ 122,556 | \$ 847,535 |

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, 2022, 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, 2022 | Nine months ended September 30, 2021 |
|--|---|---|
| Loans and borrowings, beginning of period | \$ 826,481 | \$ 475,912 |
| <i>Cash flows</i> | | |
| Proceeds from issuance of loans and borrowings | 171,610 | 557,420 |
| Principal payments of loans and borrowings | (281,396) | (317,792) |
| Payment of mortgage financing costs | (672) | (4,481) |
| | (110,458) | 235,147 |
| <i>Non-cash changes</i> | | |
| Loan transferred in property disposition - Towne Park | — | (18,785) |
| Unamortized net discount release on dispositions and mortgage refinances | 853 | 822 |
| Amortization of deferred financing costs | 1,545 | 1,131 |
| Amortization of net discount on mortgage notes payable | 35 | 361 |
| | 2,433 | (16,471) |
| Loans and borrowings, end of period | \$ 718,456 | \$ 694,588 |

(11) Class B Units

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).

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

| | Units | | Value |
|---|-------------------|-----------|----------------|
| Class B Units, as of December 31, 2020 | 21,707,767 | \$ | 244,212 |
| <i>Cash changes</i> | | | |
| Redemption of Class B Units in exchange for cash | (18,318) | | (238) |
| <i>Non-cash changes</i> | | | |
| Redemption of Class B Units in exchange for Units | (740,706) | | (9,718) |
| Fair value adjustments | — | | 96,106 |
| Class B Units, as of September 30, 2021 | 20,948,743 | \$ | 330,362 |
| Class B Units, as of December 31, 2021 | 20,710,281 | \$ | 366,365 |
| <i>Cash changes</i> | | | |
| Redemption of Class B Units in exchange for cash | (7,725) | | (139) |
| <i>Non-cash changes</i> | | | |
| Redemption of Class B Units in exchange for Units | (147,970) | | (2,578) |
| Fair value adjustments | — | | (75,884) |
| Class B Units, as of September 30, 2022 | 20,554,586 | \$ | 287,764 |

(12) Convertible debentures

On September 3, 2020, the REIT issued \$40,000 of 5.0% 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”).

On October 5, 2020, the REIT issued an additional \$2,500 of convertible debentures pursuant to the partial exercise of the over-allotment option granted to a syndicate of underwriters, for aggregate gross proceeds of \$42,500.

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 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 the REIT, in whole or in part, at a price equal to the principal plus accrued and unpaid interest. Additionally, the REIT may, at its option, elect to satisfy its obligation to pay all or any portion of the redemption by issuing Units to the holders at a value of 95% of the current market price of the Units on the redemption date.

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 (Level 1). An increase in the convertible debentures closing price over the period results in an increase in the liability and a corresponding fair value loss whereas a decrease in the convertible debentures closing price over the period results in a decrease in the liability and a corresponding fair value gain.

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

| | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|---|---|
| Convertible debentures, beginning of period | \$ 51,745 | \$ 41,756 |
| <i>Non-cash changes</i> | | |
| Redemption of Convertible Debentures in exchange for Units | (801) | \$ — |
| Fair value adjustments | (6,674) | 5,632 |
| Convertible debentures, end of period | \$ 44,270 | \$ 47,388 |

(13) 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 February 9, 2021, the REIT completed a follow-on offering of 6,302,000 Units ("February 2021 Offering") for gross proceeds of \$69,007, or \$65,349 net of issue and other transaction costs.

On April 29, 2022, the REIT completed a follow-on offering of 5,888,000 Units ("April 2022 Offering") for gross proceeds of approximately \$115,110, or \$109,657 net of issue and other transaction costs, including the exercise of the overallotment option by underwriters in full.

| | Units | Value |
|--|-------------------|-------------------|
| Units outstanding, classified as equity, as of January 1, 2021 | 23,863,511 | \$ 226,366 |
| Units issued on completion of the February 2021 Offering, net of issuance cost | 6,302,000 | 65,349 |
| Issuance of Units for unit-based compensation | 54,313 | 725 |
| Issuance of Units in exchange for Class B Units | 977,815 | 13,584 |
| Issuance of Units in exchange for Convertible Debentures | 5,971 | 104 |
| Units outstanding, classified as equity, as of December 31, 2021 | 31,203,610 | \$ 306,128 |
| Units issued on completion of the April 2022 Offering, net of issuance costs | 5,888,000 | 109,657 |
| Issuance of Units for unit-based compensation | 104,071 | 2,047 |
| Issuance of Units in exchange for Class B Units | 147,970 | 2,578 |
| Issuance of Units in exchange for Convertible Debentures | 45,137 | 801 |
| Units outstanding, classified as equity, as of September 30, 2022 | 37,388,788 | \$ 421,211 |

(14) 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 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.

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

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|-----------------------|--|--|---|---|
| Lease revenue | \$ 34,827 | \$ 27,079 | \$ 100,804 | \$ 73,306 |
| Revenue from services | 5,722 | 4,626 | 16,077 | 12,215 |
| Total revenue | \$ 40,549 | \$ 31,705 | \$ 116,881 | \$ 85,521 |

(15) Property operating expenses

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|------------------------------------|--|--|---|---|
| Employee wages and benefits | \$ 4,556 | \$ 3,762 | \$ 12,954 | \$ 10,632 |
| Utility costs | 2,474 | 2,114 | 7,005 | 5,846 |
| Repairs and maintenance expense | 1,927 | 1,430 | 4,897 | 3,737 |
| Other property based costs | 3,193 | 2,498 | 9,044 | 6,427 |
| Property operating expenses | \$ 12,150 | \$ 9,804 | \$ 33,900 | \$ 26,642 |

(16) Finance costs

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

| | Three months ended September 30, 2022 | Three months ended September 30, 2021 | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|--|--|
| Finance costs from operations | | | | |
| Interest expense on loans and borrowings at stated rate | \$ 6,608 | \$ 4,714 | \$ 17,176 | \$ 12,712 |
| Interest expense on lease liability | 4 | 1 | 8 | 4 |
| Amortization of deferred financing costs | 523 | 458 | 1,545 | 1,131 |
| Amortization of net discount on loans and borrowings | 8 | 107 | 35 | 361 |
| Loss on extinguishment of debt | 853 | 2,472 | 853 | 4,323 |
| Interest expense on convertible debentures | 523 | 527 | 1,578 | 1,581 |
| Interest (income) expense on interest rate swaps | (178) | 443 | 497 | 1,311 |
| Interest income on note receivable and other interest bearing | (55) | (54) | (162) | (162) |
| Finance costs from operations | 8,286 | 8,668 | 21,530 | 21,261 |
| Fair value adjustment to derivatives and other financial liabilities | | | | |
| Fair value adjustment to Class B Units | (20,299) | 53,800 | (75,884) | 96,106 |
| Fair value adjustment to convertible debentures | (1,670) | 3,936 | (6,674) | 5,632 |
| Fair value adjustment to interest rate swaps | (16,541) | (466) | (22,156) | (2,672) |
| Fair value adjustment to prepayment embedded derivatives | 180 | (186) | 2,149 | 1,899 |
| Fair value adjustment to derivatives and other financial liabilities | (38,330) | 57,084 | (102,565) | 100,965 |

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Finance costs

| | | | | |
|---|--------------------|------------------|--------------------|-------------------|
| Finance costs from operations | 8,286 | 8,668 | 21,530 | 21,261 |
| Fair value adjustment to derivatives and other financial liabil | (38,330) | 57,084 | (102,565) | 100,965 |
| Distributions on Class B Units | 2,671 | 2,628 | 7,997 | 8,043 |
| Finance costs | \$ (27,373) | \$ 68,380 | \$ (73,038) | \$ 130,269 |

(17) 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, 2022.

As of September 30, 2022, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows:

| | September 30, 2022 |
|---------|-----------------------|
| 1 year | \$ 91,024 |
| 2 years | 2,790 |
| | \$ 93,814 |

The REIT's Little Rock, Arkansas headquarters was leased with a term that expired in March 2022 and subsequently renewed in April 2022 with a lease term that expires in March 2025 (see note 22). This lease requires monthly payments of \$12. The headquarters lease was accounted for as a right-of-use asset with a corresponding lease liability under IFRS 16. The REIT recognized \$8 in interest expense on the lease liability for the nine months ended September 30, 2022 (\$4 for the nine months ended September 30, 2021).

The following tables present the change in the right-of-use asset and corresponding lease liability for the nine months ended September 30, 2022 and September 30, 2021:

| | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|---|---|
| Right-of-use asset, as of beginning of period | \$ 33 | \$ 163 |
| Depreciation of right-of use asset | (99) | (98) |
| Union Station lease amendment | 400 | — |
| Right-of-use asset, as of end of period | \$ 334 | \$ 65 |

| | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|---|---|---|
| Lease liability, as of beginning of period | \$ 34 | \$ 166 |
| Principal payments on lease liability | (96) | (99) |
| Union Station lease amendment | 400 | — |
| Lease liability, as of end of period | \$ 338 | \$ 67 |

The REIT recorded lease expenses of \$48 during the nine months ended September 30, 2022 for additional low-value leased office equipment (\$49 for the nine months ended September 30, 2021).

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(18) Commitments and contingencies

The REIT is subject to 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 condensed consolidated interim financial statements.

(19) 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, 2022, the REIT's mortgage debt was 100% 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, 2022, the REIT's debt was 92% fixed or economically hedged to fixed rates, excluding net unamortized discounts on mortgages payable and net unamortized deferred financing costs. Following the commencement of the \$65,000 swap beginning on January 3, 2023, 100% of the REIT's debt will be fixed or economically hedged to fixed rates.

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, 2022, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a \$151 change in the REIT's finance costs over the next 12 months.

The REIT has no material 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 COVID-19 pandemic.

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 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.

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The REIT manages maturities of the fixed rate mortgages and monitors the repayment dates of all loans and borrowings to ensure sufficient capital will be available to cover obligations. As of September 30, 2022, the REIT had a working capital deficit of \$13,672. In the normal course of business, a portion of the REIT's borrowings under mortgage notes, convertible debentures, the Credit Facility and the Line of Credit with a maturity date less than one year are 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 cash flows and 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 | 5 years | More than 5 years |
|--|-------------------|------------------------|------------------|-------------------|-------------------|------------------|-----------------|-------------------|
| Loans and borrowings | \$ 718,456 | \$ 724,979 | \$ 1,763 | \$ 161,825 | \$ 274,914 | \$ 29,732 | \$ 862 | \$ 255,883 |
| Interest payable | 1,306 | 122,555 | 28,425 | 28,194 | 20,470 | 8,581 | 8,301 | 28,584 |
| Convertible debentures | 44,270 | 41,764 | — | — | 41,764 | — | — | — |
| Interest payable on convertible debentures | — | 6,265 | 2,088 | 2,088 | 2,088 | — | — | — |
| Lease liability | 338 | 358 | 358 | — | — | — | — | — |
| Capital improvements liability | 1,605 | 1,605 | 1,605 | — | — | — | — | — |
| Accounts payable and other liabilities | 41,304 | 41,304 | 41,304 | — | — | — | — | — |
| | \$ 807,279 | \$ 938,830 | \$ 75,543 | \$ 192,107 | \$ 339,236 | \$ 38,313 | \$ 9,163 | \$ 284,467 |

(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, note receivable 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.

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 (Level 2).

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

(c) Loans and borrowings

| | September 30, 2022 | December 31, 2021 |
|-----------------|--------------------|-------------------|
| Carrying amount | \$ 718,456 | \$ 826,481 |
| Fair value | \$ 679,996 | \$ 837,805 |

(d) Interest rate swaps

The REIT has entered into interest rate swap agreements related to certain loans (three receive-variable based on 1 Month USD – LIBOR/pay fixed swaps and three receive-variable based on 1 Month USD – SOFR CME/pay fixed). The interest rate swaps are not designated 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.

Upon the upcoming transition from LIBOR in 2023, the REIT's swap agreements will migrate to an elective alternative benchmark of either Term SOFR and a related benchmark adjustment, Daily Simple SOFR and a related

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benchmark adjustment or an alternative benchmark based on future legislative or then-market benchmark replacement determinations.

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.

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.

On July 1, 2022, the REIT entered into a receive-variable based on 1 Month USD-SOFR CME/pay fixed interest rate swap on a notional value of \$150,000 at a fixed rate of 2.16%. The swap began on September 1, 2022 and matures on August 31, 2029, subject to the counterparty's optional early termination date of July 3, 2025.

On July 7, 2022, the REIT entered into a receive-variable based on 1 Month USD-SOFR CME/pay fixed interest rate swap on a notional value of \$65,000 at a fixed rate of 2.18%. The swap began on September 1, 2022 and matures on August 31, 2029, subject to the counterparty's optional early termination date of July 3, 2024.

On July 28, 2022, the REIT entered into a receive-variable based on 1 Month USD-SOFR CME/pay fixed interest rate swap on a notional value of \$65,000 at a fixed rate of 2.09%. The swap begins on January 3, 2023 and matures on July 27, 2029, subject to the counterparty's optional early termination date of July 3, 2026.

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, 2022 | December 31, 2021 |
|---|-----------------------|----------------------|
| <i>Interest rate swaps</i> | | |
| Current portion | \$ 8,064 | \$ (1,375) |
| Non-current portion | 11,779 | (938) |
| Interest rate swaps, end of period | \$ 19,843 | \$ (2,313) |

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of September 30, 2022:

| | Maturity date | Fixed rate | Original notional amount | Notional amount | Carrying value and fair value |
|--|------------------|---------------|--------------------------------|--------------------|----------------------------------|
| <i>Interest rate swap agreements, as of September 30, 2022</i> | | | | | |
| Raymond James | 9/1/2025 | 5.07% | \$ 12,265 | \$ 2,865 | \$ (120) |
| Bank of Montreal | 8/30/2024 | 1.21% | 20,000 | 20,000 | 1,173 |
| Bank of Montreal | 6/10/2025 | 1.70% | 80,000 | 80,000 | 5,111 |
| Bank of Montreal | 8/31/2029 | 2.16% | 150,000 | 150,000 | 7,477 |
| Bank of Montreal | 8/31/2029 | 2.18% | 65,000 | 65,000 | 2,394 |
| Bank of Montreal (begins 1/3/2023) | 7/27/2029 | 2.09% | 65,000 | 65,000 | 3,808 |
| | | | \$ 392,265 | \$ 382,865 | \$ 19,843 |

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of September 30, 2021:

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| | Maturity date | Fixed rate | Original notional amount | Notional amount | Carrying value and fair value |
|---|---------------|------------|--------------------------|-------------------|-------------------------------|
| <i>Interest rate swap agreements, as of December 31, 2021</i> | | | | | |
| Raymond James | 9/1/2025 | 5.07% | \$ 12,265 | \$ 3,715 | \$ (426) |
| Bank of Montreal | 8/30/2024 | 1.21% | 20,000 | 20,000 | (131) |
| Bank of Montreal | 6/10/2025 | 1.70% | 80,000 | 80,000 | (1,756) |
| | | | \$ 112,265 | \$ 103,715 | \$ (2,313) |

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 and comprehensive income.

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, 2022 | Nine months ended September 30, 2021 |
|---|--|--|
| Interest rate swaps, beginning of period | \$ (2,313) | \$ (6,537) |
| <i>Non-cash changes</i> | | |
| Fair value adjustment to interest rate swaps | 22,156 | 2,672 |
| Interest rate swaps, end of period | \$ 19,843 | \$ (3,865) |

(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 and 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).

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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, 2022 | Nine months ended September 30, 2021 |
|---|---|---|
| Prepayment embedded derivatives, beginning of period | \$ 3,521 | \$ 7,024 |
| <i>Non-cash changes</i> | | |
| Prepayment embedded derivative derecognized due to debt refinancing | — | (1,892) |
| Fair value adjustment to prepayment embedded derivatives | (2,149) | (1,899) |
| Prepayment embedded derivatives, end of period | \$ 1,372 | \$ 3,233 |

(20) 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.

(21) 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 the REIT. 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.

(22) 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 \$1,559 were declared to Bailey/Hughes holders for the nine months ended September 30, 2022 (\$1,350 for the nine months ended September 30, 2021).
- Distributions on Class B Units of \$5,227 were declared to key management personnel, primarily the Bailey/Hughes Holders, for the nine months ended September 30, 2022 (\$5,203 for the nine months ended September 30, 2021). 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 \$6,268 paid to key management personnel for the nine months ended September 30, 2022 (\$3,289 for the nine months ended September 30, 2021), which includes short-term employee compensation and benefits and unit-based compensation. The REIT's former Chief Executive Officer (as of January 1, 2022, the current Executive Vice-Chair of the Board) did not receive any compensation for services rendered during 2021.
- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT's Chief Executive Officer, President & Chief Investment Officer, Dan Oberste, and the former Chief Executive Officer (as of January 1, 2022, the Executive Vice-Chair of the Board), John S. Bailey. The current lease term expires in March 2025 (see note 17).

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(23) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

| | Nine months ended September 30, 2022 | Nine months ended September 30, 2021 |
|--|---|---|
| Resident and other receivables, net | \$ (1,197) | \$ (689) |
| Prepaid expenses and other assets | (1,300) | (821) |
| Accounts payable and other liabilities | 8,449 | 4,299 |
| | \$ 5,952 | \$ 2,789 |

(24) 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 by the volume-weighted average trading price of a Unit on the TSX for the five trading days prior to the date of the award. Elections are irrevocable for the year in respect of which they are made. The Deferred Units earn additional Deferred Units for distributions that would otherwise have been payable in cash. Deferred Units granted to Trustees vest immediately upon grant. The grant date value of the amount payable is recognized in general and administrative expenses, with a corresponding increase in accounts payable and other liabilities.

For the nine months ended September 30, 2022, \$881 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net income and comprehensive income (\$509 for the nine months ended September 30, 2021). The Deferred Units are measured at fair value at each reporting period using the closing market price of Units and the change in fair value is recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income and comprehensive income.

| | Units | Value |
|--|----------------|-----------------|
| Deferred units, as of December 31, 2020 | 179,230 | \$ 2,017 |
| <i>Non-cash changes</i> | | |
| Deferred trust units issued | 39,597 | 509 |
| Fair value adjustments | — | 926 |
| Deferred units issued, as of September 30, 2021 | 218,827 | \$ 3,452 |
| Deferred units issued, as of December 31, 2021 | 228,628 | \$ 4,045 |
| <i>Non-cash changes</i> | | |
| Deferred trust units issued | 53,680 | 881 |
| Fair value adjustments | — | (974) |
| Deferred units issued, as of September 30, 2022 | 282,308 | \$ 3,952 |

Unit-based compensation

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

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Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and September 30, 2021 (Unaudited)

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

RUs and 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 at each reporting period using the closing market price of Units with changes in fair value recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income and comprehensive income.

On March 12, 2021 the REIT granted 38,185 and 57,278 RUs and PUs, respectively, with a grant date fair value of \$10.91 per Unit. On March 11, 2022, the REIT granted 29,000 and 43,500 RUs and PUs, respectively, with a grant date fair value of \$20.15 per Unit. On January 1, 2021, 28,280 RUs vested and were settled through the issuance of 15,837 Units with a weighted average Unit price of \$11.25 with the remainder of RUs settled in cash for applicable income taxes. On May 18, 2021 19,661 RUs vested and were settled through the issuance of 12,338 Units with a weighted average Unit price of \$11.80 with the remainder of RUs settled in cash for applicable income taxes. On August 13, 2021, 44,381 PUs vested and were settled through the issuance of 26,138 Units with a weighted average Unit price of \$15.35 with the remainder of PUs settled in cash for applicable income taxes. On January 1, 2022, 42,451 RUs vested and were settled through the issuance of 23,456 Units with a weighted average Unit price of \$17.69 with the remainder of RUs settled in cash for applicable income taxes. On March 11, 2022, 134,236 PUs vested resulting from a maximum payout of 200% under the 2019 equity incentive plan. This vesting was settled through the issuance of 80,615 Units with a weighted average Unit price of \$20.15 with the remainder settled in cash for applicable income taxes. The REIT granted an additional 13,627 RUs and 23,483 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.

For the nine months ended September 30, 2022, unit-based compensation expense of \$877 has been recognized in general and administrative expense (\$873 for the nine months ended September 30, 2021). A fair value loss of \$1,418 for the nine months ended September 30, 2022 has been recognized in fair value adjustment to unit-based compensation in the consolidated statement of net income and comprehensive income (\$1,141 loss for the nine months ended September 30, 2021). As of September 30, 2022, 70,957 RUs and 170,857 PUs were unvested with a carrying amount of \$1,861 recorded in accounts payable and other liabilities in the condensed consolidated interim financial statements. As of December 31, 2021, 83,050 RUs and 191,016 PUs were unvested with a carrying amount of \$3,021 recorded in accounts payable and other liabilities in the condensed consolidated interim financial statements.

| | Equity Incentive Plans - Restricted Units | | | | | Total |
|---|---|---------------|---------------|---------------|---------------|---------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | |
| Opening balance of units, as of January 1, 2021 | 19,294 | 28,714 | 41,766 | - | - | 89,774 |
| Units granted | - | - | - | 38,185 | - | 38,185 |
| Distribution equivalents issued | 367 | 562 | 1,079 | 1,024 | - | 3,032 |
| Units vested | (19,661) | (14,358) | (13,922) | - | - | (47,941) |
| Closing balance of units, as of December 31, 2021 | - | 14,918 | 28,923 | 39,209 | - | 83,050 |
| Units granted | - | - | - | - | 29,000 | 29,000 |
| Distribution equivalents issued | - | - | 326 | 580 | 452 | 1,358 |
| Units vested | - | (14,918) | (14,463) | (13,070) | - | (42,451) |
| Closing balance of units, as of September 30, 2022 | - | - | 14,786 | 26,719 | 29,452 | 70,957 |

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

| | Equity Incentive Plans - Performance Units | | | | | Total |
|---|--|---------------|---------------|---------------|---------------|----------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | |
| Opening balance of units, as of January 1, 2021 | 43,411 | 64,612 | 62,645 | - | - | 170,668 |
| Units granted | - | - | - | 57,278 | - | 57,278 |
| Distribution equivalents issued | 970 | 2,506 | 2,435 | 1,540 | - | 7,451 |
| Units vested | (44,381) | - | - | - | - | (44,381) |
| Closing balance of units, as of December 31, 2021 | - | 67,118 | 65,080 | 58,818 | - | 191,016 |
| Units granted | - | 67,118 | - | - | 43,500 | 110,618 |
| Distribution equivalents issued | - | - | 1,457 | 1,319 | 683 | 3,459 |
| Units vested | - | (134,236) | - | - | - | (134,236) |
| Closing balance of units, as of September 30, 2022 | - | - | 66,537 | 60,137 | 44,183 | 170,857 |

(25) Subsequent events

On October 3, 2022, the TSX accepted the REIT's notice of intention to make a normal course issuer bid for a portion of Units. Pursuant to the notice, the REIT may purchase for cancellation up to a maximum of 3,322,107 Units, or approximately 10% of the public float as of September 29, 2022, over the 12-month period commencing October 6, 2022.

The REIT purchased and canceled 199,650 Units under its normal course issuer bid and automatic securities purchase plan at an average price of \$13.99 per Unit through November 7, 2022.