BSR REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements (In U.S. dollars)
For the period from January 9, 2018 (date of formation) to December 31, 2018

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITORS' REPORT

To the Unitholders of BSR Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of BSR Real Estate Investment Trust (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of net income and comprehensive income for the period from January 9, 2018 to December 31, 2018;
- the consolidated statement of changes in unitholders' equity for the period from January 9, 2018 to December 31, 2018;
- the consolidated statement of cash flows for the period from January 9, 2018 to December 31, 2018; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the period from January 9, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report."

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Thomas Rothfischer.

Toronto, Canada

March 7, 2019

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Financial Position

In thousands of U.S. dollars

	Note		December 31, 2018
Assets			
Non-current assets			
Investment properties	10	$	937,551
Prepayment embedded derivatives	22(e)		6,964
			944,515
Current assets			
Cash and cash equivalents			7,577
Restricted cash	7		12,594
Resident and other receivables, net	8		2,337
Prepaid expenses and other assets	9		1,940
			24,448
Total assets		**$**	**968,963**
Liabilities and Unitholders' Equity			
Non-current liabilities			
Loans and borrowings	12		433,045
Class B Units	14		185,266
Interest rate swaps	22(d)		606
Tenant in common interests	13		3,749
			622,666
Current liabilities			
Accounts payable and other liabilities	11		19,679
Interest rate swaps	22(d)		149
Loans and borrowings	12		37,956
			57,784
Total liabilities			680,450
Unitholders' equity			
Unitholders' equity			288,513
Total liabilities and unitholders' equity		**$**	**968,963**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Net Income and Comprehensive Income

In thousands of U.S. dollars		*Refer to Note 1*
	Note	**Period from January 9, 2018 to December 31, 2018**
Revenue:		
Rental revenue		$ 55,838
Other property income		8,235
	17	64,073
(Expenses) Income:		
Property operating expenses	18	(24,350)
Real estate taxes	3(l)	(1,205)
General and administrative expenses		(3,931)
Fair value adjustment to investment properties	10	9,522
Fair value adjustment to investment properties (IFRIC 21)		(4,600)
Finance costs from operations	19	(11,058)
Distributions on Class B Units	19	(7,163)
Fair value adjustment to derivatives and other financial liabilities	19	47,703
Change in tenant in common interests	13, 19	11
Bargain purchase gain	6	74,950
		79,879
Net income and comprehensive income		**$ 143,952**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Changes in Unitholders' Equity

For the period from January 9, 2018 (date of formation) to December 31, 2018

In thousands of U.S. dollars

	REIT units	Distributions	Cumulative net income	Total
Balance, beginning of period	**$ —**	**$ —**	**$ —**	**$ —**
Units issued, net of issue costs (note 15)	149,678	—	—	149,678
Net income and comprehensive income	—	—	143,952	143,952
Distributions	—	(5,117)	—	(5,117)
Balance, end of period	**$ 149,678**	**$ (5,117)**	**$ 143,952**	**$ 288,513**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Statement of Cash Flows

In thousands of U.S. dollars	Note	*Refer to Note 1* **Period from January 9, 2018 to December 31, 2018**
Operating activities		
Net income		$ 143,952
Adjustments for:		
Fair value adjustment to investment properties	10	(9,522)
Fair value adjustment to Class B Units	14	(46,316)
Fair value adjustment to interest rate swaps	22(d)	36
Fair value adjustment to prepayment embedded derivatives	22(e)	(1,342)
Fair value adjustment to unit based compensation	27	(81)
Change in tenant in common interests	13	(11)
Unit-based compensation	27	679
Bargain purchase gain	6	(74,950)
Finance costs from operations	19	11,058
Accrued distributions on Class B Units	19	7,163
Change in non-cash operating assets and liabilities	26	168
Cash provided by operating activities		**30,834**
Investing activities		
Acquisition of investment property	6	(77,746)
Cash balances transferred in acquisition of BSR Initial Properties	6	2,400
Additions to investment properties	10	(13,088)
Deposits of restricted cash, net of withdrawals	7	(1,352)
Cash used in investing activities		**(89,786)**
Financing activities		
Proceeds from issuance of units, net of issuance costs	6, 15	122,985
Proceeds from issuance of loans and borrowings	12	116,112
Principal payments of loans and borrowings	12	(152,623)
Payment of mortgage financing costs	12	(641)
Termination of interest rate swap agreement	22(d)	20
Distributions paid to Class B Unitholders	14	(6,197)
Distributions paid to Unitholders		(4,427)
Contributions from tenant in common interest	13	1,560
Interest paid		(10,260)
Cash provided by financing activities		**66,529**
Change in cash and cash equivalents during the period		**7,577**
Cash and cash equivalents, beginning of period		**—**
Cash and cash equivalents, end of period		**$ 7,577**

See accompanying notes to consolidated financial statements.

(1) General information

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

The operations of the REIT commenced on May 18, 2018 when it completed an Initial Public Offering ("IPO") of 13,500,000 units ("Units") for gross proceeds of $135,000 or approximately $119,178 net of underwriters' fees and other transaction costs. In connection with the IPO, the REIT indirectly acquired an interest in BSR Trust, LLC (“BSR”). This acquisition resulted in the REIT indirectly acquiring 47 garden-style, multi-family communities (the “BSR Initial Properties”). The Units trade on the Toronto Stock Exchange ("TSX") under the symbol "HOM.U". The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

On June 1, 2018, the REIT acquired Brandon Place, a 200-unit garden-style residential community located in Oklahoma City, Oklahoma. On October 25, 2018, the REIT acquired Towne Park at Har-Ber Apartments (“Towne Park”), a 237-unit, garden style residential community in Springdale, Arkansas. On December 20, 2018, the REIT acquired Riverhill Apartments, a 334-unit multifamily complex in Grand Prairie, Texas (see note 6).

As of December 31, 2018, the REIT owns 50 multifamily garden-style residential properties aggregating 10,451 apartment units located across five bordering states in the Sunbelt region of the United States, which stretches across the South Atlantic and Southwest portions of the United States, including Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and Washington, D.C.

(2) Basis of preparation

(a) Statement of compliance

The consolidated 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 consolidated financial statements were approved by the Board of Trustees on March 7, 2019.

(b) Basis of measurement

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

(3) Summary of significant accounting policies

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

(a) Basis of consolidation

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

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

(b) Business combinations

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

The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The difference between the purchase price and the REIT's net fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, positive goodwill is recorded as an asset. Negative goodwill is immediately recognized in the consolidated statement of income. The REIT expenses transaction costs associated with business combinations in the period incurred.

When an acquisition does not meet the criteria for business combination accounting treatment, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated to the assets and liabilities acquired based upon their relative fair values. No goodwill is recognized for asset acquisitions.

(c) Foreign currency transactions

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

(d) Investment property

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

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

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

(e) Cash and cash equivalents

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

(f) Restricted cash

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

(g) Revenue recognition

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

Base rent is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental components are determined using an adjusted market assessment approach and the stand–alone selling prices of the service components are 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, payments for early terminations and rent concessions. Revenue recognition commences when a resident has the right to use the property and is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred as prepaid rents. Revenue related to the service components of the REIT’s leases is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers. These services consist primarily of the recovery of utility, property maintenance and amenity costs, as well as resident liability insurance premiums, and is recognized over time when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities. The presentation of revenue from lease components and revenue related to service components is presented in note 17.

(h) Financial instruments

Financial instruments are generally measured at fair value on initial recognition. The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and (iii) fair value through other comprehensive income (‘‘FVTOCI’’). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statement of net income. Financial assets classified as FVTOCI are measured at fair value with gains or losses recognized through other comprehensive income, except for gains and losses pertaining to impairment or foreign exchange recognized through net income

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability presented in other comprehensive income and the remaining change in fair value presented in the consolidated statement of net income.

The REIT has made the following classifications for its financial instruments:

Financial assets	**Classification**
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Resident and other receivables, net	Amortized cost
Prepayment embedded derivatives	FVTPL
Interest rate swaps	FVTPL

Financial liabilities	**Classification**
Loans and borrowings	Amortized cost
Class B Units	FVTPL
Interest rate swaps	FVTPL
Accounts payable and other liabilities	Amortized cost
Tenant in common interests	Amortized cost

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

Non-derivative financial assets

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

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

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

Non-derivative financial liabilities

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

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

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

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

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

Derivative and embedded derivative financial instrument

The REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments are designated and valued at FVTPL in the consolidated financial statements.

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

(i) Finance costs

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

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

(j) Tenant in common interests

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

(k) Fair value measurement

The REIT measures financial instruments, such as Class B LP Units, interest rate swaps and prepayment embedded derivatives as well as non-financial assets, such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the REIT.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The REIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the REIT determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(l) Levies

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

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

(m) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Defined contribution plan

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

(iii) Unit-based payment plans

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

(n) Income taxes

(i) Canadian status:

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

(ii) U.S. REIT status:

The REIT is classified as a U.S. corporation for U.S. federal income tax purposes under current Treasury Regulations. Further, pursuant to section 7874 of the United States Internal Revenue Code of 1986, as amended (the “Code”) the REIT is treated as a U.S. corporation for all purposes under the Code and, as a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding it is organized as a Canadian entity. In general, a company that elects real estate investment trust status, distributes at least 90% of its real estate investment trust taxable income to its shareholders in any taxable year and complies with certain other requirements is not subject to U.S. federal income taxation to the extent of the income it distributes. If it fails to qualify as a real estate investment trust in any taxable year, it will be subject to U.S. federal income tax at regular corporate income tax rates on its taxable income. Even if it qualifies for taxation as a real estate investment trust, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The REIT has reviewed the real estate investment trust requirements and has determined that it qualifies as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income or excise taxes has been made with respect to the income of the REIT.

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

(o) General and administrative expenses

General and administrative expenses include legal fees, audit fees, salaries and benefits for certain REIT employees, trustee fees, transfer agent fees, insurance and other administrative costs.

(4) Critical accounting judgments, estimates and assumptions

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

Critical accounting judgments

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

Investment property acquisitions

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

Use of estimates and assumptions

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

Valuation of investment properties

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

(5) Accounting standards issued but not yet effective

The following standards are not yet effective for the period ended December 31, 2018 and have not been applied in preparing these consolidated financial statements:

(a) IFRS 16, Leases ("IFRS 16")

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

(b) Definition of a business (Amendments to IFRS 3, Business Combinations)

On October 22, 2018, the IASB issued amendments to IFRS 3 *Business Combinations* that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

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 intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2020, when the standard becomes effective.

(6) Business combination and asset acquisitions

Business combination

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

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

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

		Fair values of acquired net assets
Assets:		
Investment property	$	818,483
Resident and other receivables		2,300
Prepaid expenses and other assets - including $3,807 prepaid equity issuance costs		6,330
Prepayment embedded derivatives		4,679
Restricted cash		10,479
Cash and cash equivalents		2,400
		844,671
Liabilities		
Loans and borrowings - including mark-to-market adjustment discount of $7,960		(487,832)
Interest rate swaps		(699)
Accounts payable and other liabilities		(16,908)
Due to related party		(30,000)
Tenant in common interests		(2,200)
		(537,639)
Net assets acquired		307,032
Excess of fair value of net assets acquired over consideration paid		(74,950)
	$	**232,082**
Consideration given by the REIT consists of the following:		
REIT Units	$	500
Class B Units		231,582
	$	**232,082**

Asset acquisitions

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

On October 25, 2018, the REIT acquired Towne Park, a 237-unit, garden style residential community in Springdale, Arkansas for a gross purchase price of $29,033. The transaction was initially funded using the REIT's Credit Facility and the assumption of $299 of working capital deficit. On November 29, 2018, the REIT placed a 10-year, interest only fixed-term mortgage of $18,785 on Towne Park, at an interest rate of approximately 4.48%.

On December 20, 2018, the REIT acquired Riverhill Apartments, a 334-unit multifamily complex in Grand Prairie, Texas for a gross purchase price of $45,290. The transaction was funded using the REIT's Credit Facility and the assumption of $42 of working capital deficit.

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

(7) Restricted cash

	December 31, 2018
Tenant security deposits	$ 901
Replacement reserve	4,434
Lender escrow deposits	7,259
Restricted cash	**$ 12,594**

(8) Resident and other receivables, net

	December 31, 2018
Resident receivables, net	$ 233
Utility reimbursements and other receivables	2,104
Resident and other receivables, net	**$ 2,337**

(9) Prepaid expenses and other assets

	December 31, 2018
Prepaid insurance	$ 791
Other assets	1,149
Prepaid expenses and other assets	**$ 1,940**

(10) Investment properties

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

	Period from January 9, 2018 to December 31, 2018
Investment properties, beginning of period	**$ —**
Property acquisition on May 18, 2018 - BSR Initial Properties	818,483
Property acquisition on June 1, 2018 - Brandon Place	22,231
Property acquisition on October 25, 2018 - Towne Park	29,033
Property acquisition on December 20, 2018 - Riverhill	45,290
Additions to investment properties	12,992
Change in fair value of investment properties	9,522
Investment properties, end of period	**$ 937,551**

The REIT used an internal valuation process to value the investment properties as of December 31, 2018. 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.

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

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:

	December 31, 2018
Capitalization rates	
High	10.0%
Low	5.0%
Weighted average	6.1%

The fair values of investment properties are most sensitive to changes in capitalization rates. As of December 31, 2018, a 25 basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by $36,806 while a 25 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by $39,942.

(11) Accounts payable and other liabilities

		December 31, 2018
Trade payables	$	429
Accrued capital expenditures		763
Accrued property tax liabilities		7,432
Accrued and other liabilities		5,536
Distributions payable		1,656
Interest payable on loans and borrowings		1,233
Tenant security deposits		901
Rent received in advance		1,729
Accounts payable and other liabilities	**$**	**19,679**

(12) Loans and borrowings

		December 31, 2018
Fixed or economically hedged to fixed rate mortgage notes payable	$	348,519
Variable rate mortgage notes payable		24,970
Net unamortized discount on mortgage notes payable		(6,683)
Net unamortized deferred financing costs		(627)
Credit Facility		104,822
Total loans and borrowings		**471,001**
Less: current portion of loans and borrowings		(37,956)
Non-current loans and borrowings	**$**	**433,045**

Mortgage notes payable

The REIT's weighted average contractual interest rate on mortgage notes payable as of December 31, 2018 was approximately 3.9%, which excludes the finance cost impact of the amortization of discounts on mortgage notes payable and the amortization of deferred financing costs. With the inclusion of these items, the REIT's weighted average effective interest rate on mortgage notes payable as of December 31, 2018 was approximately 4.1%. Mortgage notes payable as of December 31, 2018 mature at various dates from 2019 through 2056.

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

Credit Facility

The REIT maintains a revolving credit facility (the "Credit Facility"). The Credit Facility is currently secured by ten of the REIT's investment properties and is due on January 30, 2022, with an option to extend for one additional year, subject to meeting certain conditions. The Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Credit Facility, plus 1.65% to 2.15% based on meeting certain leverage ratios as defined in the Credit Facility. Alternatively, the REIT has the ability to borrow using base rate loans at a rate equal to 0.65% to 1.15% plus the greatest of the bank's prime rate, the Federal Funds Rate plus 0.5%, or the one-month LIBOR rate, plus 1.0%. As of December 31, 2018, the balance outstanding on the Credit Facility was $104,822 at a variable interest rate of 4.17%.

Total loans and borrowings

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of December 31, 2018, are in the schedule below. Contractual Interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of December 31, 2018.

	Principal	Balloon payment	Contractual Interest	Total payments
2019	$ 3,780	$ 34,991	$ 18,062	$ 56,833
2020	3,508	14,087	16,908	34,503
2021	3,176	13,696	16,156	33,028
2022	3,111	104,822	11,722	119,655
2023	2,437	44,734	10,191	57,362
Thereafter	93,732	156,237	88,222	338,191
	$ 109,744	**$ 368,567**	**$ 161,261**	**$ 639,572**

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 December 31, 2018, the REIT was in compliance with all financial covenants of its debt agreements.

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

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

	Period from January 9, 2018 to December 31, 2018
Loans and borrowings, beginning of period	**$ —**
Cash flows	
Proceeds from issuance of loans and borrowings	116,112
Principal payments of loans and borrowings	(152,623)
Payment of mortgage financing costs	(641)
	(37,152)
Non-cash changes	
Loans assumed in property acquisition on May 18, 2018 - BSR Initial Properties	487,832
Loan assumed in property acquisition on June 1, 2018 - Brandon Place	19,846
Amortization of deferred financing costs	13
Amortization of net discount on mortgage notes payable	462
	508,153
Loans and borrowings, end of period	**$ 471,001**

(13) Tenant in common interests

	Period from January 9, 2018 to December 31, 2018
Tenant in common interests, beginning of period	**$ —**
Cash changes	
Contributions from tenant in common interest	1,560
Non-cash changes	
Tenant in common interests assumed on May 18, 2018 - BSR Initial Properties	2,200
Change in tenant in common interests	(11)
Tenant in common interests, end of period	**$ 3,749**

(14) Class B Units

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

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

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).

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

The following table presents the outstanding units and the change in fair value of the Class B Units for the period from January 9, 2018 to December 31, 2018:

	Units		Value
Class B Units, beginning of period	**—**	**$**	**—**
Non-cash changes			
Class B Units issued, May 18, 2018	23,158,226		231,582
Fair value adjustments	—		(46,316)
Class B Units, end of period	**23,158,226**	**$**	**185,266**

(15) Unitholders' equity

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

	Units		Value
Units outstanding, classified as equity, as of January 9, 2018	**—**	**$**	**—**
Units issued on IPO closing, May 18, 2018	13,500,000		135,000
Units issued for acquisition consideration, May 18, 2018	50,000		500
Units issued in settlement of loan payable, May 18, 2018	3,000,000		30,000
	16,550,000		165,500
Less: Issue costs (including $40 during the three months ended December 31, 2018)	—		(15,822)
Units outstanding, classified as equity, as of December 31, 2018	16,550,000	$	149,678

(16) Segment reporting

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

(17) Revenue

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

Revenue from 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, as well as resident liability insurance premiums, and is recognized over time when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities included as part of accounts payable and other liabilities.

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

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

	Period from January 9, 2018 to December 31, 2018
Lease revenue	$ 52,863
Revenue from services	11,210
Total revenue	**$ 64,073**

(18) Property operating expenses

	Period from January 9, 2018 to December 31, 2018
Employee wages and benefits	$ 10,192
Utility costs	5,496
Repairs and maintenance expense	3,475
Other property based costs	5,187
Property operating expense	**$ 24,350**

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

(19) Finance costs

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

		Period from January 9, 2018 to December 31, 2018
Finance costs from operations		
Interest expense at stated rate	$	10,450
Amortization of deferred financing costs		13
Amortization of net discount on loans and borrowings		462
Interest expense on interest rate swaps		104
Distributions to tenant in common interests		29
Finance costs from operations		**11,058**
Fair value adjustment to derivatives and other financial liabilities		
Fair value adjustment to Class B Units		(46,316)
Fair value adjustment to interest rate swaps		36
Fair value adjustment to prepayment embedded derivatives		(1,342)
Fair value adjustment to unit-based compensation		(81)
Fair value adjustment to derivatives and other financial liabilities		**(47,703)**
Finance costs		
Finance costs from operations		11,058
Fair value adjustment to derivatives and other financial liabilities		(47,703)
Distributions on Class B Units		7,163
Change in tenant in common interests		(11)
Finance costs	**$**	**(29,493)**

(20) Operating leases

The REIT leases apartments of multifamily properties to residents under noncancelable operating leases. The leases generally have a term of one year, or less. There were no residents that accounted for more than 10% of the REIT's total rental revenue for the period from January 9, 2018 to December 31, 2018.

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

		December 31, 2018
1 year	$	46,401
2 years		859
	$	**47,260**

(21) Commitments and contingencies

The REIT's Little Rock, Arkansas headquarters is leased under an operating lease with a term that expires in March 2021 (see note 25). This lease requires monthly payments of $11. Also, the REIT leases office equipment under noncancelable operating leases that expire at various times in the future. Lease expense was $149 for the period from January 9, 2018 to December 31, 2018 and is included in general and administrative expenses in the profit or loss.

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

The following table summarizes the REIT's operating lease commitments at December 31, 2018:

		December 31, 2018
1 year	$	194
2 years		167
3 years		35
	$	**396**

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

(22) Financial instruments

(a) Risk management

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

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

As of December 31, 2018, the REIT's mortgage debt was 93% fixed or economically hedged to fixed rates, which excludes the Credit Facility. With the Credit Facility included, as of December 31, 2018, the REIT's debt was 73% fixed or economically hedged to fixed rates.

Management manages a portion of its variable-rate mortgages payable using interest rate swaps that alter its exposure to the impact of changing interest rates. The interest rate swaps are not designated as hedging instruments and as a result, the changes in fair value are recognized in earnings as an adjustment to finance costs in the consolidated statement of net income and comprehensive income. As of December 31, 2018, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a $1,298 change in the REIT's finance costs over the next 12 months.

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

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

Liquidity risk is the risk that the REIT will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The REIT manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. As at December 31, 2018, the REIT had a working capital deficiency of $33,336. In the normal course of business, a portion of the REIT's borrowings under mortgage notes payable and Credit Facility with a maturity date less than one year will be considered current liabilities prior to being replaced with longer-term financing. Of the total deficiency, $34,991 relating to balloon payments within the current portion of mortgage notes payable is expected to be refinanced with long-term mortgages.

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

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	$ 471,001	$ 478,311	$ 38,771	$ 17,595	$ 16,872	$ 107,933	$ 297,140
Interest payable	1,233	161,261	18,062	16,908	16,156	11,722	98,413
Interest rate swaps	755	827	151	181	159	130	206
Tenant in common interests	3,749	3,749	125	125	125	125	3,249
Capital improvements liability	763	763	763	—	—	—	—
Accounts payable and other liabilities	17,683	17,683	17,683	—	—	—	—
	$ 495,184	**$ 662,594**	**$ 75,555**	**$ 34,809**	**$ 33,312**	**$ 119,910**	**$ 399,008**

(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, which approximates fair value.

Loans and borrowings are carried at amortized cost. For disclosure purposes, 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

	December 31, 2018
Carrying amount	$ 471,001
Fair value	$ 468,835

(d) Interest rate swaps

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

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

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:

		December 31, 2018
Interest rate swaps		
Current portion	$	(149)
Non-current portion		(606)
Interest rate swaps, end of period	**$**	**(755)**

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of December 31, 2018:

	Maturity date	Fixed rate		Original notional amount		Notional amount as of December 31, 2018		Carrying value and fair value as of December 31, 2018
Interest rate swap agreement								
Bank of America	6/1/2019	1.71%	$	15,000	$	12,833	$	51
Raymond James	9/1/2025	5.07%		12,265		6,000		(806)
			$	27,265	$	18,833	$	(755)

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.

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:

		Period from January 9, 2018 to December 31, 2018
Interest rate swaps, beginning of period	**$**	**—**
Cash changes		
Termination of interest rate swap agreement		(20)
Non-cash changes		
Interest rate swaps, acquired on May 18, 2018 - BSR Initial Properties		(699)
Fair value adjustment to interest rate swaps		(36)
Interest rate swaps, end of period	**$**	**(755)**

(e) Prepayment embedded derivatives

Certain mortgages payable (note 12) 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).

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

		Period from January 9, 2018 to December 31, 2018
Prepayment embedded derivatives, beginning of period	**$**	**—**
Non-cash changes		
Prepayment embedded derivatives, acquired on May 18, 2018 - BSR Initial Properties		4,679
Prepayment embedded derivative, acquired on June 1, 2018 - Brandon Place		943
Fair value adjustment to prepayment embedded derivatives		1,342
Prepayment embedded derivatives, end of period	**$**	**6,964**

(23) Capital management

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

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

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

(24) Employee benefit plan

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

Management of the REIT elects to match employee deferrals at its discretion. Employer matching contributions to the Plan totalled $58 during the period from January 9, 2018 to December 31, 2018.

(25) Related party transactions

The consolidated financial statements include the following related party transactions:

- Distributions on Class B Units of $4,400 were declared to key management personnel during the period from January 9, 2018 to December 31, 2018. 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 $1,833 paid to key management personnel during the period from January 9, 2018 to December 31, 2018, 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 the period.
- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT's Chief Executive Officer. The current operating lease term expires in 2021 (see note 21).
- The REIT issued 3,000,000 Units with a value of $30,000 to an affiliate of the Chief Executive Officer in settlement of a related party loan.
- Distributions on Units of $1,044 were declared to Bailey/Hughes holders during the period from January 9, 2018 to December 31, 2018.

(26) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Period from January 9, 2018 to December 31, 2018
Resident and other receivables, net	(37)
Prepaid expenses and other assets	703
Accounts payable and other liabilities	(498)
	$ 168

(27) Deferred unit compensation and unit-based compensation

Remuneration of trustees (deferred unit compensation)

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

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

For the period from January 9, 2018 to December 31, 2018, $500 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net income and comprehensive income. 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 and comprehensive income.

	Units		Value
Deferred units, beginning of period	—	$	—
Non-cash changes			
Deferred trust units issued	56,888		500
Fair value adjustments	—		(45)
Deferred units issued, end of period	56,888	$	455

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 trust 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 and comprehensive income. 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. The REIT granted an additional 1,536 RUs and 1,152 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 period from January 9, 2018 to December 31, 2018, unit-based compensation expense of $179 has been recognized in general and administrative expense. A fair value gain of $36 for the period from January 9, 2018 to December 31, 2018 has been recognized in fair value adjustment to unit-based compensation in the consolidated statement of income and comprehensive income. AS of December 31, 2018, all RUs and PUs were unvested.

(28) Subsequent events

On January 24, 2019, the REIT entered into a new revolving line of credit for $35,000, maturing on January 24, 2022, with a fixed interest rate of 6.50%.

On January 30, 2019, the REIT placed a 10-year, interest only fixed-term mortgage of $26,900 on the recently acquired property, Riverhill, at a fixed interest rate of approximately 4.36%.