BSR REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements (In U.S. dollars)

For the year ended December 31, 2019 and the period from January 9, 2018 to December 31, 2018

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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 statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of net income and comprehensive income for the year ended December 31, 2019 and period from January 9, 2018 to December 31, 2018;
- the consolidated statements of changes in unitholders' equity for the year ended December 31, 2019 and period from January 9, 2018 to December 31, 2018;
- the consolidated statements of cash flows for the year ended December 31, 2019 and 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, 2019 and December 31, 2018, and its consolidated financial performance, and its consolidated cash flows for the year ended December 31, 2019 and 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 "2019 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 "2019 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 (IFRS), 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.
- 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 10, 2020

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position

In thousands of U.S. dollars

	Note		December 31, 2019		December 31, 2018
Assets					
Non-current assets					
Investment properties	8	$	1,057,383	$	937,551
Right-of-use asset	17		163		—
Prepayment embedded derivatives	19(e)		10,202		6,964
			1,067,748		944,515
Current assets					
Cash and cash equivalents			36,994		7,577
Restricted cash	5		13,000		12,594
Resident and other receivables, net	6		2,940		2,337
Prepaid expenses and other assets	7		2,019		1,940
			54,953		24,448
Total assets		**$**	**1,122,701**	**$**	**968,963**
Liabilities and Unitholders' Equity					
Non-current liabilities					
Loans and borrowings	10	$	528,622	$	433,045
Lease liability	17		168		—
Class B Units	12		263,302		185,266
Interest rate swaps	19(d)		993		606
Tenant in common interests	11		3,792		3,749
			796,877		622,666
Current liabilities					
Accounts payable and other liabilities	9		26,819		19,679
Interest rate swaps	19(d)		312		149
Loans and borrowings	10		13,689		37,956
			40,820		57,784
Total liabilities			837,697		680,450
Unitholders' equity					
Unitholders' equity			285,004		288,513
Total liabilities and unitholders' equity		**$**	**1,122,701**	**$**	**968,963**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) Income

In thousands of U.S. dollars

	Note	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018 *
Revenue:			
Rental revenue		$ 97,431	$ 55,838
Other property income		14,233	8,235
	14	111,664	64,073
Expenses (Income):			
Property operating expenses	15	40,407	24,350
Real estate taxes		10,462	1,205
General and administrative expenses		7,410	3,931
Fair value adjustment to investment properties	8	(16,736)	(9,522)
Fair value adjustment to investment properties (IFRIC 21)		1,484	4,600
Finance costs from operations	16	22,471	11,058
Loss on disposition of investment properties	4	5,825	—
Distributions on Class B Units	16	11,482	7,163
Depreciation of right-of-use asset	17	131	—
Fair value adjustment to derivatives and other financial liabilities	16	81,442	(47,622)
Fair value adjustment to unit-based compensation	24	450	(81)
Change in tenant in common interests	11,16	43	(11)
Bargain purchase gain	4	—	(74,950)
		164,871	(79,879)
Net (loss) income and comprehensive (loss) income		**$ (53,207)**	**$ 143,952**

**There were no results of operations for the period from January 9, 2018 to May 18, 2018 and, as such, the comparative results presented above for the period from January 9, 2018 to December 31, 2018 consist of the operating results for the 228 day period from May 18, 2018 to December 31, 2018.*

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity

In thousands of U.S. dollars

	Units	Distributions	Cumulative net income	Total
Balance, as of January 9, 2018	**$ —**	**$ —**	**$ —**	**$ —**
Units issued, net of issuance costs (Note 13)	149,678	—	—	149,678
Net income and comprehensive income	—	—	143,952	143,952
Distributions	—	(5,117)	—	(5,117)
Balance, as of December 31, 2018	**$ 149,678**	**$ (5,117)**	**$ 143,952**	**$ 288,513**

	Units	Distributions	Cumulative net income	Total
Balance, as of January 1, 2019	**$ 149,678**	**$ (5,117)**	**$ 143,952**	**$ 288,513**
Net loss and comprehensive loss	—	—	(53,207)	(53,207)
Units issued, net of issuance costs (Note 13)	58,955	—	—	58,955
Distributions	—	(9,257)	—	(9,257)
Balance, as of December 31, 2019	**$ 208,633**	**$ (14,374)**	**$ 90,745**	**$ 285,004**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

In thousands of U.S. dollars

	Note	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018 *
Operating activities			
Net (loss) income and comprehensive (loss) income		$ (53,207)	$ 143,952
Adjustments for:			
Fair value adjustment to investment properties	8	(16,736)	(9,522)
Fair value adjustment to derivatives and other financial liabilities	16	81,442	(47,622)
Fair value adjustment to unit-based compensation	24	450	(81)
Change in tenant in common interests	11	43	(11)
Depreciation of right-of-use asset	17	131	—
Unit-based compensation	24	1,225	679
Finance costs from operations	16	22,471	11,058
Loss on disposition of investment properties	4	5,825	—
Accrued distributions on Class B Units	16	11,482	7,163
Change in non-cash operating assets and liabilities	23	3,736	168
Bargain purchase gain	4	—	(74,950)
Cash provided by operating activities		**56,862**	**30,834**
Investing activities			
Acquisition of investment properties	4, 8	(196,174)	(77,746)
Cash balances transferred in acquisition of BSR Initial Properties	4	—	2,400
Net proceeds from sale of investment properties	4, 8	165,252	—
Additions to investment properties	8	(24,724)	(13,088)
Restricted cash withdrawals, net of deposits	5	596	(1,352)
Cash used in investing activities		**(55,050)**	**(89,786)**
Financing activities			
Proceeds from issuance of units, net of issuance costs		52,958	122,985
Proceeds from issuance of loans and borrowings	10	279,085	116,112
Principal payments of loans and borrowings	10	(260,347)	(152,623)
Payment of mortgage financing costs	10	(2,019)	(641)
Termination of interest rate swap agreement	19(d)	—	20
Contributions from tenant in common interest	11	—	1,560
Principal payments of lease liability	17	(126)	—
Redemption of Class B Units in exchange for cash	12	(213)	—
Distributions paid to Class B Unitholders	12	(11,505)	(6,197)
Distributions paid to Unitholders		(9,017)	(4,427)
Interest paid		(21,211)	(10,260)
Cash provided by financing activities		**27,605**	**66,529**
Change in cash and cash equivalents during the period		**29,417**	**7,577**
Cash and cash equivalents, beginning of period		**7,577**	**—**
Cash and cash equivalents, end of period		**$ 36,994**	**$ 7,577**

**There were no results of operations for the period from January 9, 2018 to May 18, 2018 and, as such, the comparative results presented above for the period from January 9, 2018 to December 31, 2018 consist of the operating results for the 228 day period from May 18, 2018 to December 31, 2018.*

See accompanying notes to consolidated financial statements.

(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, 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 addition, on May 18, 2018, $30,000 in debt was converted to 3,000,000 Units increasing the total gross proceeds to $165,000. 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").

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

As of December 31, 2019, the REIT owns 40 multifamily garden-style residential properties 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. The REIT currently operates in Arkansas, Texas, Oklahoma, Louisiana and Mississippi. The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

(2) Basis of preparation

(a) Statement of compliance

The 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 10, 2020.

(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.

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 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 due to its power to make decisions related to relevant activities and the extent of its exposure to the returns of the entities. 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 profit or loss. 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, goodwill is recorded as an asset. Negative goodwill is immediately recognized in the consolidated statement of net (loss) income and comprehensive (loss) income as a bargain purchase gain. 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 direct acquisition-related 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 their estimated 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 other services.

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 14.

(h) Leases

The REIT has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the REIT uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the REIT allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the REIT has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The REIT recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the REIT's incremental borrowing rate. Generally, the REIT uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized costs using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the REIT's estimate of the expected payable under a residual value guarantee, if the REIT changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Short-term leases and leases of low-value assets

The REIT has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The REIT recognizes the lease payments associated with these leases as an expense on a straight-ling basis of the lease term.

(iii) As a lessor

At inception or on modification of a contract that contains a lease component, the REIT allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The REIT has determined that when it acts as a lessor, its leases do not transfer substantially all of the risks and rewards incidental to ownership of the underlying assets and as a result they are classified as operating leases.

If an arrangement contains lease and non-lease components, the REIT applies IFRS 15 to allocate the consideration in the contract.

The REIT recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of resident revenue.

(i) 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'').

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 profit or loss. 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 in profit or loss.

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 (loss) income and comprehensive (loss) 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.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include, discounts or premiums relating to assumed debt, fees and commissions paid to agents, brokers advisers, lenders and insurers, transfer taxes and duties.

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.

Financial assets and liabilities are offset and presented net in the statement of financial position when, and only when, the REIT has a legally enforceable right to offset 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.

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.

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 instruments

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 19(e).

Trust Units ("Units")

The REIT's Units are redeemable at the holder's option and therefore are considered to be a puttable instrument in accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. The Units meet the exemption conditions of IAS 32 and are presented as equity.

As a result of the redemption feature of the REIT's Units, they meet the definition of a financial liability under IAS 32 and may not be considered as equity for the purposes of calculating net income on a per unit basis in accordance with IAS 33, Earnings Per Share. The REIT has therefore elected to not report an earnings per unit calculation, as is permitted under IFRS.

Class B Units of BSR Trust, LLC ("Class B Units")

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 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. However, the limited IAS 32 exception for presentation as equity does not extend to the Class B Units. 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 receive distributions equal to the distributions paid on the REIT's Units and 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.

(j) 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 classified as amortized cost are recognized in profit or loss using the effective interest method.

(k) Tenant in common interests

Tenant in common interests represent the ownership interests in certain properties held in 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 due to the REIT's requirement to make distributions 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 (loss) income and comprehensive (loss) 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 11.

(l) Fair value measurement

The REIT measures financial instruments, such as Class B 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.

(m) 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.

(n) 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.

(o) 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 as not taxable income was generated by the TRS.

(p) General and administrative expenses

General and administrative expenses include payroll and benefits for certain REIT employees, professional fees, trustee fees, insurance and other administrative costs.

(q) Critical accounting judgments, estimates and assumptions

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

Critical accounting judgments

The following are the critical judgments used in applying the 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 8.

(r) IFRS amendments adopted in 2019:

IFRS 16, Leases ("IFRS 16"):

The REIT adopted IFRS 16, which replaced IAS 17, Leases ("IAS 17"), using the modified retrospective approach, beginning on January 1, 2019, the mandatory effective date. The new standard requires a lessee to recognize in the statement of financial position: a liability for future lease payments (the "lease liabilities") and an asset for the right to use the underlying leased asset during the lease term ("right-of-use assets").

The REIT adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach. On January 1, 2019 the REIT recognized both a right-of-use asset and lease liability of $294 related to one office lease. There was no impact to unitholders' equity as a result of the adoption of IFRS 16. Comparative information has not been restated and continues to be reported in accordance with the standards and accounting policies in effect prior to January 1, 2019.Refer to note 17 for more information

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using the REIT's incremental borrowing rate at January 1, 2019, which was a weighted average rate of 4.3%.

At the date of initial application, the REIT did not reassess whether a contract contained a lease, instead applying IFRS 16 only to contracts that were previously identified as leases. The REIT has elected not to recognize right-of-use assets and liabilities for short term leases that have a lease term of twelve months or shorter and low value leases with a value lower than five thousand dollars. Payments associated with these leases are recognized as expense on a straight-line basis over the term of the lease.

The REIT relied on its assessment of whether leases were onerous as at January 1, 2019 and did not test right-of-use assets for impairment at the date of initial application and excluded initial direct costs when measuring right-of-use assets at January 1, 2019. The REIT did not separate the non-lease components from the lease components for office leases and certain equipment leases.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"):

The REIT adopted IFRIC 23, beginning on January 1, 2019, the mandatory effective date with no material impact to the financial statements.

IFRIC 23 requires (i) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (iii) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty

Annual Improvements to IFRS Standards (2015-2017) Cycle:

The REIT adopted the following amendments to three standards on January 1, 2019, the mandatory effective date with no material impact on the financial statements:

- IFRS 3, Business Combinations, and IFRS 11, Joint Arrangements ("IFRS 11") - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12, Income Taxes - to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, other comprehensive income or equity; and

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

- IAS 23, Borrowing Costs - to clarify that specific borrowings - i.e. funds borrowed specifically to finance the construction of a qualifying asset - should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

(s) IFRS standards and amendments issued but not yet effective:

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"), that seek to clarify whether a transaction is to be accounted for as an asset acquisition or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. 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. The REIT has reviewed the potential impact of this standard and has concluded that the standard will not have a material impact.

(4) Business combination, asset acquisitions and dispositions

(a) Business combination

On May 18, 2018, the REIT indirectly acquired 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. The impact of the acquisition of BSR Initial Properties, which was accounted for as a business combination using the acquisition 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:		
Units	$	500
Class B Units		231,582
	$	**232,082**

(b) Asset acquisitions

On June 1, 2018, the REIT acquired a 200-unit garden-style residential community, Brandon Place, located in Oklahoma City, Oklahoma, for a contractual purchase price before working capital adjustments and closing costs of $22,750. The transaction was funded through 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 embedded derivative valued at $943, the assumption of $436 of working capital and cash on hand.

On October 25, 2018, the REIT acquired Towne Park, a 237-unit, garden style residential community in Springdale, Arkansas for a contractual purchase price before working capital adjustments and closing costs of $28,900. The transaction was initially funded using the REIT's Credit Facility, defined in note 10, 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 contractual purchase price before working capital adjustments and closing costs of $45,200. The transaction was funded using the REIT's Credit Facility and the assumption of $42 of working capital deficit.

On March 27, 2019, the REIT acquired Wimberly Apartments, a 372-unit multifamily complex in Grand Prairie, Texas for a contractual purchase price before working capital adjustments and closing costs of $53,050. The transaction was funded using the REIT's Credit Facility and the assumption of an existing mortgage with a fair value of $32,353, including a discount on the assumed mortgage of $240, and the assumption of $106 of working capital.

On August 27, 2019, the REIT acquired Cielo and Madrone, two adjacent garden-style apartment communities located in Austin, Texas, totalling 554 apartment units. These properties were acquired for a contractual purchase price before working capital adjustments and closing costs of $104,450. The transaction was funded using net proceeds from the September 2019 Offering and Concurrent Private Placement as well as cash on hand, the REIT's Credit Facility and the assumption of $1,431 of working capital deficit.

On October 29, 2019, the REIT acquired Satori, a 300-unit garden-style community in in Richmond, Texas, for a contractual purchase price before working capital adjustments and closing costs of $56,308. The transaction was funded through a new mortgage for $36,600, the REIT's Credit Facility and the assumption of $326 of working capital deficit. BSR and the seller entered into a Rent Guaranty Escrow Agreement, allowing the REIT to collect up to $1,063 through June 2020 to supplement rental income as the property is being leased. This agreement was valued at $1,063 with the outstanding rent guaranty held as a current asset within resident and other receivables, net.

On October 30, 2019, the REIT acquired Auberry, a 216-unit garden-style community in Allen, Texas, for a total contractual purchase price before working capital adjustments and closing costs of $36,500. The transaction was funded using the REIT's Credit Facility and the assumption of an existing mortgage with a fair value of $20,436, including a premium on the assumed mortgage of $136, and the assumption of $240 of working capital.

(c) Dispositions

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

In April 2019, the REIT sold Briarwood and Spring Valley in Little Rock, Arkansas and Fox Trail and South Pointe in Shreveport, Louisiana for a combined contractual purchase price of $32,080, totalling 773 apartment units. As part of these sales, $19,446 was used to retire related mortgage financing and $11,139 to reduce the balance outstanding under the Credit Facility.

In June 2019, the REIT sold Waterford and Bowman Heights in Little Rock, Arkansas for a combined contractual purchase price of $22,150, totalling 336 apartment units. As part of these sales, $6,450 was used to retire related property encumbered financing and $14,923 to reduce the balance outstanding under the Credit Facility.

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

In August 2019, the REIT sold Dove Creek and Longridge in Baton Rouge, Louisiana for a combined contractual purchase price of $30,900, totalling 310 apartment units. As part of these sales, $16,315 was used to retire related property encumbered financing.

In September 2019, the REIT sold Summer Pointe in Shreveport, Louisiana for a contractual purchase price of $13,900, totalling 200 apartment units. As part of this sale, $9,035 was used to retire related property encumbered financing and $3,630 to reduce the balance outstanding under the Credit Facility.

In November 2019, the REIT sold 93 Twenty, Charleston Crossing, Inverness and Ridge Park in Tulsa, Oklahoma, Countryside Village in Moore, Oklahoma, and Ridgewood in Hot Springs, Arkansas for a contractual purchase price of $74,415 for the 915 apartment units. As part of this sale, $39,396 was used to retire related property encumbered financing and the remainder was used to reduce the balance outstanding under the Credit Facility.

Loss on disposition of investment properties of $5,825 represents the difference between the net sale proceeds (sale price less transactional closing costs) and the value of the investment properties on the date of disposition. Such loss is primarily comprised of selling costs, including legal fees, consulting fees, brokerage commissions and prepayment penalties. The loss on disposition of investment properties is recognized in the statement of net (loss) income and comprehensive (loss) income in the year of sale.

(5) Restricted cash

	December 31, 2019	December 31, 2018
Tenant security deposits	$ 833	$ 901
Replacement reserve	3,492	4,434
Lender escrow deposits	8,675	7,259
Restricted cash	**$ 13,000**	**$ 12,594**

(6) Resident and other receivables, net

	December 31, 2019	December 31, 2018
Resident receivables, net	$ 311	$ 233
Utility reimbursements and other receivables	2,629	2,104
Resident and other receivables, net	**$ 2,940**	**$ 2,337**

(7) Prepaid expenses and other assets

	December 31, 2019	December 31, 2018
Prepaid insurance	$ 864	$ 791
Other assets	1,155	1,149
Prepaid expenses and other assets	**$ 2,019**	**$ 1,940**

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

(8) Investment properties

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

	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018
Investment properties in use, beginning of period	**$ 934,801**	**$ —**
Property acquisitions	249,311	915,037
Property dispositions	(172,057)	—
Additions to investment properties	13,126	10,718
Transfer of undeveloped land to investment property under development	—	(476)
Change in fair value of investment properties	16,736	9,522
Investment properties in use, end of period	**1,041,917**	**934,801**
Investment property under development, beginning of period	**2,750**	—
Transfer of undeveloped land to investment property under development	—	476
Additions to investment property under development	12,716	2,274
Investment property under development, end of period	**15,466**	**2,750**
Investment properties, end of period	**$ 1,057,383**	**$ 937,551**

The REIT used an internal valuation process to value the investment properties as of December 31, 2019. 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.

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, 2019	December 31, 2018
Capitalization rates		
High	10.0%	10.0%
Low	4.5%	5.0%
Weighted average	5.7%	6.1%

The fair values of investment properties are most sensitive to changes in capitalization rates. As of December 31, 2019, a 25 basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by $44,024 while a 25 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by $48,088.

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

During the year ended December 31, 2019, the REIT capitalized $220 of borrowing costs related to development projects under construction at an average interest rate of 4.3%. During the period from January 9, 2018 to December 31, 2018, the REIT capitalized $11 of borrowing costs related to development projects under construction at an average interest rate of $3.9%.

(9) Accounts payable and other liabilities

	December 31, 2019	December 31, 2018
Trade payables	$ 1,280	$ 429
Accrued capital expenditures	1,881	763
Accrued property tax liabilities	11,159	7,432
Accrued and other liabilities	6,846	5,536
Distributions payable	1,873	1,656
Interest payable on loans and borrowings	1,289	1,233
Tenant security deposits	833	901
Rent received in advance	1,658	1,729
Accounts payable and other liabilities	**$ 26,819**	**$ 19,679**

(10) Loans and borrowings

	December 31, 2019	December 31, 2018
Fixed or economically hedged to fixed rate mortgage notes payable	$ 358,779	$ 348,519
Variable rate mortgage notes payable	49,740	24,970
Net unamortized discount on mortgage notes payable	(5,370)	(6,683)
Net unamortized deferred financing costs	(2,263)	(627)
Credit Facility	141,425	104,822
Total loans and borrowings	**542,311**	**471,001**
Less: current portion of loans and borrowings	(13,689)	(37,956)
Non-current loans and borrowings	**$ 528,622**	**$ 433,045**

Mortgage notes

The REIT's weighted average contractual interest rate on mortgage notes as of December 31, 2019 and December 31, 2018 was approximately 3.9%, which excludes the finance cost impact of the amortization of discounts on mortgage notes and the amortization of deferred financing costs. With the inclusion of these items, the REIT's weighted average effective interest rate on mortgage notes as of December 31, 2019 and December 31, 2018 was approximately 4.2% and 4.1%, respectively. Mortgage notes as of December 31, 2019 mature at various dates from 2020 through 2056.

Line of Credit

On January 24, 2019, the REIT entered into a revolving line of credit (the "Line of Credit") for $35,000, maturing on January 24, 2022, with a fixed interest rate of 6.5%. On June 21, 2019 the Line of Credit was amended with a fixed interest rate of 5.1%. As of December 31, 2019, there was no balance outstanding on the Line of Credit.

Credit Facility

The REIT maintains a revolving credit facility (the "Credit Facility") with a maximum revolving credit availability of $175,000. The Credit Facility is currently secured by 10 of the REIT's investment properties and is due on January 30, 2022, with an option by the REIT to extend for one additional year, subject to meeting certain conditions. The Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Credit Facility, plus 1.65% to 2.15% based on meeting certain leverage ratios as defined in the Credit Facility. Alternatively, the REIT has the ability to borrow using base rate loans at a rate equal to 0.65% to 1.15% plus the greatest of the bank's prime rate, the Federal Funds Rate plus 0.5%, or the one-month LIBOR rate, plus 1.0%. As of December 31, 2019 and December 31, 2018, the balance outstanding on the Credit Facility was $141,425 and $104,822, respectively, at a variable interest rate of 3.4% as of December 31, 2019 and 4.2% as of December 31, 2018. As discussed further 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.

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

During the year ended December 31, 2019, the REIT has refinanced six property level mortgages with outstanding balances totalling $34,538 through the Credit Facility. As a result of these refinances, the REIT incurred financing costs totalling $311 as well as an aggregate loss on extinguishment of debt of $80.

Total loans and borrowings

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of December 31, 2019, 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, 2019.

	Principal	Balloon payment	Contractual Interest	Total payments
2020	$ 3,479	$ 11,360	$ 20,955	$ 35,794
2021	3,739	21,816	20,114	45,669
2022	4,395	141,425	14,958	160,778
2023	4,258	30,499	13,620	48,377
2024	3,982	34,113	12,766	50,861
Thereafter	91,340	199,538	77,864	368,742
	$ 111,193	**$ 438,751**	**$ 160,277**	**$ 710,221**

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, 2019, 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:

	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018
Loans and borrowings, beginning of period	**$ 471,001**	**$ —**
Cash flows		
Proceeds from issuance of loans and borrowings	279,085	116,112
Principal payments of loans and borrowings	(260,347)	(152,623)
Payment of mortgage financing costs	(2,019)	(641)
	16,719	(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
Loan assumed in property acquisition on March 27, 2019 - Wimberly	32,353	—
Loan assumed in property acquisition on October 30, 2019 - Auberry	20,436	—
Unamortized net discount release on dispositions	598	
Amortization of deferred financing costs	383	13
Amortization of net discount on mortgage notes payable	821	462
	54,591	508,153
Loans and borrowings, end of period	**$ 542,311**	**$ 471,001**

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

(11) Tenant in common interests

	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018
Tenant in common interests, beginning of period	**$ 3,749**	**$ —**
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	43	(11)
Tenant in common interests, end of period	**$ 3,792**	**$ 3,749**

(12) Class B Units

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

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

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

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

	Units	Value
Class B Units, as of January 9, 2018	**—**	**$ —**
Non-cash changes		
Class B Units issued, May 18, 2018	23,158,226	231,582
Fair value adjustments	—	(46,316)
Class B Units, as of December 31, 2018	**23,158,226**	**$ 185,266**
Cash changes		
Redemption of Class B Units in exchange for cash	(19,832)	(213)
Non-cash changes		
Redemption of Class B Units in exchange for Units	(537,352)	(5,881)
Fair value adjustments	—	84,130
Class B Units, as of December 31, 2019	**22,601,042**	**$ 263,302**

(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 March 26, 2019, 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 1,312,686 Units, or approximately 10% of the public float, over the 12-month period commencing March 28, 2019. The REIT did not purchase any Units for cancellation during the year ended December 31, 2019.

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

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

	Units		Value
Units outstanding, classified as equity, as of January 9, 2018	**—**	**$**	**—**
Units issued on IPO closing, May 18, 2018	13,500,000		135,000
Units issued for acquisition consideration, May 18, 2018	50,000		500
Units issued in settlement of loan payable, May 18, 2018	3,000,000		30,000
	16,550,000		165,500
Less: Issue costs	—		(15,822)
Units outstanding, classified as equity, as of December 31, 2018	**16,550,000**	**$**	**149,678**
Units issued on completion of the September 2019 Offering, net of issue costs	3,797,300		37,948
Units issued on completion of the Concurrent Private Placement	1,416,000		15,010
Issuance of Units for unit-based compensation	11,345		116
Issuance of Units in exchange for Class B Units	537,352		5,881
Units outstanding, classified as equity, as of December 31, 2019	**22,311,997**	**$**	**208,633**

(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.

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

		Year ended December 31, 2019		Period from January 9, 2018 to December 31, 2018
Lease revenue	$	92,943	$	52,863
Revenue from services		18,721		11,210
Total revenue	**$**	**111,664**	**$**	**64,073**

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

(15) Property operating expenses

		Year ended December 31, 2019		Period from January 9, 2018 to December 31, 2018
Employee wages and benefits	$	16,941	$	10,192
Utility costs		9,190		5,496
Repairs and maintenance expense		5,750		3,475
Other property based costs		8,526		5,187
Property operating expense	**$**	**40,407**	**$**	**24,350**

(16) Finance costs

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

		Year ended December 31, 2019		Period from January 9, 2018 to December 31, 2018
Finance costs from operations				
Interest expense at stated rate	$	21,016	$	10,450
Interest expense on lease liability		10		—
Amortization of deferred financing costs		383		13
Amortization of net discount on loans and borrowings		821		462
Loss on extinguishment of debt		80		—
Interest expense on interest rate swaps		45		104
Distributions to tenant in common interests		116		29
Finance costs from operations	**$**	**22,471**	**$**	**11,058**
Fair value adjustment to derivatives and other financial liabilities				
Fair value adjustment to Class B Units		84,130		(46,316)
Fair value adjustment to interest rate swaps		550		36
Fair value adjustment to prepayment embedded derivatives		(3,238)		(1,342)
Fair value adjustment to derivatives and other financial liabilities	**$**	**81,442**	**$**	**(47,622)**
Finance costs				
Finance costs from operations		22,471		11,058
Fair value adjustment to derivatives and other financial liabilities		81,442		(47,622)
Distributions on Class B Units		11,482		7,163
Change in tenant in common interests		43		(11)
Finance costs	**$**	**115,438**	**$**	**(29,412)**

(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 year ended December 31, 2019.

At December 31, 2019, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows:

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

		December 31, 2019
1 year	$	48,518
2 years		885
	$	**49,403**

The REIT's Little Rock, Arkansas headquarters is leased with a term that expires in March 2021 (see note 22). This lease requires monthly payments of $11. The headquarters lease is accounted for as a right-of-use asset with a corresponding lease liability under IFRS 16. The REIT recognized $10 in interest expense on the lease liability for the year ended December 31, 2019.

The following tables present the change in the right-of-use asset and corresponding lease liability for the year ended December 31, 2019:

		Year ended December 31, 2019
Right-of-use asset, as of January 1, 2019	$	294
Depreciation of right-of use asset		(131)
Right-of-use asset, as of December 31, 2019	**$**	**163**

		Year ended December 31, 2019
Lease liability, as of January 1, 2019	$	294
Principal payments on lease liability		(126)
Lease liability, as of December 31, 2019	**$**	**168**

The REIT recorded lease expenses of $90 during the year ended December 31, 2019 for additional low-value leased office equipment.

(18) Commitments and contingencies

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

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

As of December 31, 2019, the REIT's mortgage debt was 88% fixed or economically hedged to fixed rates, which excludes the Credit Facility. With the Credit Facility and Line of Credit included, as of December 31, 2019, the REIT's debt was 83% 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 December 31, 2019, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a $912 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 and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. As at December 31, 2019, the REIT had working capital of $14,133. In the normal course of business, a portion of the REIT's borrowings under mortgage notes, the Credit Facility and the Line of Credit with a maturity date less than one year will be considered current liabilities prior to being replaced with longer-term financing.

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

	Carrying amount	Contractual cash flows	1 year	2 years	3 years	4 years	More than 4 years
Loans and borrowings	$ 542,311	$ 549,944	$ 14,839	$ 25,555	$ 145,820	$ 34,757	$ 328,973
Interest payable	1,289	160,277	20,955	20,114	14,958	13,620	90,630
Interest rate swaps	1,305	1,371	315	410	327	203	116
Lease liability	168	173	138	35	—	—	—
Tenant in common interests	3,792	3,792	125	125	125	125	3,292
Capital improvements liability	1,881	1,881	1,881	—	—	—	—
Accounts payable and other liabilities	23,649	23,649	23,649	—	—	—	—
	$ 574,395	**$ 741,087**	**$ 61,902**	**$ 46,239**	**$ 161,230**	**$ 48,705**	**$ 423,011**

(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.

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

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

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

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

(c) Loans and borrowings

	December 31, 2019	December 31, 2018
Carrying amount	$ 542,311	$ 471,001
Fair value	$ 576,913	$ 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 loans. The interest rate swaps are not designed as a hedge for accounting purposes. These swaps are used to manage interest rate exposure over the period of the interest rate swaps. The differential to be paid or received on all swap agreements is accrued as interest rates change and is recognized in finance costs over the life of the respective agreements. The interest rate swaps contain no credit risk-related contingent features.

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

On 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 future swap begins on January 2, 2020 and matures on August 30, 2024.

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

	December 31, 2019	December 31, 2018
Interest rate swaps		
Current portion	$ (312)	$ (149)
Non-current portion	(993)	(606)
Interest rate swaps, end of period	**$ (1,305)**	**$ (755)**

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

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

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

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

	Maturity date	Fixed rate	Original notional amount	Notional amount	Carrying value and fair value
Interest rate swap agreements, as of December 31, 2018					
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 (loss) income and comprehensive (loss) 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:

	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018
Interest rate swaps, beginning of period	**$ (755)**	**$ —**
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	(550)	(36)
Interest rate swaps, end of period	**$ (1,305)**	**$ (755)**

(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 (loss) income and comprehensive (loss) 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).

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 prepayment embedded derivatives for each period presented:

	Year ended December 31, 2019	Period from January 9, 2018 to December 31, 2018
Prepayment embedded derivatives, beginning of period	**$ 6,964**	**$ —**
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	3,238	1,342
Prepayment embedded derivatives, end of period	**$ 10,202**	**$ 6,964**

(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, 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 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 $127 for the year ended December 31, 2019.

(22) Related party transactions

Except as disclosed elsewhere, the consolidated 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 $1,702 were declared to Bailey/Hughes holders for the year ended December 31, 2019 ($1,044 for the period from January 9, 2018 to December 31, 2018).
- Distributions on Class B Units of $7,118 were declared to key management personnel, primarily the Bailey/Hughes Holders, for the year ended December 31, 2019 ($4,400 for 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 $2,648 paid to key management personnel for the year ended December 31, 2019 ($1,833 for 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.

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

- 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 lease term expires in 2021 (see note 17).
- In 2018, the REIT issued 3,000,000 Units with a value of $30,000 to an affiliate entity of the Chief Executive Officer in settlement of a related party loan.

(23) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

		Year ended December 31, 2019		Period from January 9, 2018 to December 31, 2018
Resident and other receivables, net	$	263	$	(37)
Prepaid expenses and other assets		(204)		703
Accounts payable and other liabilities		3,677		(498)
	$	**3,736**	**$**	**168**

(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. The REIT shall match 100% of the total value of the annual board retainer fee that a Trustee elects to receive in the form of Deferred Units. Accordingly, the number of Deferred Units to be awarded to a Trustee is equal to (i) the value of all fees that the Trustee elects to receive in the form of Deferred Units plus an additional 100% of the annual board retainer fee elected to be received in the form of Deferred Units pursuant to the REIT's obligation to match, (ii) divided by the volume-weighted average trading price of a Unit on the TSX for the five trading days prior to the date of the award. Elections are irrevocable for the year in respect of which they are made. The Deferred Units earn additional Deferred Units for distributions that would otherwise have been payable in cash. Deferred Units granted to Trustees vest immediately upon grant.

For the year ended December 31, 2019, $605 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net (loss) income and comprehensive (loss) income ($500 for the period from January 9, 2018 to December 31, 2018). 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 (loss) income and comprehensive (loss) income.

	Units		Value
Deferred units, as of January 9, 2018	—	$	—
Non-cash changes			
Deferred trust units issued	56,888		500
Fair value adjustments	—		(45)
Deferred units issued, as of December 31, 2018	56,888	$	455
Non-cash changes			
Deferred trust units issued	58,131		605
Fair value adjustments	—		280
Deferred units issued, as of December 31, 2019	**115,019**	**$**	**1,340**

Unit-based compensation

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

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

The RUs and PUs are considered a financial liability due to the contractual obligation for the Trust to deliver Units at the option of the participant, subject to board approval. The RUs and PUs are measured at fair value with changes in fair value recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net (loss) income and comprehensive (loss) 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. On March 31, 2019, the REIT granted 39,646 and 59,469 RUs and PUs, respectively, with a grant date fair value of $9.32 per Unit. The REIT granted an additional 5,109 RUs and 5,256 PUs for distributions that would otherwise have been payable in cash with a grant date fair value equivalent to the market value of the Units on each distribution date. On May 18, 2019, 17,909 RUs vested pursuant to the May 18, 2018 Omnibus Equity Incentive Plan and were settled through the issuance of 11,345 Units with a weighted average Unit price of $10.22.

For the year ended December 31, 2019, unit-based compensation expense of $620 has been recognized in general and administrative expense ($179 for the period from January 9, 2018 to December 31, 2018). A fair value loss of $170 for the year ended December 31, 2019 has been recognized in fair value adjustment to unit-based compensation in the consolidated statement of net (loss) income and comprehensive (loss) income ($36 gain for the period from January 9, 2018 to December 31, 2018). As of December 31, 2019, 77,846 RUs and 102,975 PUs were unvested with a carrying amount of $751 recorded in accounts payable and other liabilities in the consolidated financial statements.

(25) Subsequent events

In January 2020, the REIT sold Westwood Village located in Shreveport, Louisiana for a contractual purchase price, prior to working capital adjustments and selling costs, of $16,000 for the 248 apartment units. As part of this sale, the buyer assumed an existing property mortgage of $10,960.

In January and February 2020, the REIT paid $32,443 toward the principal balance of the Credit Facility.