BSR REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements (In U.S. dollars)
For the years ended December 31, 2020 and December 31, 2019

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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, 2020 and December 31, 2019
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- 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, 2020 and December 31, 2019, and its consolidated financial performance, and its consolidated cash flows for the years then ended 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the fair value of investment properties in use

Description of the matter

We draw attention to Note 3(d), Note 3(q), and Note 8 of the financial statements. Investment properties consist of investment properties in use and Investment property under development. Investment properties are measured at their estimated fair value. The Entity has recorded investment properties in use for an amount of $1,081,383 thousand. The significant assumptions used when determining the fair value of investment properties in use include capitalization rates and stabilized future cash flows.

Why the matter is a key audit matter

We identified the evaluation of the fair value of investment properties in use as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of investment properties in use and the high degree of estimation uncertainty in determining the fair value of investment properties in use. Additionally, significant auditor judgment was required in performing, and evaluating the results of, our audit procedures due to the sensitivity of the fair value of investment properties in use to minor changes in certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of investment properties in use, we developed an independent estimate of the stabilized future cash flows by obtaining the actual historical cash flows and adjusting those cash flows for market rent growth rates and expense growth rates obtained from published reports and industry commentators. In making those adjustments, we took into account the changes in conditions and events affecting the investment properties in use. We compared our independent estimate to the Entity's stabilized future cash flows.

For a selection of investment properties in use, we evaluated the capitalization rates by comparing them to published reports of real estate industry commentators and considering the features of the specific investment property.

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 "2020 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 "2020 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 9, 2021

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position

In thousands of U.S. dollars

	Note		December 31, 2020		December 31, 2019
Assets					
Non-current assets					
Investment properties	8	$	1,081,383	$	1,057,383
Right-of-use asset	18		163		163
Note receivable	4		5,227		—
Prepayment embedded derivatives	20(e)		7,024		10,202
			1,093,797		1,067,748
Current assets					
Cash and cash equivalents			5,264		36,994
Restricted cash	5		10,492		13,000
Resident and other receivables, net	6		2,082		2,940
Prepaid expenses and other assets	7		2,057		2,019
			19,895		54,953
Total assets		**$**	**1,113,692**	**$**	**1,122,701**
Liabilities and Unitholders' Equity					
Non-current liabilities					
Loans and borrowings	10	$	432,062	$	528,622
Lease liability	18		166		168
Class B Units	12		244,212		263,302
Convertible debentures	13		41,756		—
Interest rate swaps	20(d)		4,814		993
Tenant in common interests	11		—		3,792
			723,010		796,877
Current liabilities					
Accounts payable and other liabilities	9		26,446		26,819
Interest rate swaps	20(d)		1,723		312
Loans and borrowings	10		43,850		13,689
			72,019		40,820
Total liabilities			795,029		837,697
Unitholders' equity					
Unitholders' equity	14		318,663		285,004
Subsequent events	26				
Total liabilities and unitholders' equity		**$**	**1,113,692**	**$**	**1,122,701**

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

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

In thousands of U.S. dollars

	Note	Year ended December 31, 2020	Year ended December 31, 2019
Revenue:			
Rental revenue		$ 99,144	$ 97,431
Other property income		14,142	14,233
	15	113,286	111,664
Expenses (Income):			
Property operating expenses	16	38,453	40,407
Real estate taxes		14,481	10,462
General and administrative expenses		7,750	7,410
Fair value adjustment to investment properties	8	(20,500)	(16,736)
Fair value adjustment to investment properties (IFRIC 21)		1,684	1,484
Finance costs from operations	17	36,838	22,471
Costs of disposition of investment properties	4	7,674	5,825
Distributions on Class B Units	17	10,892	11,482
Depreciation of right-of-use asset	18	131	131
Fair value adjustment to derivatives and other financial liabilities	17	(10,432)	81,442
Fair value adjustment to unit-based compensation	25	152	450
Change in tenant in common interests	11,17	(1,414)	43
		85,709	164,871
Net income (loss) and comprehensive income (loss)		**$ 27,577**	**$ (53,207)**

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 (loss)		Total Unitholders' Equity
Balance, as of January 1, 2019	**$**	**149,678**		**(5,117)**	**$**	**143,952**	**$**	**288,513**
Net loss and comprehensive loss		—		—		(53,207)		(53,207)
Units issued, net of issuance costs (Note 14)		58,955		—		—		58,955
Distributions		—		(9,257)		—		(9,257)
Balance, as of December 31, 2019	**$**	**208,633**	**$**	**(14,374)**	**$**	**90,745**	**$**	**285,004**
Balance, as of January 1, 2020	**$**	**208,633**	**$**	**(14,374)**	**$**	**90,745**	**$**	**285,004**
Net income and comprehensive income		—		—		27,577		27,577
Units issued, net of issuance costs (Note 14)		18,503		—		—		18,503
Units purchased for cancellation under the normal course issuer bid (Note 14)		(770)		—		—		(770)
Distributions		—		(11,651)		—		(11,651)
Balance, as of December 31, 2020	**$**	**226,366**	**$**	**(26,025)**	**$**	**118,322**	**$**	**318,663**

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, 2020	Year ended December 31, 2019
Operating activities			
Net income (loss) and comprehensive income (loss)		$ 27,577	$ (53,207)
Adjustments for:			
Fair value adjustment to investment properties	8	(20,500)	(16,736)
Fair value adjustment to derivatives and other financial liabilities	17	(10,432)	81,442
Fair value adjustment to unit-based compensation	25	152	450
Change in tenant in common interests	11	(1,414)	43
Depreciation of right-of-use asset	18	131	131
Unit-based compensation	25	1,610	1,225
Finance costs from operations	17	36,838	22,471
Costs of disposition of investment properties	4	7,674	5,825
Accrued distributions on Class B Units	17	10,892	11,482
Change in non-cash operating assets and liabilities	24	(1,229)	3,736
Cash provided by operating activities		**51,299**	**56,862**
Investing activities			
Acquisition of investment properties	4, 8	(327,482)	(196,174)
Net proceeds from sale of investment properties	4, 8	298,302	165,252
Escrowed rent guaranty cash received		1,150	—
Additions to investment properties	8	(12,608)	(24,724)
Restricted cash withdrawals, net of deposits	5	2,720	596
Cash used in investing activities		**(37,918)**	**(55,050)**
Financing activities			
Proceeds from issuance of units, net of issuance costs	14	-	52,958
Proceeds from issuance of convertible debentures, net of issuance costs	13	40,389	-
Proceeds from issuance of loans and borrowings	10	313,980	279,085
Principal payments of loans and borrowings	10	(347,196)	(260,347)
Payment of mortgage financing costs	10	(2,169)	(2,019)
Principal payments of lease liability	18	(133)	(126)
Payment of prepayment penalties and other refinancing fees	10	(1,916)	—
Redemption of Class B Units in exchange for cash	12	(3,156)	(213)
Distributions paid to Class B Unitholders	12	(10,928)	(11,505)
Distributions paid to Unitholders		(11,586)	(9,017)
Purchase of tenant in common interest with cash	11	(393)	—
Units purchased for cancellation under the normal course issuer bid	14	(770)	—
Unit issuance costs	14	(56)	—
Interest paid		(21,177)	(21,211)
Cash (used in) provided by financing activities		**(45,111)**	**27,605**
Change in cash and cash equivalents during the period		**(31,730)**	**29,417**
Cash and cash equivalents, beginning of period		**36,994**	**7,577**
Cash and cash equivalents, end of period		**$ 5,264**	**$ 36,994**

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. The REIT's Declaration of Trust was amended and restated on April 23, 2020. The principal business of the REIT is to acquire and operate multi-family residential rental properties across the United States.

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

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

As of December 31, 2020, the REIT owns 30 multifamily garden-style residential properties located across four bordering states in the Sunbelt region of the United States, which stretches across the South Atlantic and Southwest portions of the United States. The REIT currently operates in Arkansas, Texas, Oklahoma and Mississippi. The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

(2) Basis of preparation

(a) Statement of compliance

The 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 9, 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for investment properties, derivative financial instruments, Class B Units and convertible debentures, which have been measured at fair value. The 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.

From the IPO through November 2020, the REIT's subsidiaries included one entity that owned an interest in a single property located in the United States. The REIT did not have an ownership interest in the entity, but determined that it controlled 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 was 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 properties

Investment properties consist of investment properties in use and investment properties under development. 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 using the direct capitalization income method. As part of management's internal valuation program, the REIT considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations across the REIT's portfolio. On a quarterly basis, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data.

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 15.

(h) Leases

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.

(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 subsequently 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-line 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 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
Note receivable	Amortized cost
Prepayment embedded derivatives	FVTPL
Interest rate swaps	FVTPL

Financial liabilities	**Classification**
Loans and borrowings	Amortized cost
Class B Units	FVTPL
Convertible debentures	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 20(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.

Convertible debentures

The convertible debentures are convertible into Units. As Units are redeemable at the option of the holder and are therefore considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. The REIT has elected to classify and measure its convertible debentures as financial liabilities measured at FVTPL with the changes in fair value being recognized in the consolidated statements of net income (loss) and comprehensive income (loss).

(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, convertible debentures, interest rate swaps and prepayment embedded derivatives as well as non-financial assets, such as investment properties, at fair value at each statement of financial position 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 no 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) Significant 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 judgments 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

Major sources of estimation uncertainty and the assumptions that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year relate to the following:

Valuation of investment properties

Determining the fair value of investment properties in use is a major source of estimation uncertainty. The significant assumptions 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 stabilized future 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 major sources of estimation uncertainty and significant assumptions underlying the valuation of investment properties are outlined in note 8.

(r) IFRS amendment adopted in 2020:

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

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

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements (“IAS 1”), providing a more general approach to the classification of liabilities based on the contractual agreements in place at the reporting date. The amendments apply to annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

The amendments to IAS 1 affect only the presentation of liabilities in the statement of financial position and seek to clarify that the classification of liabilities as current or non-current should be based on the rights that are in existence at the end of the reporting period. Further, the amendments make clear that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and that the settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The REIT intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the amendments become effective.

(4) Asset acquisitions and dispositions

(a) Asset acquisitions

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

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

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

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

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

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

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

In July 2020, the REIT acquired Volterra at Westlake ("Volterra"), a 370-unit, garden-style residential community in Houston, Texas for a total contractual purchase price of $51,000. The REIT funded the transaction through the issuance of 847,573 Units to the seller, on a private placement basis, cash and $39,700 which was funded through the Credit Facility.

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

In December 2020, the REIT acquired Vale Luxury Apartments, a newly constructed 350-unit garden-style residential community in the Houston MSA, and Satori Frisco, a 330-unit garden-style residential community constructed in late 2019 in the Dallas/Fort Worth MSA, for a combined total contractual price of $129,000. The transaction was funded with $28,900 in mortgage debt, and the REIT's Credit Facility was used for the balance.

(b) Dispositions

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

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

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

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

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

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

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

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

In April 2020, the REIT sold Summer Green I, Summer Green II and Summer Brook located in Longview, Texas for a combined contractual purchase price of $52,500 million for the 632 apartment units.

In May 2020, the REIT sold Summer Lake located in Longview, Texas for a contractual purchase price of $17,325 million for the 252 apartment units.

In November 2020, the REIT sold Indian Hills, Overbrook I, Overbrook V and Woodland Oaks located in the Little Rock MSA as well as Baystone and Vanderbilt located in the Houston MSA for a combined contractual purchase price of $130,968 million for the 1,483 apartment units.

In late November and December 2020, the REIT sold Windsor Estates I and II located in the Houston MSA, The Pointe located in the Beaumont MSA, South Oaks located in the Little Rock MSA and Willow Lake located in the Longview MSA for a combined contractual purchase price of $85,782 for the 890 apartment units.

Additionally, in December 2020, the REIT sold West End Lodge located in the Beaumont MSA for a contractual purchase price of $44,000 for the 360 apartment units. As part of the sale, the buyer assumed the REIT’s in-place mortgage financing of $21,850 and the REIT took back a $5,227 note receivable maturing in five years, bearing interest at 4.1% in years one and two, 5.1% in years three and four and 10% in year five.

Costs of disposition of investment properties of $7,674 for the year ended December 31, 2020 ($5,825 for the year ended December 31, 2019) represents the difference between the net sale proceeds (sale price less transactional closing costs) and the value of the investment properties on the date of disposition. Such costs are primarily comprised of selling costs, including legal fees, consulting fees and brokerage commissions. The costs of disposition of investment properties is recognized in the statement of net income (loss) and comprehensive income (loss) in the period of sale.

(5) Restricted cash

	December 31, 2020	December 31, 2019
Tenant security deposits	$ 891	$ 833
Replacement reserve	2,360	3,492
Lender escrow deposits	7,241	8,675
Restricted cash	**$ 10,492**	**$ 13,000**

(6) Resident and other receivables, net

	December 31, 2020	December 31, 2019
Resident receivables, net	$ 279	$ 311
Utility reimbursements and other receivables	1,803	2,629
Resident and other receivables, net	**$ 2,082**	**$ 2,940**

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

(7) Prepaid expenses and other assets

	December 31, 2020	December 31, 2019
Prepaid insurance	$ 885	$ 864
Other assets	1,172	1,155
Prepaid expenses and other assets	**$ 2,057**	**$ 2,019**

(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, 2020	Year ended December 31, 2019
Investment properties in use, beginning of period	**$ 1,041,917**	**$ 934,801**
Property acquisitions	338,869	249,311
Property dispositions	(346,575)	(172,057)
Transfer of investment property under development to in use	16,433	—
Additions to investment properties	10,239	13,126
Change in fair value of investment properties	20,500	16,736
Investment properties in use, end of period	**1,081,383**	**1,041,917**
Investment property under development, beginning of period	**15,466**	**2,750**
Additions to investment property under development	967	12,716
Transfer of investment property under development to in use	(16,433)	—
Investment property under development, end of period	**—**	**15,466**
Investment properties, end of period	**$ 1,081,383**	**$ 1,057,383**

The REIT used an internal valuation process to value the investment properties as of December 31, 2020. The REIT engages third party appraisers to prepare valuations on a portion of the portfolio annually, such that the entire portfolio is appraised at least once every three years. As part of Management's internal valuation program, the REIT considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations across the REIT's portfolio and updates, as deemed necessary, the valuation models to reflect current market data.

The estimated fair value of each investment property was determined using the direct capitalization income method. The stabilized future cash flows are divided by an overall capitalization rate. The capitalization rates were derived in part from a combination of third-party information and the observation of industry trends (Level 3 inputs). Assumptions used to derive capitalization rates include property age, amenities, renovations, geographic region and location.

The REIT also continues to review market capitalization, discount and terminal capitalization rates as well as its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic. The carrying value of the REIT's investment properties reflects its best estimate for the highest and best use as at December 31, 2020. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on the REIT's business and operations, both in the short term and in the long term. In a long-term scenario, total rental income could be impacted by future demand and a decline in market rents and other fees, which ultimately impact the underlying valuation of investment property. The REIT could also experience COVID-19-related delays to repositioning initiatives.

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

A significant increase (decrease) in stabilized future cash flows in isolation would result in a significantly higher (lower) fair value. A significant increase (decrease) in capitalization rate estimates in isolation would result in significantly lower (higher) fair value. Generally, a change in estimated rents is accompanied by a directionally similar change in the rent growth per annum assumption and an opposite change in future vacancy rate estimates.

The following table summarized the significant unobservable inputs used in the valuation of the REIT's properties in use:

	December 31, 2020	December 31, 2019
Capitalization rates		
High	10.0%	10.0%
Low	4.3%	4.5%
Weighted average	4.9%	5.7%

The fair values of investment properties are most sensitive to changes in capitalization rates and stabilized future cash flows. As of December 31, 2020, a 25 and 50 basis-point decrease in the weighted average capitalization rate would increase the value of the investment properties by $57,884 and $122,315, respectively. A 25 and 50 basis-point increase in the weighted average capitalization rate would decrease the value of the investment properties by $52,286 and $99,750, respectively.

In addition, a 1% increase in stabilized future cash flows would increase the portfolio fair value by $10,814. A 1% decrease in stabilized future cash flows would decrease the portfolio fair value by $10,814. A 1% increase in stabilized future cash flows coupled with a 0.25% decrease in capitalization rates would increase the portfolio fair value by $69,277. A 1% decrease in stabilized future cash flows coupled with a 0.25% increase in capitalization rates would decrease the portfolio fair value by $62,577.

During the year ended December 31, 2020, the REIT capitalized $265 of borrowing costs related to a development project under construction at an average interest rate of 4.5%. During the year ended December 31, 2019, the REIT capitalized $220 of borrowing costs related to a development project under construction at an average interest rate of 4.3%.

(9) Accounts payable and other liabilities

	December 31, 2020	December 31, 2019
Trade payables	$ 566	$ 1,280
Accrued capital expenditures	479	1,881
Accrued property tax liabilities	12,341	11,159
Accrued and other liabilities	6,893	6,846
Distributions payable	1,900	1,873
Interest payable on loans and borrowings	1,002	1,289
Interest payable on convertible debentures	699	—
Tenant security deposits	1,081	833
Rent received in advance	1,485	1,658
Accounts payable and other liabilities	**$ 26,446**	**$ 26,819**

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

(10) Loans and borrowings

	December 31, 2020	December 31, 2019
Fixed or economically hedged to fixed rate mortgage notes payable	$ 318,936	$ 358,779
Variable rate mortgage notes payable	36,600	49,740
Net unamortized discount on mortgage notes payable	(4,463)	(5,370)
Net unamortized deferred financing costs	(3,543)	(2,263)
Credit Facility	128,382	141,425
Total loans and borrowings	**475,912**	**542,311**
Less: current portion of loans and borrowings	(43,850)	(13,689)
Non-current loans and borrowings	**$ 432,062**	**$ 528,622**

Mortgage notes

The REIT's weighted average contractual interest rate on mortgage notes as of December 31, 2020 and December 31, 2019 was approximately 3.8% and 3.9%, respectively, 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, 2020 and December 31, 2019 was approximately 4.1% and 4.2%, respectively. Mortgage notes as of December 31, 2020 mature at various dates from 2021 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, 2020 and December 31, 2019, there was no balance on the Line of Credit.

Credit Facility

The REIT maintains a revolving credit facility (the "Credit Facility") with a maximum revolving credit availability of $225,000, which was increased to $275,000 in January 2021. As of December 31, 2020, the Credit Facility was secured by eight of the REIT's investment properties and is due on December 30, 2023, as amended on December 28, 2020. The Credit Facility bears interest at the Adjusted LIBOR rate, as defined in the Credit Facility, plus 1.90% to 2.40% 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 0.90% to 1.40% 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, 2020 and December 31, 2019, the balance outstanding on the Credit Facility was $128,382 and $141,425, respectively, at a variable interest rate of 2.2% as of December 31, 2020 and 3.4% as of December 31, 2019. As noted below, the REIT entered into receive variable based on 1 Month USD – LIBOR/pay fixed interest rate swap agreements on a notional value of $100,000 to manage interest rate exposure with respect to the Credit Facility.

Loss on extinguishment of debt

During the year ended December 31, 2020, the REIT refinanced mortgages on five properties with outstanding balances totalling $36,456 through the Credit Facility. Additionally, the REIT extinguished $51,564 of mortgage debt related to property dispositions. As a result, the REIT incurred a loss on extinguishment of debt of $11,629, which includes the non-cash write-off of existing net discounts, premiums, and prepayment embedded derivatives totalling $9,713.

Total loans and borrowings

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of December 31, 2020, are in the schedule below. Contractual Interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of December 31, 2020.

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

	Principal	Balloon payment	Contractual Interest	Total payments
2021	$ 2,849	$ 42,422	$ 16,161	$ 61,432
2022	3,645	—	14,927	18,572
2023	3,262	158,881	13,988	176,131
2024	2,831	34,113	10,429	47,373
2025	1,529	47,965	7,896	57,390
Thereafter	49,905	136,516	46,243	232,664
	$ 64,021	**$ 419,897**	**$ 109,644**	**$ 593,562**

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, 2020, the REIT was in compliance with all financial covenants of its debt agreements.

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

	Year ended December 31, 2020	Year ended December 31, 2019
Loans and borrowings, beginning of period	**$ 542,311**	**$ 471,001**
Cash flows		
Proceeds from issuance of loans and borrowings	313,980	279,085
Principal payments of loans and borrowings	(347,196)	(260,347)
Payment of mortgage financing costs	(2,169)	(2,019)
	(35,385)	16,719
Non-cash changes		
Loan assumed in property acquisition - Wimberly	—	32,353
Loan assumed in property acquisition - Auberry	—	20,436
Loan assumed in property disposition - Westwood Village	(10,960)	—
Loan assumed in property disposition - West End Lodge	(21,850)	—
Unamortized net discount release on dispositions and mortgage refinances	287	598
Amortization of deferred financing costs	887	383
Amortization of net discount on mortgage notes payable	622	821
	(31,014)	54,591
Loans and borrowings, end of period	**$ 475,912**	**$ 542,311**

(11) Tenant in common interests

	Year ended December 31, 2020	Year ended December 31, 2019
Tenant in common interests, beginning of period	**$ 3,792**	**$ 3,749**
Cash flows		
Purchase of tenant in common interest with cash	(393)	—
Non-cash changes		
Change in tenant in common interests	(1,414)	43
Acquisition of tenant in common interests for Class B Units	(1,985)	—
Tenant in common interests, end of period	**$ —**	**$ 3,792**

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

In connection with the disposition of Willow Lake, the REIT first indirectly acquired certain tenant in common interests in the property in consideration for a combination of cash and the issuance of 188,165 Class B Units in the aggregate at a deemed price of $11.20 per Class B Unit to certain sellers of the tenant in common interests, before disposing of the property.

(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).

As discussed above, the REIT issued 188,165 Class B Units as part of the acquisition of certain tenant in common interests.

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 1, 2019	**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**
Cash changes			
Redemption of Class B Units in exchange for cash	(308,660)		(3,156)
Non-cash changes			
Redemption of Class B Units in exchange for Units	(772,780)		(9,385)
Issuance of Class B Units in exchange for tenant in common interests	188,165		1,985
Fair value adjustments	—		(8,534)
Class B Units, as of December 31, 2020	**21,707,767**	**$**	**244,212**

(13) Convertible debentures

On September 3, 2020, the REIT issued $40,000 of 5.0% convertible unsecured subordinated debentures (“convertible debentures”). Interest is payable semi-annually on March 31 and September 30 each year until maturity on September 30, 2025, with interest payments commencing on March 31, 2021. The convertible debentures are convertible at the option of the holder into Units at $14.40 per Unit (the “Conversion Price”).

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

The convertible debentures will not be redeemable by the REIT prior to September 30, 2023. On or after September 30, 2023, but prior to September 30, 2024, the convertible debentures will be redeemable, in whole or in part, at a price equal to the principal plus accrued and unpaid interest, at the REIT’s option, provided that the volume weighted average trading price of the US dollar denominated Units on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and after September 30, 2024, the convertible debentures will be redeemable by the REIT, in whole or in part, at a price equal to the principal plus accrued and unpaid interest. Additionally, the REIT may, at its option, elect to satisfy its obligation to pay all or any portion of the redemption by issuing Units to the holders at a value of 95% of the current market price of the Units on the redemption date.

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

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

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

		Year ended December 31, 2020
Convertible debentures, beginning of period	**$**	**—**
Cash changes		
Issuance of convertible debentures		42,500
Non-cash changes		
Fair value adjustments		(744)
Convertible debentures, end of period	**$**	**41,756**

(14) Unitholders' equity

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

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

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

On July 30, 2020, concurrent with the acquisition of Volterra, the REIT issued 847,573 Units, on a private placement basis, at a deemed price of $12.25 per Unit.

	Units		Value
Units outstanding, classified as equity, as of January 1, 2019	**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**
Issuance of Units for unit-based compensation	21,061		217
Issuance of Units in exchange for Class B Units	772,780		9,385
Units issued in private placement, net of issue costs	847,573		8,957
Unit issuance costs	—		(56)
Units purchased for cancellation under the normal course issuer bid	(89,900)		(770)
Units outstanding, classified as equity, as of December 31, 2020	**23,863,511**	**$**	**226,366**

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

(15) Revenue

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

Revenue from the rental components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance as well as consideration related to late rent, month-to-month leases and payments for early terminations. Revenue recognition commences when a resident has the right to use the property and is recognized pursuant to the terms of the lease agreement. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are deferred as prepaid rents.

Revenue related to the service components of the REIT’s leases is accounted for in accordance with IFRS 15, Revenue from Contracts with Customers. These services consist primarily of the recovery of utility, property maintenance and 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, 2020	Year ended December 31, 2019
Lease revenue	$ 95,505	$ 92,943
Revenue from services	17,781	18,721
Total revenue	**$ 113,286**	**$ 111,664**

(16) Property operating expenses

	Year ended December 31, 2020	Year ended December 31, 2019
Employee wages and benefits	$ 16,111	$ 16,941
Utility costs	8,437	9,190
Repairs and maintenance expense	5,788	5,750
Other property based costs	8,117	8,526
Property operating expense	**$ 38,453**	**$ 40,407**

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

(17) Finance costs

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

	Year ended December 31, 2020	Year ended December 31, 2019
Finance costs from operations		
Interest expense at stated rate	$ 19,526	$ 21,016
Interest expense on lease liability	6	10
Amortization of deferred financing costs	887	383
Amortization of net discount on loans and borrowings	622	821
Loss on extinguishment of debt	11,629	80
Interest expense on convertible debentures	699	—
Convertible debenture issuance costs	2,111	—
Interest expense on interest rate swaps	1,254	45
Interest income on note receivable and other interest bearing accounts	(37)	—
Distributions to tenant in common interests	141	116
Finance costs from operations	**36,838**	**22,471**
Fair value adjustment to derivatives and other financial liabilities		
Fair value adjustment to Class B Units	(8,534)	84,130
Fair value adjustment to convertible debentures	(744)	—
Fair value adjustment to interest rate swaps	5,232	550
Fair value adjustment to prepayment embedded derivatives	(6,386)	(3,238)
Fair value adjustment to derivatives and other financial liabilities	**(10,432)**	**81,442**
Finance costs		
Finance costs from operations	36,838	22,471
Fair value adjustment to derivatives and other financial liabilities	(10,432)	81,442
Distributions on Class B Units	10,892	11,482
Change in tenant in common interests	(1,414)	43
Finance costs	**$ 35,884**	**$ 87,957**

(18) Leases

The REIT leases apartments of multifamily properties to residents under noncancelable operating leases. The leases generally have a term of one year, or less. There were no residents that accounted for more than 10% of the REIT's total rental revenue for the year ended December 31, 2020.

At December 31, 2020, the total future contractual minimum rent lease payments expected to be received under noncancelable leases are as follows:

	December 31, 2020
1 year	$ 47,591
2 years	872
	$ 48,463

The REIT's Little Rock, Arkansas headquarters is leased with a term that expires in March 2022 (see note 23), as recently amended in November 2020. 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 $6 in interest expense on the lease liability for the year ended December 31, 2020 ($10 for the year ended December 31, 2019).

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

The following tables present the change in the right-of-use asset and corresponding lease liability for the year ended December 31, 2020:

	Year ended December 31, 2020	Year ended December 31, 2019
Right-of-use asset, as of beginning of period	$ 163	$ 294
Depreciation of right-of use asset	(131)	(131)
Union Station lease amendment	131	—
Right-of-use asset, as of end of period	**$ 163**	**$ 163**

	Year ended December 31, 2020	Year ended December 31, 2019
Lease liability, as of beginning of period	$ 168	$ 294
Principal payments on lease liability	(133)	(126)
Union Station lease amendment	131	—
Lease liability, as of end of period	**$ 166**	**$ 168**

The REIT recorded lease expenses of $81 during the year ended December 31, 2020 for additional low-value leased office equipment.

(19) Commitments and contingencies

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

(20) Financial instruments

(a) Risk management

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

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

As of December 31, 2020, the REIT's mortgage debt was 90% 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, 2020, the REIT's debt was 87% fixed or economically hedged to fixed rates, excluding net unamortized discounts on mortgages payable and net unamortized deferred financing costs.

Management manages a portion of its variable-rate mortgages using interest rate swaps that alter its exposure to the impact of changing interest rates. The interest rate swaps are not designated as hedging instruments and as a result, the changes in fair value are recognized in earnings as an adjustment to finance costs in the consolidated statement of net loss and comprehensive loss. As of December 31, 2020, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a $650 change in the REIT's finance costs over the next 12 months.

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

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

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

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

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

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

The REIT manages maturities of the fixed rate mortgages and monitors the repayment dates of all loans and borrowings to ensure sufficient capital will be available to cover obligations. As at December 31, 2020, the REIT had a working capital deficit of $52,124. In the normal course of business, a portion of the REIT's borrowings under mortgage notes, convertible debentures, the Credit Facility and the Line of Credit with a maturity date less than one year are considered current liabilities prior to being replaced with longer-term financing.

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

	Carrying amount	Contractual cash flows	1 year	2 years	3 years	4 years	More than 4 years
Loans and borrowings	$ 475,912	$ 483,918	$ 45,271	$ 3,645	$ 162,143	$ 36,944	$ 235,915
Interest payable	1,002	109,644	16,161	14,927	13,988	10,429	54,139
Interest rate swaps	6,537	6,619	1,722	1,659	1,526	1,235	477
Convertible debentures	41,756	42,500	—	—	—	—	42,500
Interest payable on convertible debentures	699	10,094	2,125	2,125	2,125	2,125	1,594
Lease liability	166	171	148	23	—	—	—
Capital improvements liability	479	479	479	—	—	—	—
Accounts payable and other liabilities	24,266	24,266	24,266	—	—	—	—
	$ 550,817	**$ 677,691**	**$ 90,172**	**$ 22,379**	**$ 179,782**	**$ 50,733**	**$ 334,625**

(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:

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

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

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.

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

(c) Loans and borrowings

	December 31, 2020	December 31, 2019
Carrying amount	$ 475,912	$ 542,311
Fair value	$ 513,304	$ 576,913

(d) Interest rate swaps

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

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

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

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

	December 31, 2020	December 31, 2019
Interest rate swaps		
Current portion	$ (1,723)	$ (312)
Non-current portion	(4,814)	(993)
Interest rate swaps, end of period	**$ (6,537)**	**$ (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, 2020:

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, 2020					
Raymond James	9/1/2025	5.07%	$ 12,265	$ 4,525	$ (701)
Bank of Montreal	8/30/2024	1.21%	20,000	20,000	(727)
Bank of Montreal	6/10/2025	1.70%	80,000	80,000	(5,109)
			$ 112,265	$ 104,525	$ (6,537)

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

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, 2020	Year ended December 31, 2019
Interest rate swaps, beginning of period	**$ (1,305)**	**(755)**
Non-cash changes		
Fair value adjustment to interest rate swaps	(5,232)	(550)
Interest rate swaps, end of period	**$ (6,537)**	**$ (1,305)**

(e) Prepayment embedded derivatives

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

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

The fair value of the prepayment embedded derivatives has been determined using a LIBOR based interest rate swap options ("swaptions") as a proxy. The swaptions were structured to mirror the financial conventions of the respective loans, including payment periods, accrual basis, principal amortization, prepayment dates and prepayment premiums. The swaptions were structured as fixed receiver with a strike rate set on market as of the date of the loan agreement with exercise premiums to match the underlying loans plus a cost of refinancing upon exercise. The resulting swaption price would represent a proxy for the value of the prepayment rights embedded in the underlying loans. The fair values determined are based on significant other observable inputs (Level 2).

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

	Year ended December 31, 2020	Year ended December 31, 2019
Prepayment embedded derivatives, beginning of period	**$ 10,202**	**$ 6,964**
Non-cash changes		
Prepayment embedded derivative elimination due to debt refinancing	(9,564)	—
Fair value adjustment to prepayment embedded derivatives	6,386	3,238
Prepayment embedded derivatives, end of period	**$ 7,024**	**$ 10,202**

(21) Capital management

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

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

(22) Employee benefit plan

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

Management of the REIT elects to match employee deferrals at its discretion. Employer matching contributions to the Plan totalled $228 for the year ended December 31, 2020 ($127 for the year ended December 31, 2019).

(23) Related party transactions

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 $1,727 were declared to Bailey/Hughes holders for the year ended December 31, 2020 ($1,702 for the year ended December 31, 2019).
- Distributions on Class B Units of $7,031 were declared to key management personnel, primarily the Bailey/Hughes Holders, for the year ended December 31, 2020 ($7,118 for the year ended December 31, 2019). Key management personnel of the REIT are those persons having the authority and responsibility for planning, directing and controlling the activities of the REIT directly or indirectly.
- Compensation expenses include $2,961 paid to key management personnel for the year ended December 31, 2020 ($2,831 for the year ended December 31, 2019), which includes short-term employee compensation and

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

benefits and unit-based compensation. The REIT's Chief Executive Officer did not receive any compensation for services rendered during either of the periods presented.

- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT's Chief Executive Officer and President & Chief Investment Officer. The current lease term expires in 2022 (see note 18).
- During the three months ended December 31, 2020, the REIT issued 38,393 Class B units to purchase tenant in common interests controlled by the family of the REIT's Chief Executive Officer and President & Chief Investment Officer.

(24) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Resident and other receivables, net	$ (528)	$ 263
Prepaid expenses and other assets	43	(204)
Accounts payable and other liabilities	(744)	3,677
	$ (1,229)	**$ 3,736**

(25) Deferred unit compensation and unit-based compensation

Remuneration of trustees (deferred unit compensation)

The REIT adopted the Omnibus Equity Incentive Plan effective as of May 18, 2018. The purpose of the Equity Incentive Plan is to promote a greater alignment of interests between the non-executive Trustees and the Unitholders. Under the Equity Incentive Plan, Trustees have the option to elect to receive up to 100% of all fees that are otherwise payable in cash in the form of Deferred Units. A Deferred Unit award is an award denominated in notional units that entitles the participant to receive Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the Units in the future. Accordingly, the number of Deferred Units to be awarded to a Trustee is equal to (i) the value of all fees that the Trustee elects to receive in the form of Deferred Units, (ii) divided 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, 2020, $652 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net income (loss) and comprehensive income (loss) ($605 for the year ended December 31, 2019). The Deferred Units are measured at fair value at each reporting period and the change in fair value is recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss).

	Units	Value
Deferred units, as of January 1, 2019	**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**
Non-cash changes		
Deferred trust units issued	64,211	652
Fair value adjustments	—	25
Deferred units issued, as of December 31, 2020	**179,230**	**$ 2,017**

Unit-based compensation

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

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

The RUs and PUs are considered a financial liability due to the contractual obligation for the Trust to deliver Units at the option of the participant, subject to board approval. The RUs and PUs are measured at fair value with changes in fair value recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss). On May 18, 2018, the REIT granted 51,000 and 38,250 RUs and PUs, respectively, with a grant date fair value of $10.00 per Unit. On March 31, 2019, the REIT granted 39,646 and 59,469 RUs and PUs, respectively, with a grant date fair value of $9.32 per Unit. On March 17, 2020, the REIT granted 40,251 and 60,376 RUs and PUs, respectively, with a grant date fair value of $9.18 per Unit. On May 18, 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. On January 1, 2020, 13,687 RUs vested and were settled through the issuance of 8,113 Units with a weighted average Unit price of $11.65. On May 18, 2020, 18,764 RUs vested and were settled through the issuance of 12,948 Units with a weighted average Unit price of $9.44. The REIT granted an additional 9,237 RUs and 12,573 PUs for distributions that would otherwise have been payable in cash with a grant date fair value equivalent to the market value of the Units on each distribution date.

For the year ended December 31, 2020, unit-based compensation expense of $958 has been recognized in general and administrative expense ($620 for the year ended December 31, 2019). A fair value loss of $127 for the year ended December 31, 2020 has been recognized in fair value adjustment to unit-based compensation in the consolidated statement of net income (loss) and comprehensive income (loss) ($170 loss for the year ended December 31, 2019). As of December 31, 2020, 89,774 RUs and 170,668 PUs were unvested with a carrying amount of $1,499 recorded in accounts payable and other liabilities in the consolidated financial statements.

(26) Subsequent events

On February 9, 2021, the REIT completed a follow-on offering of 6,302,000 Units for total gross proceeds of $69.0 million.

On February 11, 2021, the REIT sold Towne Park located in Northwest Arkansas for a contractual purchase price of $31.7 million for the 237 apartment units.