



BSR REAL ESTATE INVESTMENT TRUST

Consolidated financial statements (In U.S. dollars)
For the years ended December 31, 2023 and December 31, 2022



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INDEPENDENT AUDITOR'S 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, 2023 and December 31, 2022
- the consolidated statements of net (loss) income and other comprehensive (loss) 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 material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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 Matter

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, 2023. 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 matter described below to be the key audit matter to be communicated in our auditor's report.

Evaluation of the fair value of investment properties in use

Description of the matter

We draw attention to Note 3(d), Note 3(p), and Note 7 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 \$1,742,974 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 of Financial Condition and Results of Operations filed with the relevant Canadian Securities Commissions.

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 of Financial Condition and Results of Operations filed with the relevant Canadian Securities Commissions as at the date of this auditor's 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 auditor's report.

We have nothing to report in this regard.

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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada
March 12, 2024

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position

In thousands of U.S. dollars

	Note	December 31, 2023	December 31, 2022
Assets			
Non-current assets			
Investment properties	7	\$ 1,782,961	\$ 2,021,095
Right-of-use asset	16	167	300
Note receivable		5,227	5,227
Interest rate swaps	18(d)	931	4,083
Prepayment embedded derivatives	18(e)	853	1,134
		1,790,139	2,031,839
Current assets			
Cash and cash equivalents		6,734	7,196
Restricted cash	4	9,302	5,998
Interest rate swaps	18(d)	12,518	11,663
Resident and other receivables, net	5	3,956	3,227
Prepaid expenses and other assets	6	3,265	3,352
		35,775	31,436
Total assets		\$ 1,825,914	\$ 2,063,275
Liabilities and Unitholders' Equity			
Non-current liabilities			
Loans and borrowings	9	\$ 771,409	\$ 724,581
Lease liability	16	177	307
Class B Units	10	240,711	267,826
Convertible debentures	11	39,676	42,599
Interest rate swaps	18(d)	5,900	—
		1,057,873	1,035,313
Current liabilities			
Accounts payable and other liabilities	8	53,760	50,434
Interest rate swaps	18(d)	38	—
Loans and borrowings	9	1,842	1,779
		55,640	52,213
Total liabilities		1,113,513	1,087,526
Unitholders' equity			
Unitholders' equity	12	712,401	975,749
Total liabilities and unitholders' equity		\$ 1,825,914	\$ 2,063,275

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

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

In thousands of U.S. dollars

		Year ended December 31, 2023	Year ended December 31, 2022
	Note		
Revenue:			
Rental revenue		\$ 148,430	\$ 139,688
Other property income		19,373	18,830
	13	167,803	158,518
Expenses (Income):			
Property operating expenses	14	49,287	45,804
Real estate taxes		27,450	27,198
General and administrative expenses		9,524	9,394
Fair value adjustment to investment properties	7	270,398	(72,527)
Finance costs from operations	15	41,784	30,478
Finance income from interest rate swaps and note receivable		(12,835)	(1,698)
Restructuring costs		263	1,630
Distributions on Class B Units	15	10,646	10,667
Depreciation of right-of-use asset	16	133	133
Fair value adjustment to derivatives and other financial liabilities	15	(18,266)	(119,839)
Fair value adjustment to unit-based compensation	23	289	48
		378,673	(68,712)
Net (loss) income and comprehensive (loss) income		\$ (210,870)	\$ 227,230

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity

In thousands of U.S. dollars

	Units	Distributions	Cumulative net income	Total Unitholders' Equity
Balance, as of January 1, 2022	\$ 306,128	\$ (41,095)	\$ 401,536	\$ 666,569
Net income and comprehensive income	—	—	227,230	227,230
Units issued, net of issuance costs (Note 12)	115,083	—	—	115,083
Units purchased for cancellation under the normal course issuer bid (Note 12)	(12,158)	—	(2,472)	(14,630)
Distributions	—	(18,503)	—	(18,503)
Balance, as of December 31, 2022	\$ 409,053	\$ (59,598)	\$ 626,294	\$ 975,749
Balance, as of January 1, 2023	\$ 409,053	\$ (59,598)	\$ 626,294	\$ 975,749
Net loss and comprehensive loss	—	—	(210,870)	(210,870)
Units issued, net of issuance costs (Note 12)	4,556	—	—	4,556
Units purchased for cancellation under the normal course issuer bid (Note 12)	(39,916)	—	1,604	(38,312)
Distributions	—	(18,722)	—	(18,722)
Balance, as of December 31, 2023	\$ 373,693	\$ (78,320)	\$ 417,028	\$ 712,401

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

In thousands of U.S. dollars

		Year ended December 31, 2023	Year ended December 31, 2022
	Note		
Operating activities			
Net (loss) income and comprehensive (loss) income		\$ (210,870)	\$ 227,230
Adjustments for:			
Fair value adjustment to investment properties	7	270,398	(72,527)
Fair value adjustment to derivatives and other financial liabilities	15	(18,266)	(119,839)
Fair value adjustment to unit-based compensation	23	289	48
Depreciation of right-of-use asset	16	133	133
Unit-based compensation	23	2,319	2,363
Finance costs from operations	15	41,784	30,478
Finance income from interest rate swaps and note receivable		(12,835)	(1,698)
Accrued distributions on Class B Units	15	10,646	10,667
Change in non-cash operating assets and liabilities	22	(518)	12,651
Cash provided by operating activities		83,080	89,506
Investing activities			
Escrowed rent guaranty cash received		—	2,051
Additions to investment properties	7	(31,708)	(30,724)
Proceeds from insurance settlements	7	885	1,214
Restricted cash withdrawals, net of deposits	4	(2,644)	940
Cash used in investing activities		(33,467)	(26,519)
Financing activities			
Proceeds from issuance of units, net of issuance costs	12	—	109,657
Units purchased for cancellation under the normal course issuer bid	12	(38,312)	(14,630)
Proceeds from issuance of loans and borrowings	9	96,530	179,610
Principal payments of loans and borrowings	9	(50,785)	(281,834)
Payment of mortgage financing costs	9	(849)	(811)
Principal payments of lease liability	16	(130)	(127)
Redemption of Class B Units in exchange for cash	10	(110)	(139)
Distributions paid to Class B Unitholders	10	(10,658)	(10,640)
Distributions paid to Unitholders		(18,733)	(18,186)
Interest paid		(39,454)	(27,613)
Interest received from interest rate swaps and note receivable		12,426	2,084
Cash used in financing activities		(50,075)	(62,629)
Change in cash and cash equivalents during the period		(462)	358
Cash and cash equivalents, beginning of period		7,196	6,838
Cash and cash equivalents, end of period		\$ 6,734	\$ 7,196

See accompanying notes to consolidated financial statements.

BSR REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and December 31, 2022

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

(1) Description of the entity

BSR Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust of the REIT dated January 9, 2018 (the "Declaration of Trust"), under the laws of the Province of Ontario. The REIT's Declaration of Trust was amended and restated on May 11, 2022. The principal business of the REIT is to acquire and operate multi-family residential rental properties across the United States.

As of December 31, 2023, the REIT owns 31 multifamily garden-style residential properties located across three bordering states in the Sunbelt region of the United States, which stretches across the South Atlantic and Southwest portions of the United States. The REIT also owns one property under development in Austin, Texas. The REIT currently operates in Arkansas, Texas and Oklahoma. The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

(2) Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the REIT have been prepared by management in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and using accounting policies described herein. These consolidated financial statements were approved by the Board of Trustees on March 12, 2024.

(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) Material accounting policy information

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.

(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 REIT also uses the optional fair value concentration test when determining whether a transaction is to be accounted for as an asset acquisition or 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

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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 income and comprehensive 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 an investment property under development. Properties are determined to be investment properties when they are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment properties include 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 properties acquired in a business combination, where such transaction 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 properties and the cost can be measured reliably. All repairs and maintenance costs are expensed as incurred.

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Prior to their disposal, the carrying value of the investment properties are adjusted to reflect their fair value. This adjustment is recorded as a fair value gain (loss). Any remaining gain or loss arising on de-recognition of the properties (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 properties are derecognized.

Management has recorded the property under development at fair value, which it has determined to approximate the sum of its recent acquisition cost plus development costs incurred to date.

(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.

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Notes to Consolidated Financial Statements

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(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. Other property income mainly comprises fees associated with moving in or out, such as application fees and cleaning fees, late rental payment fees, renters' liability insurance, parking fees, utility charges and other fee income from residents under the terms of the lease arrangements. Revenue recognition commences when a resident has the right to use the property and is recognized pursuant to the terms of the lease agreement. 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 13.

(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.

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The lease liability is subsequently measured at amortized cost 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 which are 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 income and comprehensive income.

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Notes to Consolidated Financial Statements

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

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

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 borrowing and accounts payable and other liabilities are initially recognized at fair value less directly

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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, Financial Instruments: Presentation ("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 18(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. 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 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 and comprehensive income.

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(j) Finance costs and finance income

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 on Class B Units 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 convertible debentures.

Finance costs associated with financial liabilities classified as amortized cost are recognized in profit or loss using the effective interest method.

Finance income consists of interest income on interest rate swaps and interest income on a note receivable and other interest bearing accounts.

(k) 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.

(l) Levies

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

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

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(m) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Defined contribution plan

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

(iii) Unit-based payment plans

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

(n) Income taxes

(i) Canadian status:

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

(ii) U.S. REIT status:

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

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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.

(iii) Tax uncertainties:

Judgment is required to assess the interpretation of tax legislation when recognizing and measuring current and deferred tax assets and liabilities. The impact of different interpretations and applications could potentially be material. The REIT recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

(o) 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.

(p) 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 in use 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 7.

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(q) IFRS amendments adopted in 2023:

- (i) On February 12, 2021, the IASB issued Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments). The amendments help entities provide useful accounting policy disclosures. The key amendments include requiring entities to disclose their material accounting policies rather than their significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The REIT adopted the amendments in its consolidated financial statements on January 1, 2023, when the amendments became effective. There was no material impact to the consolidated financial statements as a result of the adoption of the amendments.

- (ii) On February 12, 2021, the IASB issued amendments to IAS 8 to assist entities to distinguish between accounting policies and accounting estimates. The amendments apply to annual periods beginning on or after January 1, 2023.

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The REIT adopted the amendments in its consolidated financial statements beginning on January 1, 2023, when the amendments became effective. There was no material impact to the consolidated financial statements as a result of the adoption of the amendments.

(r) IFRS amendments issued but not yet effective:

- (i) On January 23, 2020, the IASB issued amendments to IAS 1 – Presentation of Financial Statements (the “2020 Amendments”), providing a more general approach to the classification of liabilities based on the contractual agreements in place at the reporting date. On October 31, 2022, the IASB issued Non-Current Liabilities with Covenants (“Amendments to IAS 1”) (the “2022 Amendments”), to improve the information provided about long-term debt with covenants. The 2020 Amendments and the 2022 Amendments (collectively “the Amendments”) are effective for annual reporting periods beginning on or after January 1, 2024. 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 will adopt the amendments in its consolidated financial statements beginning on January 1, 2024, when the amendments become effective. The amendments will impact the classification of the REIT's convertible debentures and Class B units, reclassifying them from non-current liabilities to current liabilities for the year ended December 31, 2024 and will be applied retrospectively to comparable periods.

(4) Restricted cash

	December 31, 2023	December 31, 2022
Tenant security deposits	\$ 1,843	\$ 1,753
Replacement reserve	844	708
Lender escrow deposits	6,615	3,537
Restricted cash	\$ 9,302	\$ 5,998

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(5) Resident and other receivables, net

	December 31, 2023	December 31, 2022
Resident receivables, net	\$ 280	\$ 234
Utility reimbursements and other receivables	3,676	2,993
Resident and other receivables, net	\$ 3,956	\$ 3,227

(6) Prepaid expenses and other assets

	December 31, 2023	December 31, 2022
Prepaid insurance	\$ 1,669	\$ 1,307
Other assets	1,596	2,045
Prepaid expenses and other assets	\$ 3,265	\$ 3,352

(7) Investment properties

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

	Year ended December 31, 2023	Year ended December 31, 2022
Investment properties in use, beginning of period	\$ 2,001,528	\$ 1,918,167
Additions to investment properties in use	13,331	12,048
Disposal of land due to eminent domain	(602)	—
Proceeds from insurance claim	(885)	(1,214)
Change in fair value of investment properties	(270,398)	72,527
Investment properties in use, end of period	1,742,974	2,001,528
Investment property under development, beginning of period	19,567	—
Additions to investment property under development	20,420	19,567
Investment property under development, end of period	39,987	19,567
Investment properties, end of period	\$ 1,782,961	\$ 2,021,095

The REIT uses an internal valuation process to value the investment properties as of December 31, 2023. 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, capital expenditures assumptions and location.

A significant increase (decrease) in stabilized future cash flows in isolation would result in a significantly higher (lower) fair value. A significant increase (decrease) in capitalization rate estimates in isolation would result in significantly lower

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(higher) fair value. Generally, a change in estimated rents is accompanied by a directionally similar change in the rent growth per annum assumption and an opposite change in future vacancy rate estimates.

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

	December 31, 2023	December 31, 2022
Capitalization rates		
High	6.7%	6.0%
Low	4.7%	4.0%
Weighted average	5.1%	4.4%

The estimated fair values of investment properties are most sensitive to changes in capitalization rates and stabilized future cash flows.

The following table summarizes the potential impact of increases or decreases in these assumptions.

	Change in weighted average capitalization rate assumption				
	Increase of 0.50%	Increase of 0.25%	No change	Decrease of 0.25%	Decrease of 0.50%
Change in stabilized future cash flows assumption					
Decrease of 1.0%	\$ (171,438)	\$ (98,031)	\$ (17,430)	\$ 71,477	\$ 170,044
No change	\$ (155,564)	\$ (81,415)	\$ —	\$ 89,805	\$ 189,367
Increase of 1.0%	\$ (139,690)	\$ (64,800)	\$ 17,430	\$ 108,133	\$ 208,691

In July 2022, the REIT entered into an agreement to jointly develop phase II of Aura 36Hundred in the Austin, Texas metropolitan statistical area. During the year ended December 31, 2023, the REIT capitalized \$650 of borrowing costs related to the project at an average interest rate of 3.3%. During the year ended December 31, 2022, the REIT capitalized \$199 of borrowing costs related to the project at an average interest rate of 3.3%.

In September 2023, the REIT disposed of partial land from Cielo I and II as a result of eminent domain for total proceeds of \$602, of which \$570 is currently held in escrow by the mortgage lender to fund capital expenditures.

(8) Accounts payable and other liabilities

	December 31, 2023	December 31, 2022
Trade payables	\$ 526	\$ 543
Accrued capital expenditures	3,489	1,478
Accrued property tax liabilities	28,159	26,594
Accrued and other liabilities	13,084	13,511
Distributions payable	2,313	2,464
Interest payable on loans and borrowings	1,819	1,484
Interest payable on convertible debentures	522	522
Tenant security deposits	1,841	1,753
Rent received in advance	2,007	2,085
Accounts payable and other liabilities	\$ 53,760	\$ 50,434

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(9) Loans and borrowings

	December 31, 2023	December 31, 2022
Fixed or economically hedged to fixed rate mortgage notes payable	\$ 459,280	\$ 499,060
Construction loan for the investment property under development	14,958	—
Net unamortized discount on mortgage notes payable	(506)	(554)
Net unamortized deferred financing costs	(4,533)	(5,626)
Credit Facility	304,052	233,480
Total loans and borrowings	773,251	726,360
Less: current portion of loans and borrowings	(1,842)	(1,779)
Non-current loans and borrowings	\$ 771,409	\$ 724,581

Mortgage notes

The REIT's weighted average contractual interest rate on mortgage notes as of December 31, 2023 and December 31, 2022 was approximately 3.5% and 3.3%, respectively, which excludes the finance cost impact related to the amortization of discounts on mortgage notes and the amortization of deferred financing costs. With the inclusion of these items, the REIT's weighted average effective interest rate on mortgage notes as of December 31, 2023 and December 31, 2022 was approximately 3.6% and 3.4%, respectively. Mortgage notes as of December 31, 2023 mature at various dates from 2025 through 2056.

In September 2023, the REIT extended \$160,000 of mortgage notes by one year, to September 13, 2025, with no other contractual changes as a result of the extension.

Credit Facility

The REIT maintains a revolving credit facility (the "Credit Facility") with a maximum revolving credit availability of \$500,000, of which \$420,751 was available as of December 31, 2023. The Credit Facility is secured by thirteen borrowing base properties. On June 9, 2023, the Credit Facility was extended by one year to September 30, 2026, with no other contractual changes as a result of the extension. The Credit Facility currently bears interest at an Adjusted Term Secured Overnight Financing Rate ("SOFR"), as defined in the Credit Facility, plus 1.45% to 1.90% based on meeting certain leverage ratios as defined in the Credit Facility. Alternatively, the REIT has the ability to borrow using base rate loans at a rate equal to 0.45% to 0.90% plus the greatest of the bank's prime rate, the Federal Funds Rate plus 0.5%, or the term SOFR rate, plus 1.0%. As of December 31, 2023 and December 31, 2022, the balance outstanding on the Credit Facility was \$304,052 and \$233,480 at a variable interest rate of 6.9% and 5.9%, respectively.

Loss on extinguishment of debt

During the year ended December 31, 2023, the REIT incurred a loss on extinguishment of debt of \$176 associated with the non-cash write-off of existing deferred financing costs associated with the refinancing of mortgages on one property. During the year ended December 31, 2022, the REIT incurred a loss on extinguishment of debt of \$853 associated with the non-cash write-off of existing deferred financing costs associated with the refinancing of mortgages on four properties.

Interest rate swaps

The REIT uses interest rate swaps to manage interest rate exposure with respect to the Credit Facility, as well as other variable rate mortgage notes payable. The REIT seeks to largely align the interest rate swap positions to the respective periods of the variable rate debt in place.

The REIT has entered into six receive-variable based on 1 Month USD-SOFR Chicago Mercantile Exchange ("CME")/pay fixed interest rate swaps on an aggregate notional value of \$381,965, which are effective as of December 31, 2023. Additionally, the REIT has entered into five receive-variable based on 1 Month USD-SOFR CME/pay fixed interest rate swaps on an aggregate notional value of \$295,000 that take effect throughout 2024 (note 18(d)).

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Total loans and borrowings

Scheduled maturities of principal and interest on all outstanding loans and borrowings as of December 31, 2023, which excludes the impact of the aforementioned swaps, are in the table below. Contractual interest for variable rate loans and borrowings is calculated using the respective actual contractual interest rates as of December 31, 2023.

	Principal	Balloon payment	Contractual Interest	Total payments
2024	\$ 1,842	\$ —	\$ 43,126	\$ 44,968
2025	1,200	207,966	38,437	247,603
2026	840	347,910	23,657	372,407
2027	870	—	7,161	8,031
2028	902	118,690	5,652	125,244
Thereafter	35,420	62,650	19,490	117,560
	\$ 41,074	\$ 737,216	\$ 137,523	\$ 915,813

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, 2023, 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, 2023	Year ended December 31, 2022
Loans and borrowings, beginning of period	\$ 726,360	\$ 826,481
<i>Cash flows</i>		
Proceeds from issuance of loans and borrowings	96,530	179,610
Principal payments of loans and borrowings	(50,785)	(281,834)
Payment of mortgage financing costs	(849)	(811)
	44,896	(103,035)
<i>Non-cash changes</i>		
Release of unamortized deferred financing costs on debt refinances	176	853
Amortization of deferred financing costs	1,768	2,013
Amortization of net discount on mortgage notes payable	51	48
	1,995	2,914
Loans and borrowings, end of period	\$ 773,251	\$ 726,360

(10) Class B Units

The Class B Units are economically equivalent to Units and are entitled to receive distributions equal to those provided to holders of Units. The Class B Units are non-voting and do not give enhanced economic or voting power relative to holders of Units. Accordingly, the Class B Units do not create a dual-class voting structure of the REIT. 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.

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

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

	Units	Value
Class B Units, as of December 31, 2021	20,710,281	\$ 366,365
<i>Cash changes</i>		
Redemption of Class B Units in exchange for cash	(7,725)	(139)
<i>Non-cash changes</i>		
Redemption of Class B Units in exchange for Units	(147,970)	(2,578)
Fair value adjustments	—	(95,822)
Class B Units, as of December 31, 2022	20,554,586	\$ 267,826
<i>Cash changes</i>		
Redemption of Class B Units in exchange for cash	(9,639)	(110)
<i>Non-cash changes</i>		
Redemption of Class B Units in exchange for Units	(266,019)	(3,146)
Fair value adjustments	—	(23,859)
Class B Units, as of December 31, 2023	20,278,928	\$ 240,711

(11) 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.

On or after September 30, 2023, but prior to September 30, 2024, the convertible debentures are 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 are redeemable by the REIT, in whole or in part, at a price equal to the principal plus accrued and unpaid interest. Additionally, the REIT may, at its option, elect to satisfy its obligation to pay all or any portion of the redemption by issuing Units to the holders at a value of 95% of the current market price of the Units on the redemption date.

The convertible debentures are measured at fair value with any changes in fair value recorded in profit or loss. The fair value adjustments of convertible debentures are calculated using the publicly available closing price as of the end of the reporting period (Level 1). An increase in the convertible debentures closing price over the period results in an increase in the liability and a corresponding fair value loss whereas a decrease in the convertible debentures closing price over the period results in a decrease in the liability and a corresponding fair value gain.

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

	Year ended December 31, 2023	Year ended December 31, 2022
Convertible debentures, beginning of period	\$ 42,599	\$ 51,745
<i>Non-cash changes</i>		
Redemption of Convertible Debentures in exchange for Units	—	(801)
Fair value adjustments	(2,923)	(8,345)
Convertible debentures, end of period	\$ 39,676	\$ 42,599

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

On October 3, 2022, the TSX accepted the REIT's notice of intention to make a normal course issuer bid ("NCIB") commencing on October 6, 2022. The REIT could purchase for cancellation up to a maximum of 3,322,107 Units, or approximately 10% of the public float as of September 29, 2022, over the 12-month period commencing October 6, 2022. The REIT purchased and canceled 1,079,507 Units under its 2022 NCIB and automatic securities purchase plan ("ASPP") at an average price of \$13.55 per Unit through December 31, 2022. Prior to the expiration of the NCIB, the REIT purchased and cancelled 402,177 Units at an average price of \$12.43 per Unit through October 5, 2023.

On October 4, 2023, the REIT renewed its NCIB for the 12-month period through October 5, 2024, permitting the REIT to purchase for cancellation up to a maximum of 3,186,336 Units, or approximately 10% of the public float as of September 27, 2023, over the 12-month period commencing October 6, 2023. The REIT concurrently renewed the ASPP. The REIT purchased and cancelled 3,137,895 Units under its renewed NCIB and ASPP at an average price of \$10.65 per Unit for the year ended December 31, 2023.

On December 22, 2023, the REIT suspended the ASPP. For the year ended December 31, 2023, the REIT purchased and cancelled 3,540,072 Units under its NCIB and ASPP at an average price of \$10.86.

	Units	Value
Units outstanding, classified as equity, as of December 31, 2021	31,203,610	\$ 306,128
Units issued on completion of the April 2022 Offering, net of issuance costs	5,888,000	109,657
Issuance of Units for unit-based compensation	104,071	2,047
Issuance of Units in exchange for Class B Units	147,970	2,578
Issuance of Units in exchange for Convertible Debentures	45,137	801
Units purchased for cancellation under the normal course issuer bid	(1,079,507)	(12,158)
Units outstanding, classified as equity, as of December 31, 2022	36,309,281	\$ 409,053
Issuance of Units for unit-based compensation	105,952	1,410
Issuance of Units in exchange for Class B Units	266,019	3,146
Units purchased for cancellation under the normal course issuer bid	(3,540,072)	(39,916)
Units outstanding, classified as equity, as of December 31, 2023	33,141,180	\$ 373,693

(13) 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. Other property income mainly comprises fees associated with moving in or out, such as application fees and cleaning fees, late rental payment fees, renters' liability insurance, parking fees, utility charges and other fee income from residents under the terms of the lease arrangements. 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

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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, 2023	Year ended December 31, 2022
Lease revenue	\$ 145,079	\$ 136,777
Revenue from services	22,724	21,741
Total revenue	\$ 167,803	\$ 158,518

(14) Property operating expenses

	Year ended December 31, 2023	Year ended December 31, 2022
Employee wages and benefits	\$ 18,887	\$ 17,526
Utility costs	9,278	9,340
Repairs and maintenance expense	7,458	6,691
Other property based costs	13,664	12,247
Property operating expenses	\$ 49,287	\$ 45,804

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(15) Finance costs

	Year ended December 31, 2023	Year ended December 31, 2022
Finance costs from operations		
Interest expense on loans and borrowings at stated rate	\$ 37,690	\$ 24,778
Interest expense on lease liability	11	11
Amortization of deferred financing costs	1,768	2,013
Amortization of net discount on loans and borrowings	51	48
Loss on extinguishment of debt	176	853
Interest expense on convertible debentures	2,088	2,100
Interest expense on interest rate swaps	—	675
Finance costs from operations	41,784	30,478
Fair value adjustment to derivatives and other financial liabilities		
Fair value adjustment to Class B Units	(23,859)	(95,822)
Fair value adjustment to convertible debentures	(2,923)	(8,345)
Fair value adjustment to interest rate swaps	8,235	(18,059)
Fair value adjustment to prepayment embedded derivatives	281	2,387
Fair value adjustment to derivatives and other financial liabilities	(18,266)	(119,839)
Finance costs		
Finance costs from operations	41,784	30,478
Fair value adjustment to derivatives and other financial liabilities	(18,266)	(119,839)
Distributions on Class B Units	10,646	10,667
Finance costs	\$ 34,164	\$ (78,694)

Finance income from interest rate swaps and note receivable are gross of finance costs from operations and are presented separately within the consolidated statements of net (loss) income and comprehensive (loss) income.

(16) 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, 2023.

As of December 31, 2023, the total future contractual minimum rent lease payments (excluding renewal or potential extension periods) expected to be received under noncancelable leases are as follows:

	December 31, 2023
1 year	\$ 88,354
2 years	2,722
	\$ 91,076

The REIT's Little Rock, Arkansas headquarters lease was renewed in April 2022 with a term that expires in March 2025 (see note 21). This lease requires monthly payments of \$12. The headquarters lease is accounted for as a right-of-use asset with a corresponding lease liability under IFRS 16. The REIT recognized \$11 in interest expense on the lease liability for the year ended December 31, 2023 (\$11 for the year ended December 31, 2022).

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The following tables present the change in the right-of-use asset and corresponding lease liability for the year ended December 31, 2023 and December 31, 2022:

	Year ended December 31, 2023	Year ended December 31, 2022
Right-of-use asset, as of beginning of period	\$ 300	\$ 33
Depreciation of right-of use asset	(133)	(133)
Lease renewal	—	400
Right-of-use asset, as of end of period	\$ 167	\$ 300

	Year ended December 31, 2023	Year ended December 31, 2022
Lease liability, as of beginning of period	\$ 307	\$ 34
Principal payments on lease liability	(130)	(127)
Lease renewal	—	400
Lease liability, as of end of period	\$ 177	\$ 307

The REIT recorded lease expenses of \$62 during the year ended December 31, 2023 for additional low-value leased office equipment (\$63 for the year ended December 31, 2022).

(17) Commitments and contingencies

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

(18) 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, in connection with the REIT's mortgage portfolio.

Excluding the Credit Facility and the construction loan for the investment property under development as of December 31, 2023, the REIT's mortgage debt was 100% fixed or economically hedged to fixed rates. With the Credit Facility and the construction loan included, as of December 31, 2023, the REIT's debt was 88% 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 and the variable-rate Credit Facility 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) income and comprehensive (loss) income.

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The REIT seeks to largely align the interest rate swap positions to the respective periods of the variable rate debt in place.

As of December 31, 2023, a 100 basis-point change in interest rates, assuming all other variables are constant, would result in a \$970 change in the REIT's finance costs (net of finance income) over the next 12 months, which includes the impact of interest rate swaps which are effective as of December 31, 2023.

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

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

Cash, restricted cash and interest rates swaps carry 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.

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 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 of December 31, 2023, the REIT had a working capital deficit of \$19,865. The REIT's immediate liquidity needs are met through cash-on-hand, cash flow from operations, refinancing of maturing mortgages and availability on its Credit Facility. As of December 31, 2023, the REIT had liquidity of \$123,433, consisting of cash and cash equivalents of \$6,734 and \$116,699 of Credit Facility availability. The REIT can obtain additional liquidity through adding properties to the borrowing base. Management believes that there is sufficient liquidity to meet the REIT's financial obligations for the foreseeable future.

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

	Carrying amount	Contractual cash flows	1 year	2 years	3 years	4 years	5 years	More than 5 years
Loans and borrowings	\$ 773,251	\$ 778,290	\$ 1,842	\$ 209,165	\$ 348,750	\$ 870	\$ 119,592	\$ 98,071
Interest payable	1,819	137,523	43,126	38,437	23,657	7,161	5,652	19,490
Interest rate swaps liability	5,938	1,869	39	263	519	439	293	316
Convertible debentures	39,676	41,764	—	41,764	—	—	—	—
Interest payable on convertible debentures	522	3,654	2,088	1,566	—	—	—	—
Lease liability	177	182	145	37	—	—	—	—
Capital improvements liability	3,489	3,489	3,489	—	—	—	—	—
Accounts payable and other liabilities	47,930	47,930	47,930	—	—	—	—	—
	\$ 872,802	\$ 1,014,701	\$ 98,659	\$ 291,232	\$ 372,926	\$ 8,470	\$ 125,537	\$ 117,877

(b) Fair value of financial instruments

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

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

The note receivable is 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 (Level 2).

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

(c) Loans and borrowings

	December 31, 2023	December 31, 2022
Carrying amount	\$ 773,251	\$ 726,360
Fair value	\$ 738,926	\$ 691,018

(d) Interest rate swaps

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

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The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of December 31, 2023:

	Maturity date	Fixed rate	Forward swap effective date	Counterparty optional termination date	Notional amount	Carrying value and fair value
<i>Interest rate swap agreements, as of December 31, 2023</i>						
Raymond James	9/1/2025	5.07%	n/a	n/a	\$ 1,965	\$ (68)
Bank of Montreal	8/30/2024	1.16%	n/a	n/a	20,000	506
Bank of Montreal	6/10/2024	0.44%	n/a	n/a	80,000	1,883
Bank of Montreal	8/31/2029	2.16%	n/a	7/3/2025	150,000	3,631
Bank of Montreal	8/31/2029	2.18%	n/a	7/3/2024	65,000	791
Bank of Montreal	7/27/2029	2.09%	n/a	7/3/2026	65,000	2,289
Bank of Montreal	1/2/2031	3.54%	1/2/2024	1/1/2025	60,000	(1,378)
Bank of Montreal	4/26/2030	1.83%	6/10/2024	6/10/2025	80,000	1,164
Bank of Montreal	1/31/2031	3.27%	7/1/2024	1/2/2025	65,000	(1,399)
Bank of Montreal	2/3/2031	3.18%	2/1/2024	2/3/2025	40,000	(436)
Bank of Montreal	7/1/2031	2.25%	10/1/2024	2/1/2027	50,000	528
					\$ 676,965	\$ 7,511

The following table is a summary of the REIT's interest rate swap agreements and the respective carrying values as of December 31, 2022:

	Maturity date	Fixed rate	Forward swap effective date	Counterparty optional termination date	Notional amount	Carrying value and fair value
<i>Interest rate swap agreements, as of December 31, 2022</i>						
Raymond James	9/1/2025	5.07%	n/a	n/a	\$ 2,865	\$ (131)
Bank of Montreal	8/30/2024	1.16%	n/a	n/a	20,000	1,169
Bank of Montreal	6/10/2024	0.44%	n/a	n/a	80,000	5,004
Bank of Montreal	8/31/2029	2.16%	n/a	7/3/2025	150,000	5,063
Bank of Montreal	8/31/2029	2.18%	n/a	7/3/2024	65,000	1,599
Bank of Montreal	7/27/2029	2.09%	1/3/2023	7/3/2026	65,000	3,042
					\$ 382,865	\$ 15,746

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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, 2023	December 31, 2022
<i>Interest rate swaps</i>		
Assets		
Current asset	\$ 12,518	\$ 11,663
Non-current asset	931	4,083
Total assets, net	13,449	15,746
Liabilities		
Current liabilities	(38)	—
Non-current liabilities	(5,900)	—
Total liabilities, net	(5,938)	—
Interest rate swaps, end of period	\$ 7,511	\$ 15,746

The valuation of these instruments was determined using discounted cash flow or mark to market 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, 2023	Year ended December 31, 2022
Interest rate swaps, beginning of period	\$ 15,746	\$ (2,313)
<i>Non-cash changes</i>		
Fair value adjustment to interest rate swaps	(8,235)	18,059
Interest rate swaps, end of period	\$ 7,511	\$ 15,746

(e) Prepayment embedded derivatives

Certain mortgages payable (note 9) contain prepayment options that represent embedded derivatives that require bifurcation from the host contract. The prepayment options are measured at fair value, with changes in the fair value being recognized as net change in fair value of prepayment embedded derivatives in the consolidated statement of net income (loss) and comprehensive income (loss).

The fair value of the prepayment embedded derivatives has been determined using a SOFR 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

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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, 2023	Year ended December 31, 2022
Prepayment embedded derivatives, beginning of period	\$ 1,134	\$ 3,521
<i>Non-cash changes</i>		
Fair value adjustment to prepayment embedded derivatives	(281)	(2,387)
Prepayment embedded derivatives, end of period	\$ 853	\$ 1,134

(19) 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.

(20) Employee benefit plan

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

(21) 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 \$562 and \$2,152 were declared to Bailey/Hughes holders during the three months and year ended December 31, 2023, respectively (\$525 and \$2,084 during the three months and year ended December 31, 2022, respectively).
- Distributions on Class B Units of \$1,765 and \$7,060 were declared to key management personnel, primarily the Bailey/Hughes Holders, during the three months and year ended December 31, 2023, respectively. (\$1,765 and \$6,992 during the three months and year ended December 31, 2022). 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 \$805 and \$4,640 paid to key management personnel during the three months and year ended December 31, 2023, respectively (\$937 and \$8,835 during the three months and year ended December 31, 2022, respectively), which includes short-term employee compensation and benefits and unit-based compensation.
- The REIT leases its Little Rock, Arkansas corporate headquarters from an irrevocable trust controlled by the family of the REIT's President, Chief Executive Officer and Chief Investment Officer, Dan Oberste, and the Executive Vice-Chair of the Board, John S. Bailey. The current lease term expires in March 2025 (see note 16).

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(22) Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Year ended December 31, 2023	Year ended December 31, 2022
Resident and other receivables, net	\$ (729)	\$ (1,038)
Prepaid expenses and other assets	87	(151)
Accounts payable and other liabilities	124	13,840
	\$ (518)	\$ 12,651

(23) Deferred unit compensation and unit-based compensation

Remuneration of trustees (deferred unit compensation)

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

For the year ended December 31, 2023, \$1,270 of deferred unit compensation expense was recognized in general and administrative expenses in the consolidated statement of net income and comprehensive income (\$1,193 for the year ended December 31, 2022). The Deferred Units are measured at fair value at each reporting period using the closing market price of Units and the change in fair value is recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income and comprehensive income.

	Units	Liability Value
Deferred units, as of December 31, 2021	228,628	\$ 4,045
<i>Non-cash changes</i>		
Deferred trust units issued	77,398	1,193
Fair value adjustments	—	(1,250)
Deferred units issued, as of December 31, 2022	306,026	\$ 3,988
 Deferred units issued, as of December 31, 2022	 306,026	 \$ 3,988
<i>Non-cash changes</i>		
Deferred trust units issued	102,457	1,270
Fair value adjustments	—	(404)
Deferred units issued, as of December 31, 2023	408,483	\$ 4,854

Unit-based compensation

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

RUs and PUs are awarded to members of the senior executive team to align the interests of the senior executive team more closely with the interests of the Unitholders. RUs and PUs are denominated in notional units that entitles the

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participant to receive Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the Units in the future. RUs vest in three equal instalments over a three-year period from the initial award and will be settled by Units issued from treasury or, if so elected by the participant and subject to the approval of the Board of Trustees, cash payable upon vesting. PUs will vest subject to performance criteria and targets established and set forth in the award agreements, and to the extent earned, will vest and become nonforfeitable on the third anniversary of the initial award. RUs and PUs earn additional RUs and PUs for distributions that would otherwise have been payable in cash. These additional RUs and PUs vest on the same basis as the initial RUs and PUs to which they relate.

The RUs and PUs are considered a financial liability due to the contractual obligation for the Trust to deliver Units at the option of the participant, subject to board approval. The RUs and PUs are measured at fair value at each reporting period using the closing market price of Units with changes in fair value recognized in Fair value adjustment to unit-based compensation in the consolidated statement of net income and comprehensive income.

On March 11, 2022, the REIT granted 29,000 and 43,500 RUs and PUs, respectively, with a grant date fair value of \$20.15 per Unit. On March 13, 2023 the REIT granted 40,776 and 61,163 RUs and PUs, respectively, with a grant date fair value of \$13.41 per Unit.

On January 1, 2022, 42,451 RUs vested and were settled through the issuance of 23,456 Units with a weighted average Unit price of \$17.69 with the remainder of RUs settled in cash for applicable income taxes. On March 11, 2022, 134,236 PUs vested resulting from a maximum payout of 200% under the 2019 equity incentive plan. This vesting was settled through the issuance of 80,615 Units with a weighted average Unit price of \$20.15 with the remainder settled in cash for applicable income taxes. On January 1, 2023, 47,901 RUs vested and were settled through the issuance of 27,630 Units with a weighted average Unit price of \$13.03 with the remainder of RUs settled in cash for applicable income taxes. On March 13, 2023, 134,332 PUs vested resulting from a maximum payout of 200% under the 2020 equity incentive plan. This vesting was settled through the issuance of 78,322 Units with a weighted average Unit price of \$13.41 with the remainder settled in cash for applicable income taxes.

For the year ended December 31, 2023, unit-based compensation expense of \$1,049 has been recognized in general and administrative expense (\$1,170 for the year ended December 31, 2022). A fair value loss of \$693 for the year ended December 31, 2023 has been recognized in fair value adjustment to unit-based compensation in the consolidated statements of net income (loss) and comprehensive income (loss) (\$1,298 loss for the year ended December 31, 2022). As of December 31, 2023, 66,858 RUs and 172,856 PUs were unvested with a carrying amount of \$1,268 recorded in accounts payable and other liabilities in the consolidated financial statements. As of December 31, 2022, 71,633 RUs and 172,475 PUs were unvested with a carrying amount of \$1,475 recorded in accounts payable and other liabilities in the consolidated financial statements.

	Equity Incentive Plans - Restricted Units					
	2019	2020	2021	2022	2023	Total
Opening balance of units, as of January 1, 2022	14,918	28,923	39,209	-	-	83,050
Units granted	-	-	-	29,000	-	29,000
Distribution equivalents issued	-	466	833	735	-	2,034
Units vested and settled	(14,918)	(14,463)	(13,070)	-	-	(42,451)
Closing balance of units, as of December 31, 2022	-	14,926	26,972	29,735	-	71,633
Units granted	-	-	-	-	40,776	40,776
Distribution equivalents issued	-	-	383	645	1,322	2,350
Units vested and settled	-	(14,926)	(18,163)	(14,812)	-	(47,901)
Closing balance of units, as of December 31, 2023	-	-	9,192	15,568	42,098	66,858

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	Equity Incentive Plans - Performance Units					Total
	2019	2020	2021	2022	2023	
Opening balance of units, as of January 1, 2022	67,118	65,080	58,818	-	-	191,016
Units granted	67,118	-		43,500	-	110,618
Distribution equivalents issued	-	2,086	1,888	1,103	-	5,077
Units vested and settled	(134,236)	-	-	-	-	(134,236)
Closing balance of units, as of December 31, 2022	-	67,166	60,706	44,603	-	172,475
Units granted	-	67,166	-	-	61,163	128,329
Distribution equivalents issued	-	-	2,538	1,866	1,980	6,384
Units vested and settled	-	(134,332)	-	-	-	(134,332)
Closing balance of units, as of December 31, 2023	-	-	63,244	46,469	63,143	172,856