

FLAGSHIP COMMUNITIES REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(in US Dollars)

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statements of Financial Position (Unaudited)
(In thousands of US dollars)

	Note	September 30, 2022	December 31, 2021 (Audited)
Current Assets			
Cash and cash equivalents		\$ 4,755	\$ 15,451
Tenant and other receivables, net	4	872	753
Prepays and other assets	5	1,789	1,843
Lender escrow deposits	6	3,849	1,575
Total current assets		11,265	19,622
Other non-current assets	7	902	-
Investment properties	8, 24	753,884	670,523
Property and equipment, net	9	3,604	2,520
Note receivable - related party	15	2,460	2,460
		760,850	675,503
Total Assets		\$ 772,115	\$ 695,125
Current Liabilities			
Trade and other payables		\$ 761	\$ 978
Line of credit	10	1,000	-
Other liabilities	11	10,098	7,486
Mortgages payable, net	12	781	637
Total current liabilities		12,640	9,101
Mortgages payable, net	12	317,090	258,474
Class B Units	13, 24	82,001	104,856
		399,091	363,330
Total Liabilities		411,731	372,431
Unitholders' Equity			
Unitholder's equity	14	360,384	322,694
Total Liabilities and Unitholders' Equity		\$ 772,115	\$ 695,125

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statements of Net Income and Comprehensive Income (Unaudited)
(In thousands of US dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Rental revenue and related income	16	\$ 15,042	\$ 11,399	\$ 43,098	\$ 30,883
Property operating expenses	17	5,194	3,807	14,532	10,421
Net operating income		9,848	7,592	28,566	20,462
Other Expenses/(Income)					
General and administrative	18	1,887	1,432	5,381	4,120
Finance costs from operations	19	2,954	2,037	7,758	5,916
Accretion of mark-to-market adjustment on mortgages payable	12	(257)	(257)	(772)	(771)
Depreciation	9	76	53	209	125
Other (income)		(73)	(32)	(137)	(53)
Fair value adjustment - Class B Units	13	(1,915)	10,200	(23,552)	24,937
Distributions on Class B Units		732	692	2,194	2,077
Fair value adjustment - investment properties	8	(8,458)	(8,412)	(5,796)	(22,690)
Fair value adjustment - unit based compensation	26	(8)	9	(85)	9
Transaction costs	14	-	-	-	236
Net Income and Comprehensive Income		\$ 14,910	\$ 1,870	\$ 43,366	\$ 6,556

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)
(In thousands of US dollars)

	Note	Units	Units	Distributions	Cumulative Net Income	Total Unitholders' Equity
Balance, December 31, 2020		7,226,185	\$ 99,898	\$ (852)	\$ 47,338	\$ 146,384
Units issued, net of issuance costs	14	4,500,000	77,303	-	-	77,303
Net income and comprehensive income		-	-	-	6,556	6,556
Distributions	14	-	-	(3,529)	-	(3,529)
Balance, September 30, 2021		11,726,185	\$ 177,201	\$ (4,381)	\$ 53,894	\$ 226,714
Balance, December 31, 2021		14,141,185	\$ 221,489	\$ (6,141)	\$ 107,346	\$ 322,694
Net income and comprehensive income		-	-	-	43,366	43,366
Distributions	14	-	-	(5,676)	-	(5,676)
Balance, September 30, 2022		14,141,185	\$ 221,489	\$ (11,817)	\$ 150,712	\$ 360,384

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
(In thousands of US dollars)

	Nine months ended September 30,	
	2022	2021
Cash flow provided by operating activities		
Net Income and Comprehensive Income	\$ 43,366	\$ 6,556
Add (deduct):		
Depreciation	209	125
Loss on sale of property and equipment	14	-
Fair value adjustment - Class B Units	(23,552)	24,937
Distributions declared on Class B Units	2,194	2,077
Accretion of mark-to-market adjustment on mortgages payable, net	(772)	(771)
Fair value adjustment - investment properties	(5,796)	(22,690)
Transaction costs associated with issuance of Units	-	236
Finance costs from operations	7,758	5,916
Interest received	(81)	(20)
Change in non-cash working capital		
Tenant and other receivables, net	(119)	61
Prepays and other assets	54	440
Lender escrow deposits	(2,274)	(1,311)
Trade and other payables	(217)	(323)
Other liabilities	2,612	2,195
	23,396	17,428
Cash flow provided by financing activities		
Proceeds from issuance of Units, net of costs	-	77,303
Transaction costs associated with issuance of Units	-	(236)
Distributions paid to Unitholders	(5,676)	(3,338)
Distributions paid to Class B Unitholders	(2,192)	(2,077)
Proceeds from line of credit	1,000	-
Proceeds from mortgages payable	60,770	32,700
Issuance costs associated with financing activities	(854)	(506)
Repayment of mortgages payable	(415)	(353)
Interest paid	(7,729)	(5,910)
	44,904	97,583
Cash flow (used in) investing activities		
Cash paid for investment property acquisitions	(68,345)	(92,472)
Cash paid for other non-current assets	(902)	(125)
Cash received for investment property disposal	1,453	929
Capital expenditures on investment properties	(9,976)	(4,004)
Cash received for property and equipment disposal	10	-
Cash paid for property and equipment	(1,317)	(665)
Issuance of note receivable - related party	-	(2,460)
Interest received	81	20
	(78,996)	(98,777)
Increase in cash and cash equivalents	(10,696)	16,234
Cash and cash equivalents, beginning of period	15,451	11,499
Cash and cash equivalents, ending of period	\$ 4,755	\$ 27,733

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

1. Nature of Operations

Flagship Communities Real Estate Investment Trust (the “REIT” or the “Trust”) is an unincorporated, open-ended real estate investment trust established under, and governed by, the laws of the Province of Ontario. The registered office of the REIT is located at 199 Bay Street, Suite 4000, Toronto, ON, M5L 1A9. The head office of the REIT is located at 467 Erlanger Road, Erlanger, Kentucky 41018, United States.

The REIT was formed for the purpose of owning and operating a portfolio of income-producing manufactured housing communities (“MHCs”) located in the United States.

The REIT was formed on August 12, 2020 and the operations of the REIT commenced on October 7, 2020, when it completed an initial public offering (“IPO”) of 6,250,000 trust units (“Units”) for gross proceeds of \$93,750 or approximately \$85,255 net of underwriters’ fees and other issuance costs.

As at September 30, 2022, the REIT owns 68 (December 31, 2021 - 63) MHCs located across Arkansas, Kentucky, Illinois, Indiana, Missouri, Ohio, and Tennessee.

2. Basis of Presentation

(a) Statement of compliance

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting, as issued by the International Accounting Standard Board (“IASB”). These condensed consolidated interim financial statements were approved by the Board of Trustees on November 14, 2022.

(b) Basis of presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, class B units (“Class B Units”) of the REIT’s subsidiary, Flagship Operating, LLC, restricted units (“RUs”), and deferred trust units (“DTUs”) which have been measured at fair value.

The condensed consolidated interim financial statements are presented in thousands of U.S. dollars, which is the REIT’s functional currency.

The condensed consolidated interim financial statements have been prepared considering the impact that the spread of COVID-19 has and continues to have on local, national and worldwide economies. The impacts of COVID-19 are continually evolving, and the REIT continues to evaluate and adapt to the new realities brought on by the global pandemic. As at September 30, 2022 the REIT used the best possible information in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities. Actual results could differ from those estimates. The REIT considers the estimates that could be most significantly impacted by COVID-19 to include those underlying the valuation of investment properties and the estimated credit losses on tenant and other receivables, net.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

(c) Principles of consolidation

The REIT consolidates its interest in entities in which it has control. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. These condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries, including, Flagship Operating GP, LLC, which owns Legacy Properties GP, LLC and Flagship Properties, 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.

3. Significant Accounting Policies

The condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS, as issued by the IASB. The condensed consolidated interim financial statements follow the same accounting policies as described in the consolidated financial statements for the year ended December 31, 2021. There have been no changes to significant accounting policies but additional information is included below.

(a) Trust Units

If an equity offering is considered likely, professional, consulting, regulatory and other costs directly attributable to the offering are recorded as deferred issuance costs until the equity offering is completed. When the offering is completed, any related deferred issuance costs are recorded against the proceeds from the offering. Deferred issuance costs related to an equity offering that is not completed are charged directly to transaction expense.

(b) Unit Based Compensation

The REIT maintains an Omnibus Equity Incentive Plan ("Equity Incentive Plan") for its employees and trustees. The Equity Incentive Plan provides for awards of RUs, Performance Units ("PU"), DTUs, and Options, each as defined therein. Awards under the Equity Incentive Plan 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 measured by the value of the awards on the settlement date. Awards earn additional awards for distributions that would otherwise have been payable in cash. These additional awards vest on the same basis as the initial award to which they relate.

RUs are recognized at their grant date fair value in payroll and benefits, included in general and administrative expenses on the condensed consolidated interim statements of net income and comprehensive income, with a corresponding increase in the liability as the respective RUs vest. Grant date fair value is calculated using the volume-weighted average closing price of a Unit on the TSX for the five trading days immediately preceding the date of grant. The liability is measured every period, and upon settlement, with changes in measurement recorded in Fair value adjustment - unit based compensation on the condensed consolidated interim statements of net income and comprehensive income.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

4. Tenant and Other Receivables, Net

	As at September 30, 2022	As at December 31, 2021
Tenant receivables	\$ 810	\$ 602
Other receivables	192	187
Allowance for doubtful accounts	(130)	(36)
Total	\$ 872	\$ 753

The change in expected credit lost provision of tenant and other receivables was as follows:

	For the nine months ended September 30, 2022	For the year ended December 31, 2021
Allowance for doubtful accounts, opening balance	\$ 36	\$ 87
Change in expected credit loss provision	94	(51)
Allowance for doubtful accounts, ending balance	\$ 130	\$ 36

Tenant receivables include lot rent, utilities, miscellaneous fees, and other recoverable charges. An allowance for credit losses is maintained for estimated losses resulting from the inability of tenants to meet obligations under lease agreements. The REIT actively reviews receivables and determines the potentially uncollectible accounts on a per-tenant basis. A tenant receivable is written down to its estimated realizable value when the REIT has reason to believe that the tenant will not be able to fulfill its obligations under the lease agreement.

5. Prepaids and Other Assets

The REIT's prepaids and other assets consist of the following:

	Note	As at September 30, 2022	As at December 31, 2021
Prepaid insurance		\$ 440	\$ 1,328
Deferred issuance costs	14	475	-
Other prepaids and deposits		874	515
Total		\$ 1,789	\$ 1,843

6. Lender Escrow Deposits

Escrows for real estate taxes, insurance, and capital repairs are maintained under the control of the mortgagor for payment on behalf of the REIT. As at September 30, 2022 and December 31, 2021, the REIT had lender escrow deposits of \$3,849 and \$1,575, respectively.

7. Other Non-Current Assets

Other non-current assets are funds held in escrow for future investment property acquisitions. As at September 30, 2022 and December 31, 2021, the REIT had other non-current assets of \$902 and \$Nil, respectively.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

8. Investment Properties

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

	For the nine months ended September 30, 2022	For the year ended December 31, 2021
Investment properties, opening balance	\$ 670,523	\$ 428,391
Capital expenditures	9,976	6,672
Acquisition of investment properties (a)	69,042	158,107
Disposal of investment properties (b)	(1,453)	(1,460)
Fair value adjustment - investment properties	5,796	78,813
Investment properties, ending balance	\$ 753,884	\$ 670,523

Asset Acquisitions

During the nine months ended September 30, 2022, the REIT had the following investment property activity:

- (a) On February 15, 2022 the REIT acquired a 13-acre manufactured housing resort community from a related party, Empower Park, for \$7,533 and 37,448 Class B Units (measured by reference to the volume-weighted average closing price of a Unit for the 10 trading days prior to the date of closing). Total consideration paid was \$8,230. Investment property acquired totaled \$8,238.
- (a) On April 29, 2022, the REIT acquired a manufacturing housing community in Riverton, Illinois which included 103 lots and 74 rental homes for \$6,318. Investment property acquired totaled \$6,361
- (a) On May 18, 2022, the REIT acquired and combined two manufacturing housing communities in Florence, Kentucky which included 345 lots for \$22,522. Investment property acquired totaled \$22,659
- (a) On September 22, 2022, the REIT acquired two manufacturing housing communities in Louisville, Kentucky and Bloomington, Illinois which included 584 lots and 97 rental homes for \$31,523. Investment property acquired totaled \$31,784
- (b) During the nine months ended September 30, 2022 the REIT disposed of 104 rental homes totaling \$1,453. Disposal of these rental homes was at fair value resulting in no (gain) loss recognized in the condensed consolidated interim statements of net income and comprehensive income.

During the nine months ended September 30, 2021, the REIT had the following investment property activity:

- (a) On January 4, 2021, the REIT expanded an existing MHC with the acquisition of 8 new lots for \$59, bringing the entire community to 149 home sites. Investment property acquired totaled \$58.
- (a) On January 5, 2021, the REIT acquired an MHC having 77 lots and 49 rental homes in the Louisville, Kentucky market for \$3,105. Investment property acquired totaled \$3,120.
- (a) On February 9, 2021, the REIT acquired an MHC having 74 lots and 52 rental homes in the Bowling Green, Kentucky market for \$2,989. Investment property acquired totaled \$3,011.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

- (a) On May 12, 2021, the REIT acquired an MHC having 167 lots and 112 rental homes in the Little Rock, Arkansas market for \$5,366. Investment property acquired totaled \$5,356.
- (a) On May 27, 2021, the REIT expanded an existing MHC with the acquisition of 3 adjacent acres containing 10,000 square feet of self-storage for \$282. Investment property acquired totaled \$285.
- (a) On July 2, 2021, the REIT acquired two MHCs having a combined 677 lots and 267 rental homes in the Evansville, Indiana and St Louis, Missouri markets for \$63,778. Investment property acquired totaled \$65,124.
- (a) On Aug 23, 2021, the REIT acquired an MHC having 231 lots and 27 rental homes in the Springfield, Illinois market for \$15,401. Investment property acquired totaled \$15,435.
- (b) During the nine months ended September 30, 2021 the REIT disposed of 53 rental homes totalling \$929. Disposal of these rental homes was at fair value resulting in no (gain) loss recognized in the condensed consolidated interim statements of net income and comprehensive income.

The REIT used a combination of internal valuation methodologies and external appraisals to value the investment properties as at September 30, 2022 and December 31, 2021.

A significant change in occupancy rates, rents or capitalization rates per annum would result in a significant change in the fair value of the MHCs.

Key metrics of the capitalization rates applicable to the REIT's MHCs were as follows:

Capitalization Rates	As at September 30, 2022	As at December 31, 2021
High	7.00 %	7.00 %
Low	4.00 %	4.50 %
Weighted Average	4.72 %	4.73 %
% Change		
+ 0.025	5.06 %	5.05 %
- 0.025	(5.63) %	(5.61) %
\$ Change		
+ 0.025	\$36,317	\$32,439
- 0.025	(\$40,430)	(\$36,097)

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

9. Property and Equipment, Net

	Autos & Trucks	Equipment - Office and Maintenance	Furniture and Fixtures	Head Office Building and Land	Farm Land and Improvements	Total
Cost						
As at December 31, 2020	\$ -	\$ 803	\$ -	\$ 750	\$ 271	\$ 1,824
Additions	144	632	19	32	68	895
Disposals	-	(1)	-	-	-	(1)
As at December 31, 2021	\$ 144	\$ 1,434	\$ 19	\$ 782	\$ 339	\$ 2,718
Additions	1	667	121	401	127	1,317
Disposals	(26)	-	-	-	-	(26)
As at September 30, 2022	\$ 119	\$ 2,101	\$ 140	\$ 1,183	\$ 466	\$ 4,009
Accumulated depreciation						
As at December 31, 2020	\$ -	\$ 20	\$ -	\$ 4	\$ -	\$ 24
Additions	4	160	-	7	3	174
As at December 31, 2021	\$ 4	\$ 180	\$ -	\$ 11	\$ 3	\$ 198
Additions	12	164	8	21	4	209
Disposals	(2)	-	-	-	-	(2)
As at September 30, 2022	\$ 14	\$ 344	\$ 8	\$ 32	\$ 7	\$ 405
Net book value						
As at December 31, 2020	\$ -	\$ 783	\$ -	\$ 746	\$ 271	\$ 1,800
As at December 31, 2021	\$ 140	\$ 1,254	\$ 19	\$ 771	\$ 336	\$ 2,520
As at September 30, 2022	\$ 105	\$ 1,757	\$ 132	\$ 1,151	\$ 459	\$ 3,604

10. Line of Credit

On May 12, 2021 the REIT entered into a revolving line of credit ("Line of Credit"), secured by the investment property of two MHCs, for \$5,000. The Line of Credit matures on May 12, 2024 and incurs interest at Prime plus 0.50%. As at September 30, 2022 and December 31, 2021 there was \$1,000 and \$Nil outstanding on the Line of Credit and unamortized deferred issuance costs were \$12 and \$18, respectively. The Line of Credit requires the REIT to comply with various covenants all of which the REIT was in compliance with as at September 30, 2022.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

11. Other Liabilities

	As at September 30, 2022	As at December 31, 2021
Property related accruals	\$ 3,785	\$ 1,974
Finance costs payable	580	445
Tenant security deposits	2,857	2,358
Distributions payable	875	873
Unearned revenue	1,602	1,622
DTUs	399	214
Total	\$ 10,098	\$ 7,486

12. Mortgages Payable, Net

Mortgages payable are shown net of unamortized mark-to-market adjustments and unamortized deferred issuance costs. The balances are as follows:

	As at September 30, 2022	As at December 31, 2021
Mortgages payable	\$ 314,276	\$ 253,921
Unamortized mark-to market adjustment	5,057	5,829
Unamortized deferred issuance costs	(1,462)	(639)
Total mortgages payable	317,871	259,111
Less: current portion	(781)	(637)
Amount classified as non-current portion	\$ 317,090	\$ 258,474

The REIT's weighted average contractual annual interest rate on its mortgages payable as at September 30, 2022 and December 31, 2021 was approximately 3.68% and 3.43%, respectively, which excludes the impact of the amortization of the mark-to-market adjustment and amortization of deferred issuance costs

The mortgages payable balances as at September 30, 2022, excluding unamortized mark-to-market adjustments and unamortized deferred issuance costs, are due as follows:

Period ending December 31,	Principal payments
2022	\$ 173
2023	732
2024	769
2025	817
2026	889
Thereafter	310,896
Total	\$ 314,276

The REIT's mortgages payable contains customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. As at September 30, 2022, the REIT was in compliance with all financial covenants relating to its mortgages payable.

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

Cash flows and non-cash changes related to the mortgages payable, net are as follows:

	For the nine months ended September 30, 2022	For the year ended December 31, 2021
Mortgages payable, net, opening balance	\$ 259,111	\$ 219,858
<i>Cash Flows</i>		
Proceeds from mortgages payable	60,770	41,400
Issuance costs associated with financing activities	(854)	(648)
Repayment of mortgages payable	(415)	(479)
	318,612	260,131
<i>Non-Cash Changes</i>		
Accretion of mark-to-market adjustment on mortgages payable	(772)	(1,029)
Amortization of deferred issuance costs	31	9
Mortgages payable, net, ending balance	\$ 317,871	\$ 259,111

13. Class B Units

The fair value as at September 30, 2022 and December 31, 2021 was calculated using the unit closing price.

As at September 30, 2022 and December 31, 2021, distributions payable on Class B Units were \$244 and \$242, respectively.

For the periods presented, the following table presents the outstanding Class B Units and the change in fair value of the Class B Units.

	Class B Units	Value
Class B Units, December 31, 2020	5,432,940	\$ 73,399
Fair value adjustments	-	31,457
Class B Units, December 31, 2021	5,432,940	\$ 104,856
Class B units issued (Note 8)	37,448	697
Fair value adjustment	-	(23,552)
Class B Units, September 30, 2022	5,470,388	\$ 82,001

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

14. Unitholders' Equity

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

	Number of Units	Value
Units outstanding, December 31, 2020	7,226,185	\$ 99,898
Units issued on equity offering closing June 14, 2021, including exercise of an overallotment option	4,500,000	81,000
Units issued on equity offering closing November 18, 2021, including exercise of an overallotment option	2,415,000	46,489
Less: issuance costs	-	(5,898)
Units outstanding, December 31, 2021	14,141,185	221,489
Units outstanding, September 30, 2022	14,141,185	\$ 221,489

Transaction costs relating to equity offerings and over-allotment options were charged directly to transaction expense.

On May 17, 2022, the REIT filed a supplement to its base shelf prospectus, dated May 7, 2021, and entered into an equity distribution agreement for the purpose of completing at-the-market equity offering(s) (the "ATM Offering"). Pursuant to the ATM Offering, the REIT may issue Units, from time to time, up to an aggregate amount of \$50,000. As at September 30, 2022 the REIT has not issued any Units under the ATM Offering and related deferred issuance costs were \$475.

For the nine months ended September 30, 2022 and the year ended December 31, 2021 the REIT declared distributions to unitholders of record in the amount of \$5,676 (\$0.0446 per Unit per month) and \$5,289 (\$0.0425 per Unit per month until the December 15, 2021 distribution at which time the amount increased to \$0.0446 per Unit per month), respectively. Total distributions payable as at both September 30, 2022 and December 31, 2021 were \$631.

15. Related Party Transactions

In connection with the IPO, the REIT indirectly acquired the Initial Communities from entities owned and managed by certain executive officers of the REIT, as a result of which the REIT's Chief Executive Officer and Chief Investment Officer acquired beneficial ownership, or control or direction over, directly or indirectly, 17,408 Units and 5,396,687 Class B Units.

On closing of the IPO, the REIT and Empower, an entity majority-owned by the REIT's Chief Executive Officer and Chief Investment Officer, entered into certain agreements that govern the relationships between such parties and their affiliates. Empower will acquire and develop MHCs that do not meet the REIT's investment criteria and conduct home sales, including sales of manufactured homes located on investment properties, under the "You Got it Homes" brand.

The condensed consolidated interim financial statements include the following related party transactions:

- (a) On July 2, 2021 the REIT entered into a promissory note ("Note Receivable-Related Party") in the amount of \$2,460 with Empower Park. The Note Receivable-Related Party includes monthly interest only payments, which began on August 2, 2021, through maturity on July 2, 2031 at which time the entire principal balance and any unpaid interest is due. The Note Receivable-Related Party incurs interest at the Prime rate. For the three and nine months ended September 30, 2022, interest revenue was \$36 and \$81, respectively (\$20 for both the three and nine months ended September 30, 2021).

Flagship Communities Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the Three and Nine Months Ended September 30, 2022 and 2021

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

- (b) On February 15, 2022 the REIT acquired a 13-acre manufactured housing resort community from a related party, Empower Park, for \$7,533 and 37,448 Class B Units. Total consideration paid was \$8,230.
- (c) Payroll and benefits include \$297 and \$1,220 incurred to key management personnel during the three and nine months ended September 30, 2022, respectively, which includes short-term employee payroll, RUs and benefits (\$155 and \$844 for the three and nine months ended September 30, 2021, respectively).
- (d) For the three and nine months ended September 30, 2022, the REIT billed Empower Park a total of \$433 and \$1,087, of which \$377 and \$959 was payroll and benefits, \$34 and \$68 was management fees, and \$22 and \$60 was other miscellaneous items, respectively (\$346 and \$960; \$303 and \$854; \$12 and \$34; \$31 and \$72 for the three and nine months ended September 30, 2021, respectively). As at September 30, 2022 and December 31, 2021, the REIT had a receivable, included in tenant and other receivables, net, from Empower Park of \$155 and \$149, respectively.
- (e) For the three and nine months ended September 30, 2022 and 2021, the REIT was billed for services provided by related parties that included HVAC, paving/concrete repair, IT and landscape services. As at September 30, 2022 and December 31, 2021, the REIT had total accounts payable and accrued liabilities due to related parties of \$204 and \$11, respectively.

The following table breaks out billings for each related party.

Company Name	Ownership & Control	Description of Services	Three months ended September 30,		Nine months ended September 30,	
			2022	2021	2022	2021
Call Now HVAC	50% owned by the REIT's Chief Executive Officer ("CEO"), Chief Investment Officer ("CIO") and another holder of Class B Units. Managing member of the entity is a non-related party	Provides HVAC services to various properties including installing new air conditioning units as well as servicing existing units.	\$ 119	\$ 207	\$ 316	\$ 414
BG3	100% owned by the brother of the REIT's CEO.	Provides landscaping services to properties.	\$ 139	\$ 30	\$ 312	\$ 119
JDK	100% owned by the brother of the REIT's CEO.	Provides IT and desktop support	\$ -	\$ 14	\$ 27	\$ 34
Empower Park	Wholly owned by the REIT's CEO, CIO and another holder of Class B Units.	Acquires and develops MHCs that do not meet the REIT's investment criteria and conducts sales of manufactured homes located on the REIT's investment properties. The REIT has agreed to pay floor plan interest on homes located on the REIT's investment properties and reimburse Empower for any losses on home sales within the REIT's investment properties.	\$ 1,500	\$ 85	\$ 2,595	\$ 184
Total			\$ 1,758	\$ 336	\$ 3,250	\$ 751

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16. Revenues

The REIT's revenues consist of rental revenue and related income, including reimbursements of utility costs. Rental revenue and related income is generated from leasing investment properties to tenants under non-cancellable operating leases. No tenant accounted for more than 10% of the REIT's total rental revenue for the three and nine months ended September 30, 2022 or 2021, respectively.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Rental revenue	\$ 12,728	\$ 9,796	\$ 36,831	\$ 26,418
Utilities reimbursement	1,715	1,177	4,704	3,378
Fee income	541	373	1,369	936
Other	58	53	194	151
Total Revenues	\$ 15,042	\$ 11,399	\$ 43,098	\$ 30,883

17. Property Operating Expenses

Property operating expenses incurred and charged to net income and comprehensive income are recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Utility costs	\$ 1,742	\$ 1,241	\$ 5,037	\$ 3,586
Payroll and benefits	1,157	974	3,092	2,541
Taxes and insurance	1,248	853	3,657	2,345
Repairs and maintenance	469	378	1,191	902
Other property-based costs	578	361	1,555	1,047
Total Operating Expenses	\$ 5,194	\$ 3,807	\$ 14,532	\$ 10,421

18. General and Administrative Expenses

General and administrative expenses incurred and charged to net income and comprehensive income are recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Payroll and benefits	\$ 1,033	\$ 847	\$ 3,099	\$ 2,329
Legal / Consulting	140	119	396	447
Audit and tax fees	98	73	287	290
Taxes and insurance	152	133	379	336
Trustee fees	134	68	336	196
Travel	137	71	378	174
Other	193	121	506	348
Total Operating Expenses	\$ 1,887	\$ 1,432	\$ 5,381	\$ 4,120

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19. Finance Costs

Finance costs incurred and charged as part of net income and comprehensive income are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest expense	\$ 206	\$ 61	\$ 486	\$ 180
Interest - mortgages	2,723	1,973	7,241	5,730
Amortization of deferred issuance costs	25	3	31	6
Finance costs from operations	\$ 2,954	\$ 2,037	\$ 7,758	\$ 5,916

20. Employee Benefit Plan

Management of the REIT has adopted a defined contribution plan under Internal Revenue Service code section 401(k) for all eligible employees. 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 under the Basic Safe Harbor Match: The REIT matches 100% of the first 3% of each employee's contributions and 50% of the next 2%. Employer matching contributions to the Plan totalled \$30 and \$97 during the three and nine months ended September 30, 2022, respectively (\$19 and \$59 during the three and nine months ended September 30, 2021, respectively).

21. Segment Reporting

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

22. Commitment and Contingencies

The REIT is subject to claims and litigation in the ordinary course of business. Management does not believe that any such claim or litigation will have a material adverse effect on the business, assets, or results of operations of the REIT.

23. Capital Management

The REIT's policy is to maintain an appropriate capital base to support ongoing operations, maintain creditor and market confidence and sustain future developments of the business. Capital consists of cash and cash equivalents, mortgages payable, net, 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.

24. Fair Value Measurement

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's financial instruments and non-financial assets, or the significant methods and assumptions related to financial instruments carried at amortized cost where carrying value approximates fair value:

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The carrying values of the REIT's short-term financial assets and liabilities, except for RUs and DTUs which are carried at fair value, are carried at amortized cost which approximate their fair values due to their short periods to maturity.

The Note Receivable – Related Party is carried at amortized cost, which approximates fair value. The effective interest rate method exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount on initial recognition.

The investment properties are carried at fair value which is estimated using the direct capitalization method. The direct capitalization method analyzes the relationship of one year's stabilized net operating income to total MHC value. The stabilized net operating income is capitalized at a rate that implicitly considers expected growth in cash flow and growth in MHC value over an investment horizon (Level 3).

As at September 30, 2022 and December 31, 2021 the RUs, DTUs, and Class B Units are carried at fair value which is estimated based on the market trading price of a Unit (Level 1).

The mortgages payable, net are carried at amortized cost. For disclosure purposes, the fair value of the mortgages payable as at September 30, 2022 and December 31, 2021 was estimated by discounting expected cash flows using a rate of 5.98% and 3.45%, respectively, which is the expected rate available for debt of similar terms at the end of each respective period (Level 2).

The following tables summarize the categories and fair values of the REIT's financial instruments.

	Fair value as at September 30, 2022		
	Level 1	Level 2	Level 3
Financial Assets and Liabilities			
Investment properties	-	-	\$ 753,884
DTUs	\$ (399)	-	-
Class B Units	\$ (82,001)	-	-
Mortgages payable	-	\$ (240,582)	-

	Fair value as at December 31, 2021		
	Level 1	Level 2	Level 3
Financial Assets and Liabilities			
Investment properties	-	-	\$ 670,523
DTUs	\$ (214)	-	-
Class B Units	\$ (104,856)	-	-
Mortgages payable	-	\$ (252,755)	-

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25. Financial Risk Management

The REIT's risk exposure and the impact on the REIT's financial instruments are summarized below:

(a) Risk

Financial instruments that potentially subject the REIT to significant concentrations of credit risk consist principally of cash and cash equivalents, tenant and other receivables, net, and Note Receivable – Related Party. The only debtor to comprise more than 10% of the REITs outstanding tenant and other receivables, net balance as at September 30, 2022 and December 31, 2021, respectively, was a related party debtor (See Note 15). Additionally, the Note Receivable – Related Party accounted for 25.30% and 13.18% of the aforementioned financial instruments, respectively. The REIT regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. Credit risk arises from the possibility that residents in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting residents of sound financial standing and by diversifying its mix of residents. It also monitors resident payment patterns and discusses potential resident issues with property managers on a regular basis. Cash carries minimal credit risk as all funds are maintained with reputable financial institutions. The related party receivable, included in tenant and other receivables, net, and the Note Receivable – Related Party also carries minimal credit risk due to the nature of the relationship of the debtor to the REIT. The carrying amount of financial assets represents the maximum credit exposure.

The REIT has considered the cash flow difficulties that may be experienced by the tenants due to the impact of COVID-19 and the probability of default. The REIT entered into rent deferral agreements with some tenants experiencing difficulties to minimize credit losses in the event of default. The REIT continues to assist tenants on a case-by-case basis dependent upon need. The maximum exposure to credit risk is the carrying amount of the financial assets.

(b) Liquidity risk

The REIT is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The REIT manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. The REIT constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. The REIT expects to be able to meet all obligations as they become due using some or all of the following sources of liquidity - cash flow generated from property operations; property-specific mortgages; existing cash and cash equivalents on hand; and available capacity on lines of credit. As at September 30, 2022 and December 31, 2021, the REIT had working capital of \$(1,375) and \$10,521, respectively. All of the REIT's financial liabilities are due within one year except for mortgages payable.

As at September 30, 2022	Carrying Amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	\$ 761	\$ 761	\$ 761	\$ -	\$ -	\$ -
Other liabilities	10,098	10,098	10,098	-	-	-
Mortgages payable	317,871	444,539	13,384	24,778	61,464	344,913
Total	\$ 328,730	\$ 455,398	\$ 24,243	\$ 24,778	\$ 61,464	\$ 344,913

As at December 31, 2021	Carrying Amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	\$ 978	\$ 978	\$ 978	\$ -	\$ -	\$ -
Other liabilities	7,486	\$ 7,486	\$ 7,486	-	-	-
Mortgages payable	259,111	341,465	9,936	19,106	28,651	283,772
Total	\$ 267,575	\$ 349,929	\$ 18,400	\$ 19,106	\$ 28,651	\$ 283,772

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(c) Interest rate risk

The REIT is exposed to interest rate risk as a result of its mortgages; however, this risk is mitigated through management's strategy to structure its mortgages in fixed-rate arrangements. The REIT also structures its financings so as to stagger the maturities of its debt, minimizing the exposure to interest rate volatility in any one year. The REIT does not have any mortgages maturing in the next 12 months.

26. Unit-based Compensation

(a) Restricted Units

Under the Equity Incentive Plan, RUs can be issued to better align the interests of the recipient with the interests of Unitholders and to facilitate the retention of key employees through long term ownership of Units. The number of RUs to be awarded to a recipient is equal to (i) the monetary value of the award, (ii) divided by the volume-weighted average closing price of a Unit on the TSX for the five trading days immediately preceding the date of grant. RUs are granted at the discretion of the executive team and vest over six years in equal installments.

For the periods presented, the following table summarizes the number of RUs outstanding.

	Number of Units
Units outstanding, December 31, 2020	-
Units outstanding, December 31, 2021	-
Restricted Unit Issuance (1)	62,346
Distribution reinvestment	177
Units outstanding, September 30, 2022	62,523

- (1) On August 19, 2022 the REIT granted 62,346 RUs at a fair value of \$16.07 per RU for a total grant date fair value of \$1,002.

For both the three and nine months ended September 30, 2022 unit based compensation expense of \$Nil was recognized in payroll and benefits, included in general and administrative expenses on the consolidated statements of net income and comprehensive income (\$Nil for both the three and nine months ended September 30, 2021).

As at both September 30, 2022 and December 31, 2021, Nil unvested RUs are recorded in Other Liabilities with a fair value of \$Nil.

(b) Deferred Trust Units

Under the Equity Incentive Plan, non-employee trustees have the option to elect to receive up to 100% of trustee fees, that are otherwise payable in cash, in the form of DTUs. Accordingly, the number of DTUs to be awarded to a non-employee trustee is equal to (i) the value of the trustee fees that the non-employee trustee elects to receive in the form of DTUs, (ii) divided by the volume-weighted average closing price of a Unit on the TSX for the five trading days immediately preceding the date of grant. DTUs are granted on the first day of the month following the quarter in which they were earned. Once made, elections are irrevocable for the year in respect of which they are made and are effective for subsequent calendar years until terminated by the non-employee trustee. DTUs granted to non-employee trustees vest immediately upon grant.

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For the periods presented, the following table summarizes DTU activity and the number of DTUs outstanding.

	Number of Units	Value
Units outstanding, December 31, 2020	-	\$ -
Trustee fees	11,089	199
Distribution reinvestment	121	2
Fair value adjustment - unit based compensation	-	13
Units outstanding, December 31, 2021	11,210	\$ 214
Trustee fees (1)	14,880	261
Distribution reinvestment (2)	481	9
Fair value adjustment - unit based compensation	-	(85)
Units outstanding, September 30, 2022	26,571	\$ 399

- (1) Trustee fees related to the issuance of DTU for the three and nine months ended September 30, 2022 were \$98 and \$261, resulting in 6,364 and 14,880 DTUs being issued, respectively (\$68 and \$128, resulting in 3,779 and 7,476 DTUs for both the three and nine months ended September 30, 2021).
- (2) Distributions, that would otherwise be payable in cash, resulted in additional DTUs of 228 and 481 being issued for the three and nine months ended September 30, 2022, respectively (DTUs of 44 and 53 for the three and nine months ended September 30, 2021).

27. Subsequent Events

On November 14, 2022 the REIT announced that the Board of Trustees approved a 5% increase to its cash distribution to unitholders to \$0.0468 per Unit per month or \$0.562 per Unit per year. The new monthly cash distribution will commence with the November 2022 distribution when declared, to be payable in December 2022.