FLAGSHIP COMMUNITIES REAL ESTATE INVESTMENT TRUST

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM AUGUST 12, 2020 (DATE OF FORMATION) TO DECEMBER 31, 2020

(In thousands of US dollars)

Flagship Communities Real Estate Investment Trust
Consolidated Statement of Financial Position
As At
(In thousands of US dollars)

	Note		December 31, 2020
Current Assets			
Cash and cash equivalents		$	11,499
Tenant receivables, net	**5**		638
Prepaids and other assets	**6**		1,226
Lender escrow deposits	**7**		1,825
Total current assets			15,188
Investment properties	**8**		428,391
Property and equipment, net	**9**		1,800
			430,191
Total Assets		$	445,379
Current Liabilities			
Trade and other payables		$	598
Other liabilities	**10**		5,140
Mortgages payable, net	**11**		514
Total current liabilities			6,252
Mortgages payable, net	**11**		219,344
Class B Units	**12**		73,399
			292,743
Total Liabilities			298,995
Unitholders' Equity			
Unitholder's equity			146,384
Total Liabilities and Unitholders' Equity		$	445,379

Subsequent events (Note 23)

See accompanying notes to the consolidated financial statements.

Flagship Communities Real Estate Investment Trust
Consolidated Statement of Net Income and Comprehensive Income
For the Period from August 12, 2020 (Date of Formation) to December 31, 2020
(In thousands of US dollars)

	Note		For the period from August 12, 2020 to December 31, 2020
Revenues			
Rental revenue and related income	**15**	$	8,304
Property operating expenses	**16**		2,807
Net operating income		$	5,497
Other Expenses/(Income)			
General and administrative		$	1,258
Depreciation and amortization	**9**		24
Fair value (gain) on investment properties	**8**		(2,958)
Other expense (income)			(13)
Finance costs from operations	**17**		1,812
Distributions on Class B units	**17**		641
Fair value adjustment on Class B units	**12, 17**		(1,195)
Accretion of mark-to-market adjustment on mortgages payable	**4,11,17**		(257)
Bargain purchase gain	**4**		(46,459)
Transaction costs			5,306
Net income and comprehensive income		$	47,338

See accompanying notes to the consolidated financial statements.

Flagship Communities Real Estate Investment Trust
Consolidated Statement of Changes in Unitholder's Equity
For the Period from August 12, 2020 (Date of Formation) to December 31, 2020
(In thousands of US dollars)

	Note	Units	Distributions	Cumulative Net Income	Total Unitholder's Equity
		$	$	$	$
Balance, August 12, 2020 (date of formation)		-	-	-	-
Units issued, net of issue costs	**13**	99,898	-	-	99,898
Net income and comprehensive income		-	-	47,338	47,338
Distributions		-	(852)	-	(852)
Balance, December 31, 2020		99,898	(852)	47,338	146,384

See accompanying notes to the consolidated financial statements.

Flagship Communities Real Estate Investment Trust
Consolidated Statement of Cash Flows
For the Period from August 12, 2020 (Date of Formation) to December 31, 2020
(In thousands of US dollars)

Cash flow provided by (used in) operating activities		
Net income and comprehensive income	$	47,338
Add (deduct) items not involving cash		
Depreciation		24
Fair value adjustment on Class B units		(1,195)
Accrued distributions on Class B units		641
Accretion of mark-to-market adjustment on mortgages payable		(257)
Fair value gain on investment properties		(2,958)
Bargain purchase gain		(46,459)
Transaction costs associated with financing activities		5,306
Finance costs from operations		1,812
Change in non-cash working capital		
Accounts receivables		379
Prepaids and other assets		(161)
Escrows		882
Trade and other payables		558
Other liabilities		(2,067)
		3,843
Cash flow provided by financing activities		
Proceeds from issuance of Units, net of costs		99,317
Distributions paid to Unitholders		(545)
Distributions paid to Class B Unitholders		(410)
Mortgages payable issuance costs		(201)
Repayment of mortgages payable		(13,418)
Transaction costs		(5,306)
Interest paid		(1,165)
		78,272
Cash flow (used in) investing activities		
Cash balances transferred on October 7, 2020 acquisition		914
Cash paid for October 7, 2020 acquisition		(57,694)
Cash paid for asset acquisitions		(12,945)
Capital expenditures on investment properties		(889)
Purchase of property and equipment		(2)
		(70,616)
Increase in cash and cash equivalents		11,499
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, ending of period	$	11,499

Non cash transactions:	
Mark-to-market mortgages adjustment on acquisition	7,115

See accompanying notes to the consolidated financial statements.

1. Nature of Operations

Flagship Communities Real Estate Investment Trust (the "REIT" or the "Trust") is a newly created, 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 has been formed for the purpose of owning and operating a portfolio of income-producing manufactured housing communities ("MHCs") located in the United States.

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 transaction costs. In connection with the IPO, the REIT indirectly acquired a 100% interest in a portfolio of 45 MHCs with 8,255 lots located in Kentucky, Indiana, Ohio and Tennessee (the "Initial Communities"), together with a fleet of approximately 600 manufactured homes for lease to residents of the Initial Communities and the REIT's head office property in Erlanger, Kentucky (collectively, the "Initial Portfolio").

As at December 31, 2020, the REIT owns 52 residential properties located across Kentucky, Indiana, Ohio, and Tennessee.

2. Basis of Presentation

(a) Statement of compliance

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB"), and using accounting policies described herein. These consolidated financial statements were approved by the Board of Trustees March 19th, 2021.

(b) Basis of presentation

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

(c) Principles of consolidation

The REIT consolidates its interest in entities which it has common 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 consolidated financial statements comprise the financial statements of the REIT and its subsidiaries, including, Flagship Operating GP, LLC, which own 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.

(d) Use of estimates, judgments and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant estimates, judgements and assumptions include the fair values assigned to investment properties, Class B Units and business combinations. Actual results may differ from these estimates.

Estimates

Investment properties - The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions relating to occupancy and rental rates. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

Class B Units – The Class B units (“Class B Units”) of the REIT’s subsidiary, Flagship Operating, LLC, have been classified as financial liabilities and are measured at fair value through profit or loss ("FVTPL"). The fair value of the Class B Units is measured every period by reference to the traded value of the Units, with changes in measurement recorded in the statement of income and comprehensive income. The Class B Units have a 12 month restricted hold period, therefore, the fair values used at IPO and at December 31, 2020 were based on the share prices on those respective dates, and discounted using the average volatility of comparable companies in the same industry.

Judgements

Business combinations - When the REIT acquires new investment properties, the REIT reviews each acquisition in accordance with IFRS 3 to determine if it qualifies as an asset or business acquisition. It reviews each acquisition to determine if inputs, processes and outputs have been acquired to ensure each such acquisition is accounted for appropriately.

3. Significant Accounting Policies

Cash and cash equivalents

The REIT considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

Investment properties

A property is determined to be an investment property when it is held either to earn rental income, capital appreciation or both. Investment properties include land, buildings, land improvements, building improvements and certain intangibles such as in-place leases and non-competes, if any. Investment properties are initially valued at cost, and subsequently are measured at fair value. Unrealized gains and losses arising from changes in fair value are included in the Consolidated Statements of Net Income and Comprehensive Income in the applicable period. Fair values are determined through a combination of internal management valuations as well as external appraisers. The fair value of each investment property is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the balance sheet date, less future estimated cash outflows in respect of such properties.

The acquisition of investment properties is initially measured at cost including directly attributable acquisition costs, except when acquired through a business combination, where such costs are expensed as incurred. Costs incurred for the acquisition, development, and construction of properties are capitalized to the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably. To the extent such costs exceed the estimated fair value of such property, the excess would be expensed. All repairs and maintenance costs are expensed as incurred.

Business combinations

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

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

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

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarified the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definition of a business and of outputs, and introduced an optional fair value concentration test.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives. Property and equipment consist of maintenance and office equipment. Costs of maintenance and repairs are charged to expense when incurred.

Depreciation is calculated on a straight-line basis over the expected useful life of the asset as follows:

Office equipment	– 5 to 10 years
Maintenance equipment	– 5 to 10 years
Head office – land improvements	– 15 years
Head office – building	– 30 years

Impairment of non-financial assets

Intangible assets with a finite useful life are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The REIT evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Lender escrow deposits

Escrows for real estate taxes, insurance and capital improvements are maintained under the control of the mortgagee for the payment of taxes and insurance on behalf of the REIT.

Deferred finance charges

The REIT measures its debt at amortized cost using the effective interest method. All interest-related charges are reported in the Statements of Net Income and Comprehensive Income and are included within finance costs from operations, except for those interest-related charges capitalized to qualifying properties under development or rental properties. Mortgages payable are netted against the transaction costs, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and as such accounts for its leases with tenants as operating leases. Revenue from investment properties include rents from tenants under leases, property tax and operating cost recoveries, lease cancellation fees, and late fees. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Lease cancellation fees are recognized as revenue once an agreement is completed with the tenant to terminate the lease and the collectability is reasonably assured. Revenue is measured at the transaction price agreed under the contract, and is recognized at the point in time in which control over the property has been transferred. Payments made in advance of scheduled due dates are included in unearned revenue.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

(i) Rental income

Revenue from rental properties represents the majority of the REIT's revenue and includes rents from tenants under leases with terms of one year or less, and other miscellaneous fee income paid by the tenants under the terms of their existing leases. Rental payments are due from tenants at the beginning of the month. The operating leases entered into with tenants create a legally enforceable right to control the use of an identified asset by the tenant for a period of time and also require the REIT to provide additional services.

IFRS 16, Leases ("IFRS 16"), provides guidance on "lease components" such as base rent, realty tax and insurance recoveries, which therefore are outside of the scope of IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). Other income (such as utilities, parking, and miscellaneous fees) are considered non-lease components and are within the scope of IFRS 15.

The REIT applies the practical expedient in IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(ii) Service charges and expenses recoverable from tenants

Income arising from expenses recovered from tenants is recognized gross of the related expenses in the period in which the expense can be contractually recovered.

(iii) Lease cancellation fees

Amounts payable by tenants to terminate a lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

Class B Units

In conjunction with the IPO, and as partial consideration for the Initial Communities, the REIT, through the Flagship Operating, LLC issued Class B Units to certain retained interest holders. Retained interest holders refer to former owners of certain properties acquired by the REIT. The holders of Class B Units will be entitled to receive distributions from Flagship Operating, LLC proportionately to the distributions made by the REIT to holders of Units. The Class B Units will be redeemable by the holder thereof for cash or Units (on a one-for-one basis subject to customary anti-dilution adjustments), as determined by Flagship Operating, LLC and as directed by the REIT in its sole discretion, subject to certain limitations and restrictions, and therefore are considered a puttable instrument. As a result, the Class B Units have been classified as financial liabilities and are measured at FVTPL.

These Class B Units carried a 12-month selling restriction from issue date which was deemed to be an attribute of the units. This attribute required that the unit value be discounted at the end of the period and at IPO. The fair value at October 7, 2020 and December 31, 2020 was calculated using the unit opening and closing price as of the end of the reporting period and applying a discount rate that took into consideration the remaining hold period along with the volatility of comparable publicly traded REIT units.

The fair value of the Class B Units is measured every period, with changes in measurement recorded in the statement of income and comprehensive income. Distributions on Class B Units are recorded as finance cost in the consolidated financial forecast in the period in which they become payable.

As of December 31, 2020, the total number of Class B Units outstanding was 5,432,940.

Trust Units

The REIT is authorized to issue an unlimited number of trust units ("Units"). Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without notice to or the approval of the Unitholders.

No Unit has any preference or priority over another. Each Unit represents a Unitholder's proportionate undivided beneficial ownership interest in the REIT and confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by the REIT, whether of net income, net capital gain or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Units are fully paid and non-assessable when issued and are transferable. Fractional Units may be issued as a result of an act of the Trustees, but fractional Units do not entitle the holders thereof to vote, except to the extent that such fractional Units may represent in the aggregate one or more whole Units.

Units are redeemable at the holder's option and therefore are considered to be a puttable instrument in accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. The Units meet the exemption conditions of IAS 32 and are presented as equity. The REIT has elected to not report an earnings per unit calculation, as per IAS 33, Earnings Per Share, as the Units meet the definition of a financial liability under IAS 32.

As of December 31, 2020, the total number of Units outstanding was 7,226,185.

Financial instruments

Classification

On initial recognition, the REIT determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income

The classification under IFRS 9 - Financial Instrument ("IFRS 9") is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and

2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured at amortized cost using the effective interest method and at FVTPL (such as derivatives), or if the REIT has chosen to evaluate them at FVTPL.

The REIT has assessed the classification and measurement of its financial instruments under IFRS 9 as follows:

Financial Instrument	***Classification under IFRS 9***
Cash and cash equivalents	Amortized cost
Tenant receivables, net	Amortized cost
Trade and other payables	Amortized cost
Other liabilities	Amortized cost
Mortgages payable	Amortized cost
Class B Units	FVTPL

Measurement

Initial recognition – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss – Changes in fair value after initial recognition, whether realized or not, are recognized through the statements of income and comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of income and comprehensive income when the right to receive payment is established, the economic benefits will flow to the REIT, and the amount can be measured reliably.

Fair value through other comprehensive income – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of income and comprehensive income when the right to receive payment is established, the economic benefits will flow to the REIT, and the amount can be measured reliably.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model in evaluating the credit loss for financial assets measured at amortized cost. The ECL on account receivables was computed using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses, if incurred, would be recorded in general and administrative expenses in the statement of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the statement of income and comprehensive income. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

Derecognition

Financial assets – The REIT derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the statements of income and comprehensive income.

Financial liabilities – The REIT derecognizes a financial liability when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the statements of income and comprehensive income.

Finance costs

Finance costs consist of interest expense on loans and borrowings, amortization of deferred financing costs, amortization of premiums and discounts on loans and borrowings, and distributions on Class B Units. Finance costs also includes fair value adjustments to Class B Units and accretion of mark-to-market adjustment on mortgages payable. Finance costs associated with financial liabilities presented at amortized costs are recognized in net income using the effective interest method.

Employee benefits

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.

Income taxes

(i) Canadian status:

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

(ii) U.S. REIT status:

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

Certain of the REIT's operations or a portion thereof are conducted through taxable real estate investment trust subsidiaries ("TRS"). A TRS is a corporation that has not elected REIT status and has made a joint election with a real estate investment trust to be treated as a TRS. As such, it is subject to U.S. federal and state corporate income tax.

General and administrative expenses

General and administrative expenses include legal and professional fees, audit fees, managements fees and other administrative costs.

Mortgages payable

Mortgages payable are initially recognized at fair value less directly attributable transaction costs. After initial recognition, mortgages and loans payable are subsequently measured at amortized cost using the effective interest rate method.

Mortgage maturities and repayments due more than 12 months after the consolidated statement of financial position date are classified as non-current.

Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units.

Mark-to-market adjustment

The REIT recognized a mark-to-market adjustment upon assuming the mortgages payables balances upon acquisition, which was the principal amounts discounted using average expected interest rates. This adjustment is accreted over the course of the remaining life of the mortgages and included in the statement of net income and comprehensive income.

Standards issued but not yet effective for the year ended December 31, 2020:

The following standards are not yet effective for the period ended December 31, 2020 and have not been applied in preparing these consolidated financial statements:

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 3 – Business Combinations ("IFRS 3") was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

The Company is currently assessing the impact of these standards.

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

4. Business Combination

The Initial Communities were indirectly owned by Flagship Communities LLC ("FCLLC") and by Legacy SSK Portfolio ("SSK Entities"). Following certain reorganization transactions, upon closing of the IPO, FCLLC merged with and into a limited liability company subsidiary of the REIT, and the SSK Entities was contributed to Flagship Operating, LLC. As a result, upon completion of the merger and contribution, and certain related transactions on October 7, 2020, all of the Initial Communities and the remaining assets comprising the Initial Portfolio are indirectly held by the REIT through its indirect ownership of Flagship Operating, LLC.

The acquisition is determined to be accounted for as a business combination. The identifiable net assets acquired are as follows:

Investment properties	$	411,599
Cash and cash equivalents		914
Accounts receivables		1,017
Prepaid and other assets		10,152
Property and equipment		1,822
Escrows		2,707
Mortgages payable		(233,734)
Trade and other payables		(40)
Other liabilities		(6,023)
		188,414
Excess of fair value of net assets acquired over consideration paid		(46,459)
Net assets acquired	**$**	**141,955**
Consideration paid by the REIT consists of the following:		
Class B Units	$	74,594
Trust Units		580
Cash		57,694
Cash held in escrow		9,087
Total consideration	**$**	**141,955**

The mortgages payable acquired includes a mark-to-market adjustment of $7,115 using the expected interest rates of all existing loans from the Initial Communities (Note 11).

Flagship Operating, LLC issued 5,432,940 Class B Units at a discounted price of $13.73 for total proceeds of $74,594. The Class B Units carry a 12-month selling restriction from issue date which was deemed to be an attribute of the Units. This attribute required that the Unit value be fair valued at IPO (see Note 12). The REIT issued 38,685 Units at a price of $15.00 per Unit, which was the price at IPO, as part of the consideration for total proceeds of $580. The cash held in escrow of $9,087 is a cash reserve held by the lender that was released upon transfer of ownership.

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

5. Tenant Receivables, Net

		As at December 31, 2020
Tenant receivables	$	725
Allowance for credit losses		(87)
Total	**$**	**638**

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. An accounts 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.

6. Prepaids and Other Assets

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

		As at December 31, 2020
Prepaid insurance	$	424
Lender reserves		421
Other prepaids and deposits		381
Total	**$**	**1,226**

7. Lender Escrow Deposits

Escrows for real estate taxes, insurance, and capital repairs are maintained under the control of the mortgagor for the payment of taxes and insurance on behalf of the REIT. As at December 31, 2020, the REIT had lender escrow balances of $1,825.

8. Investment Properties

Changes to the investment properties are summarized as follow:

		As at December 31, 2020
Balance, beginning of period	$	-
Acquisition - October 7, 2020		411,599
Acquisitions - Subsequent to October 7, 2020		12,945
Capital expenditures		889
Fair value gain on investment properties		2,958
Balance, end of period	**$**	**428,391**

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

On October 7, 2020, and in connection with the IPO, the REIT acquired investment properties of $411,599 (Note 4). Other asset acquisitions subsequent to October 7, 2020 were $12,945 (see below). Capital expenditures during the period were $889.

Asset Acquisitions

On December 17, 2020, the REIT announced the acquisition of seven MHCs consisting of 379 lots and 91 rental homes for $12,945 before working capital adjustments and closing costs. The acquisitions were all within the REITs current footprint with three MHCs (197 lots) in Evansville, Indiana, two MHCs (101 lots) in Northern Kentucky, and two MHCs (81 lots) in Paducah, Kentucky. The transactions were funded using cash from the gross proceeds from IPO (Note 4).

Acquisition costs were capitalized and totaled $203 for the period ended December 31, 2020.

The following table presents certain additional information regarding the REIT's acquisitions. The amounts recognized as major assets as of the acquisition date are as follows:

		2020
Investment properties	$	12,945
Total	**$**	**12,945**

The REIT used a combination of internal valuation methodologies and external appraisals to value the investment properties. As of December 31, 2020, the REIT obtained external appraisals as support for 97% of the fair values. The REIT relied on internal valuations for 3% of investment properties. The estimated fair value of the investment properties was determined using the direct capitalization method. The direct capitalization method analyzes the relationship of one year's stabilized net operating income to total property value. The stabilized net operating income is capitalized at a rate that implicitly considers expected growth in cash flow and growth in property value over an investment horizon. The implied value may be adjusted to account for non-stabilized conditions or required capital expenditures to reflect an as is value.

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

The key metrics of the capitalization rates applicable to the REIT as at December 31, 2020 were as follows:

Capitalization Rates		
High		6.25%
Low		5.35%
Weighted Average		5.52%
% Change		
+ 0.025		4.45%
- 0.025		(4.88)%
$ Change		
+ 0.025	$	(19,079)
- 0.025	$	20,920

The fair values of investment properties are sensitive to changes in capitalization rates.

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

9. Property and Equipment

	Equipment - Office and Maintenance	Head Office Building	Head Office Land	Head Office Land Improvements	Vehicles	Farm Land	Total
Cost							
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -
October 7, 2020 acquisition (Note 4)	802	500	224	26	-	271	1,823
Additions	1	-	-	-	-	-	1
At December 31, 2020	**$ 803**	**$ 500**	**$ 224**	**$ 26**	**$ -**	**$ 271**	**$ 1,824**
Accumulated depreciation							
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -
October 7, 2020 acquisition (Note 4)	-	-	-	-	-	-	-
Additions	20	4	-	-	-	-	24
At December 31, 2020	**$ 20**	**$ 4**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 24**
Net book value							
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -
At December 31, 2020	**$ 783**	**$ 496**	**$ 224**	**$ 26**	**$ -**	**$ 271**	**$ 1,800**

10. Other Liabilities

	As at December 31, 2020
Property related accruals	$ 2,010
Tenant security deposits	1,722
Distributions payable	538
Unearned revenue	870
Total	**$ 5,140**

11. Mortgages Payable, net

Mortgages payable are shown net of unamortized deferred financing costs. The balances are as follows:

	As at December 31, 2020
Mortgages payable	$ 213,000
Unamortized mark-to market adjustment	6,858
Total mortgages payable	**219,858**
Less: current portion	(514)
Amount classified as non-current portion	**$ 219,344**

The REIT's weighted average contractual annual interest rate on its mortgages payable as of December 31, 2020 was approximately 3.57%, which excludes the impact of the amortization of the mark-to-market adjustment.

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

The mortgages payable balances as at December 31, 2020, excluding unamortized mark-to market adjustment, are due as follows:

2021	$	514
2022		602
2023		735
2024		772
2025		820
2026		866
Thereafter		208,691
Total	**$**	**213,000**

The REIT's mortgages payable contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. As at December 31, 2020, $6,858 of the mark-to-market adjustment related to mortgages assumed pursuant to the October 7, 2020 acquisition was outstanding (Note 4). As at December 31, 2020, the REIT was in compliance with all financial covenants relating to its mortgages payable.

12. Class B Units

On October 7, 2020, Flagship Operating, LLC issued Class B Units with a fair value of $74,594 (Note 4). The fair value on October 7, 2020 was calculated using the IPO price, and discounted using the average rates of volatilities of comparable companies as there was a 12-month restricted period on these shares. 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 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. On December 31, 2020, the fair value adjustment of the Class B Units was calculated using the REIT Unit's closing price on that date, and discounted using average rates of volatilities of comparable companies. This resulted in a fair value adjustment of $1,195 for the period from August 12, 2020 to December 31, 2020.

The following table presents the outstanding units and the change in fair value of the Class B Units for the period from August 12, 2020 to December 31, 2020.

	B Units		**Value**
Class B Units, August 12, 2020 (date of formation)	-	$	-
Class B Units issued, October 7, 2020 (Note 4)	5,432,940		74,594
Fair value adjustment	-		(1,195)
Balance, December 31, 2020	**5,432,940**	**$**	**73,399**

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

13. Unitholders' Equity

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

	Number of Units	Value
Units outstanding, August 12, 2020	-	$ -
Units issued on IPO closing (a)	6,250,000	93,750
Units issued for acquisition consideration (b)	38,685	580
Units issued - overallotment (c)	937,500	14,063
Less: issue costs (d)	-	(8,495)
Units outstanding, December 31, 2020	7,226,185	$ 99,898

(a) The REIT entered into an underwriting agreement and filed a long-form prospectus for the purpose of completing the IPO, which closed on October 7, 2020. The REIT raised gross proceeds of $93,750 (excluding any exercise of the over-allotment option) pursuant to the IPO through the issuance of 6,250,000 Units at a price of $15.00 per Unit.

(b) The REIT issued 38,685 Units at a price of $15.00 per Unit for gross proceeds of $580 as part of the consideration for the acquisition on October 7, 2020 (Note 4).

(c) On October 22, 2020, pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the Offering, the REIT issued an additional 937,500 Units at $15.00 per Unit, resulting in gross proceeds of $14,063. The net proceeds from the exercise of the over-allotment option were used by the REIT to fund future acquisitions and for general business purposes.

(d) Costs relating to the Offering and over-allotment including underwriters' fees and other costs directly associated were approximately $8,495 and are charged directly to unitholders' equity.

14. 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 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, the REIT and Empower, an entity majority-owned by the REIT's President and 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 the Initial Communities, under the ''You Got it Homes'' brand.

In addition to these agreements, the consolidated financial statements include the following related party transactions:

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

(a) Compensation expenses include $301 incurred to key management personnel during the period from August 12, 2020 to December 31, 2020, which includes short-term employee compensation and benefits.
(b) For the period from August 12, 2020 to December 31, 2020, the Company billed Empower Park a total of $216, of which $192 was payroll and benefits, $13 was management fees, and $11 in other miscellaneous items. As of December 31, 2020, the Company had a receivable from Empower Park of $203.
(c) For the period from August 12, 2020 to December 31, 2020, the REIT incurred expenses from affiliates totaling $430. The services provided by these affiliates include HVAC, paving/concrete repair, legal, IT and landscape services.

The table below breaks out spending for each related party.

Company Name	Ownership & Control	Description of Services	Spend for the period from August 12, 2020 to December 31, 2020
Call Now HVAC	50% owned CEO, CIO and another Retained Interest Holder. Managing member of the entity is a non-related party	Provides HVAC services for the communities including installing new air conditioner units as well as services existing units.	$ 89
KOI	50% owned the CEO and 50% by an immediate family member. Employees include other immediate family members of the CEO.	Provides black top and concrete services for the communities as well as a number of other maintenance services.	$ 146
BG3	100% owned by brother of the CEO.	Provides landscaping services for various investment properties.	$ 18
Adams Stepner Wolterman and Dusing (ASWD)	Retained Interest Holder with significant ownership of the REIT is a former partner and is currently compensated for any work that he completes on behalf of ASWD	Law firm that helps the Portfolio with various legal matters such as loan closings, acquisition diligence, contract reviews, etc.	$ 119
JDK	100% owned by the brother of the CEO (Kurt Keeney.)	IT and desktop support	$ 12
Empower Park	50% owned CEO, CIO and another Retained Interest Holder.	Empower acquires and develop MHCs that do not meet the REIT's Investment Criteria and conducts home sales, including sales of manufactured homes located on the Initial Communities. Per agreement with Empower Park, REIT will pay floor plan interest on homes within the Initial Communities as well as reimburse Empower for any gross profit losses on homes sales within the Initial Communities	$ 46
Total			$ 430

At December 31, 2020, the REIT had accounts payable and accrued liabilities due to related parties of $7.

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

15. Revenues

The REIT's revenues consist of rental revenue and related income, including reimbursements of utility costs.

	Period from August 12, 2020 to December 31, 2020
Rental revenue	$ 7,065
Utilities reimbursement	953
Fee income and other	286
Total revenues	**$ 8,304**

16. Property Operating Expenses

	Period from August 12, 2020 to December 31, 2020
Utility costs	$ 1,068
Payroll and benefits	704
Other property-based costs	613
Property and related real estate taxes	422
Total operating expenses	**$ 2,807**

17. Finance Costs

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

Finance costs from operations		**Period from August 12, 2020 to December 31, 2020**
Interest expense	$	51
Interest - mortgages		1,761
Finance costs from operations	**$**	**1,812**
Fair value adjustment to financial liabilities		
Fair value adjustment to Class B units	$	(1,195)
Fair value adjustment to financial liabilities	**$**	**(1,195)**
Finance costs		
Finance costs from operations	$	1,812
Fair value adjustment to financial liabilities		(1,195)
Accretion of mark-to-market adjustment on mortgages payable		(257)
Distribution on Class B Units		641
Finance costs	**$**	**1,001**

18. 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 Flagship Communities 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 under the Basic Safe Harbor Match: The REIT matches 100% of the first 3% of each employee's contribution and 50% of the next 2%. Employer matching contributions to the Plan totalled $13 during the period from August 12, 2020 through December 31, 2020.

19. 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.

20. 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.

21. Capital Management

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

22. Financial Instruments and Risk Management

Financial Instruments

The carrying values of the REIT's short-term financial assets and liabilities approximate their fair values due to their short periods to maturity.

Fair Value Hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The following table summarizes the categories and fair values of the REIT's financial instruments.

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

	Fair value as at December 31, 2020		
	Level 1	**Level 2**	**Level 3**
	$	$	$
Financial Assets and Liabilities			
Class B Units	-	(73,399)	-
Mortgages payable	-	(233,518)	-

The fair value of the mortgages payable as at December 31, 2020 was estimated by discounting expected cash flows using a rate of 3.13%, which is the expected rate available for debt of similar terms and maturities at the end of each respective year.

Financial Risk Factors

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

(a) Credit risk

Financial instruments that potentially subject the REIT to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivables. 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 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. As at December 31, 2020, the REIT had working capital of $8,936. All of the REIT's financial liabilities are due within one year except for mortgages payable.

	Carrying Amount	**Contractual cash flows**	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**5+ years**
Trade and other payables	$ 597	$ 597	$ 597	$ -	$ -	$ -
Other liabilities	5,140	5,140	5,140	-	-	-
Mortgages payable	219,858	284,579	8,508	16,328	24,649	235,094
	$ 225,595	$ 290,316	$ 14,245	$ 16,328	$ 24,649	$ 235,094

(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-term 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.

23. Subsequent Events

On January 5, 2021, the REIT acquired a manufactured housing community having 77 lots in the Louisville, Kentucky market for $3.0 Million.

On February 9, 2021, the REIT acquired a manufactured housing community having 74 lots in the Bowling Green, Kentucky market for $3.0 Million.