FLAGSHIP COMMUNITIES REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

(In US Dollars)

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

	Note		March 31, 2021		December 31, 2020
Current Assets					
Cash and cash equivalents		$	6,454	$	11,499
Tenant receivables, net	5		591		638
Prepaids and other assets	6		1,120		1,226
Lender escrow deposits	7		2,377		1,825
Total current assets			10,542		15,188
Investment properties	8		441,067		428,391
Property and equipment, net	9		1,812		1,800
			442,879		430,191
Total Assets		$	453,421	$	445,379
Current Liabilities					
Trade and other payables		$	571	$	598
Other liabilities	10		5,596		5,140
Mortgages payable, net	11		521		514
Total current liabilities			6,688		6,252
Mortgages payable, net	11		218,957		219,344
Class B Units	12		75,681		73,399
			294,638		292,743
Total Liabilities			301,326		298,995
Unitholders' Equity			152,095		146,384
Total Liabilities and Unitholders' Equity		$	453,421	$	445,379

Subsequent events (Note 23)

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statement of Net Income and Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2021
(In thousands of US dollars)

	Note		*Refer to Note 1* Three months ended March 31, 2021
Rental revenue and related income	**15**	$	9,649
Property operating expenses	**16**		3,209
Net operating income		$	6,440
Other Expenses/(Income)			
General and administrative		$	1,291
Finance costs from operations	**17**		1,917
Accretion of mark-to-market adjustment on mortgages payable	**4,11,17**		(257)
Depreciation and amortization	**9**		33
Other (income)			(9)
Fair value adjustment - Class B units	**12, 17**		2,282
Distributions on Class B units	**17**		693
Fair value (gain) on investment properties	**8**		(6,193)
Transaction costs			52
Net income and comprehensive income		$	6,631

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statements of Changes in Unitholder's Equity (Unaudited)
For the Three Months Ended March 31, 2021
(In thousands of US dollars)

	Units		Units		Distributions		Cumulative Net Income		Total Unitholder's Equity
Balance, January 1, 2021	7,226,185	$	99,898	$	-	$	46,486	$	146,384
Net income and comprehensive income	-		-		-		6,631		6,631
Distributions	-		-		(920)		-		(920)
Balance, March 31, 2021	**7,226,185**	**$**	**99,898**	**$**	**(920)**	**$**	**53,117**	**$**	**152,095**

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust
Condensed Consolidated Interim Statement of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2021
(In thousands of US dollars)

		Refer to Note 1
		Three months ended March 31, 2021
Cash flow provided by operating activities		
Net income and comprehensive income	$	6,631
Add (deduct) items not involving cash		
Depreciation		33
Fair value adjustment on Class B units		2,282
Accrued distributions on Class B units		693
Accretion of mark-to-market adjustment on mortgages payable		(257)
Fair value gain on investment properties		(6,193)
Transaction costs associated with financing activities		52
Finance costs from operations		1,917
Change in non-cash working capital		
Tenant receivables, Net		47
Prepaids and other assets		106
Lender escrow deposits		(553)
Trade and other payables		(27)
Other liabilities		456
		5,187
Cash flow (used in) financing activities		
Distributions paid to Unitholders		(920)
Distributions paid to Class B Unitholders		(693)
Repayment of mortgages payable		(122)
Transaction costs		(52)
Interest paid		(1,917)
		(3,704)
Cash flow (used in) investing activities		
Cash paid for asset acquisitions		(6,181)
Capital expenditures on investment properties		(526)
Purchase of property and equipment		(45)
Proceeds from disposals of investment properties		224
		(6,528)
Decrease in cash and cash equivalents		(5,045)
Cash and cash equivalents, beginning of period		11,499
Cash and cash equivalents, ending of period	$	6,454

See accompanying notes to the condensed consolidated interim financial statements.

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 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 March 31, 2021, the REIT owns 54 (December 31, 2020 - 52) MHCs located across Kentucky, Indiana, Ohio, and Tennessee.

The REIT's operations commenced on October 7, 2020 and as such, there are no comparative figures presented for the condensed consolidated interim statement of net income and comprehensive income, condensed consolidated interim statement of changes in unitholders' equity and condensed consolidated interim statement of cash flows.

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, 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 May 10th, 2021.

(b) Basis of presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties and class B units ("Class B Units") of the REIT's subsidiary, Flagship Operating, LLC, 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.

(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 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, 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 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 hold period, ending October 07, 2021, therefore, the fair values used 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 International Financial Reporting Standards ("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

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 period from August 12, 2020 to December 31, 2020, 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 period from August 12, 2020 to December 31, 2020.

Standards issued but not yet effective for the three months ended March 31, 2021:

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 REIT is currently assessing the impact of this standard.

(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 was determined to be accounted for as a business combination. The identifiable net assets acquired were as follows:

Investment properties	$	411,599
Cash and cash equivalents		914
Accounts receivable		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 consisted 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 price of $15.00 per Unit, discounted to $13.73 at IPO, 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.

5. Tenant Receivables, Net

	As at March 31, 2021	As at December 31, 2020
Tenant receivables	**$ 643**	$ 725
Allowance for credit losses	**(52)**	(87)
Total	**$ 591**	$ 638

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

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 March 31, 2021	As at December 31, 2020
Prepaid insurance	**$ 349**	$ 424
Lender reserves	**421**	421
Other prepaids and deposits	**350**	381
Total	**$ 1,120**	$ 1,226

7. 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 March 31, 2021, the REIT had lender escrow balances of $2,377 (December 31, 2020 - $1,825).

8. Investment Properties

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

	As at March 31, 2021	As at December 31, 2020
Balance, beginning of period	**$ 428,391**	$ -
Acquisition - October 7, 2020	**-**	411,599
Acquisitions of investment properties	**6,181**	12,945
Capital expenditures	**526**	889
Disposal of investment properties	**(224)**	-
Fair value gain on investment properties	**6,193**	2,958
Balance, end of period	**$ 441,067**	$ 428,391

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

Asset Acquisitions

During the three months ended March 31, 2021, the REIT acquired the following:

On January 4, 2021, the REIT expanded its Oakview Pointe MHC with the acquisition of 8 new lots for $50, bringing the entire community to 149 home sites.

On January 5, 2021, the REIT acquired an MHC having 77 lots and 49 rental homes in the Louisville, Kentucky market for $3,000.

On February 9, 2021, the REIT acquired an MHC having 74 lots and 52 rental homes in the Bowling Green, Kentucky market for $3,000.

Acquisition costs were capitalized and totaled $131 for the three months ended March 31, 2021.

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:

	2021
Investment properties	$ 6,181
Total	**$ 6,181**

Capital expenditures during the period were $526 (2020 - $Nil).

During the period from August 12, 2020 to December 31, 2020, the REIT acquired the following:

On October 7, 2020, and in connection with the IPO, the REIT acquired investment properties of $411,599 (Note 4).

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**

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

The REIT used a combination of internal valuation methodologies and external appraisals to value the investment properties as of March 31, 2021 and December 31, 2020. The REIT engages third party appraisers to prepare valuations such that the entire portfolio is appraised at least once every year.

The REIT used a combination of internal valuation methodologies and external appraisals to value the 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 March 31, 2021 and December 31, 2020 were as follows:

Capitalization Rates	**As at March 31, 2021**	As at December 31, 2020
High	**7.00%**	6.25%
Low	**5.35%**	5.35%
Weighted Average	**5.41%**	5.52%
% Change		
+ 0.025	**4.44%**	4.45%
- 0.025	**(4.88)%**	(4.88)%
$ Change		
+ 0.025	**$ 19,606**	$ 19,079
- 0.025	**$(21,520)**	$ (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

	Office & Maintenance Equipment	Head Office Building	Head Office Land	Head Office Land Improvements	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
Additions	45	-	-	-	-	45
At March 31, 2021	**$ 848**	**$ 500**	**$ 224**	**$ 26**	**$ 271**	**$ 1,869**
Accumulated depreciation						
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -
October 7, 2020 acquisition (Note 4)	-	-	-	-	-	-
Additions	20	4	-	-	-	24
At December 31, 2020	$ 20	$ 4	$ -	$ -	$ -	$ 24
Additions	33	-	-	-	-	33
At March 31, 2021	**$ 53**	**$ 4**	**$ -**	**$ -**	**$ -**	**$ 57**
Net book value						
At December 31, 2020	$ 783	$ 496	$ 224	$ 26	$ 271	$ 1,800
At March 31, 2021	**$ 795**	**$ 496**	**$ 224**	**$ 26**	**$ 271**	**$ 1,812**

10. Other Liabilities

	As at March 31, 2021	As at December 31, 2020
Property related accruals	**$ 2,423**	$ 2,010
Tenant security deposits	**1,812**	1,722
Distributions payable	**538**	538
Unearned revenue	**823**	870
Total	**$ 5,596**	$ 5,140

11. Mortgages Payable, Net

Mortgages payable are shown net of unamortized mark-to-market adjustment. The balances are as follows:

	As at March 31, 2021	As at December 31, 2020
Mortgages payable	**$ 212,877**	$ 213,000
Unamortized mark-to market adjustment	**6,601**	6,858
Total mortgages payable	**219,478**	219,858
Less: current portion	**(521)**	(514)
Amount classified as non-current portion	**$ 218,957**	$ 219,344

The REIT's weighted average contractual annual interest rate on its mortgages payable as of March 31, 2021 was approximately 3.50% (December 31, 2020 - 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 March 31, 2021, excluding unamortized mark-to market adjustment, are due as follows:

2021	$	521
2022		658
2023		740
2024		786
2025		831
2026		878
Thereafter		208,463
Total	**$**	**212,877**

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 March 31, 2021, the REIT was in compliance with all financial covenants relating to its mortgages payable.

As at March 31, 2021, $6,601 (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).

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 for a unit, 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 and March 31, 2021, the fair value adjustment of the Class B Units was calculated using the REIT Unit's closing price on those respective dates, and discounted using average rates of volatilities of comparable companies. For the three months ended March 31, 2021, this resulted in a fair value adjustment of $2,282 (2020 - $Nil).

The following table presents the outstanding units and the change in fair value of the Class B Units for the three months ended March 31, 2021.

	Class 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
Fair value adjustment	-		2,282
Balance, March 31, 2021	**5,432,940**	**$**	**75,681**

(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 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, 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 and March 31, 2021	**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 IPO, 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 IPO and over-allotment including underwriters' fees and other costs directly associated was approximately $8,495 and were charged directly to unitholders' equity.

(e) The REIT adopted the Omnibus Equity Incentive Plan on December 1, 2020, although no awards were outstanding thereunder as of March 31, 2021. The Omnibus Equity Incentive Plan provides for awards of Restricted Units, Performance Units, Deferred Units and Options, each as defined therein. Unitholders will be asked to consider, and if thought advisable, pass an ordinary resolution at the REIT's unitholder meeting being held in 2021 to approve the Omnibus Equity Incentive Plan, including any previous grants of award and all unallocated awards issuable thereunder. If approval of the Omnibus Equity Incentive Plan resolution is not obtained at the meeting, all outstanding awards under the Omnibus Equity Incentive Plan will be cancelled and the REIT will not have the ability to grant further awards under the Omnibus Equity Incentive Plan until such time as the required Unitholder approval may be obtained in the future.

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 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.

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

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 the Initial Communities, under the ''You Got it Homes'' brand.

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

(a) Compensation expenses include $391 (2020 - $Nil) incurred to key management personnel during the three months ended March 31, 2021, which includes short-term employee compensation and benefits.

(b) For the three months ended March 31, 2021, the REIT billed Empower Park a total of $260 (2020 - $Nil), of which $235 was payroll and benefits, $10 was management fees, and $15 in other miscellaneous items. As of March 31, 2021, the REIT had a receivable from Empower Park of $111 (December 31, 2020 - $203).

(c) For the three months ended March 31, 2021, the REIT incurred expenses from affiliates totaling $222 (2020 - $Nil). 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 January 1, 2021 to March 31, 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 for the communities including installing new air conditioner units as well as services existing units.	$ 62
KOI	50% owned by the REIT's 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.	$ 41
BG3	100% owned by the brother of the REIT's CEO.	Provides landscaping services for various investment properties.	$ 76
JDK	100% owned by the brother of the REIT's CEO.	IT and desktop support	$ 10
Empower Park	50% owned by the REIT's CEO, CIO and another holder of Class B Units.	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, the REIT will pay floor plan interest on homes within the Initial Communities as well as reimburse Empower for any gross profit losses on home sales within the Initial Communities	$ 33
Total			$ 222

As at March 31, 2021, the REIT had accounts payable and accrued liabilities due to related parties of $Nil (December 31, 2020 - $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.

	For the three months ended March 31, 2021
Rental revenue	$ 8,221
Utilities reimbursement	1,083
Fee income and other	345
Total revenues	**$ 9,649**

16. Property Operating Expenses

	For the three months ended March 31, 2021
Utility costs	$ 1,224
Payroll and benefits	733
Other property-based costs	736
Property and related real estate taxes	516
Total operating expenses	**$ 3,209**

17. Finance Costs

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

Finance costs from operations		**For the three months ended March 31, 2021**
Interest expense	$	55
Interest - mortgages		1,862
Finance costs from operations	**$**	**1,917**
Fair value adjustment to financial liabilities		
Fair value adjustment to Class B units	$	2,282
Fair value adjustment to financial liabilities	**$**	**2,282**
Finance costs		
Finance costs from operations	$	1,917
Fair value adjustment to financial liabilities		2,282
Accretion of mark-to-market adjustment on mortgages payable		(257)
Distributions on Class B Units		693
Finance costs	**$**	**4,635**

18. 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 contribution and 50% of the next 2%. Employer matching contributions to the Plan totalled $16 during the three months ended March 31, 2021 (2020 - $Nil).

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

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

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

	Fair value as at March 31, 2021		
	Level 1	**Level 2**	**Level 3**
	$	$	$
Financial Assets and Liabilities			
Class B Units	-	(75,681)	-
Mortgages payable	-	(202,081)	-

	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 March 31, 2021 was estimated by discounting expected cash flows using a rate of 3.97%, which is the expected rate available for debt of similar terms at the end of each respective period.

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 March 31, 2021, the REIT had working capital of $3,854 (December 31, 2020 - $8,396). All of the REIT's financial liabilities are due within one year except for mortgages payable.

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

	Carrying Amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	$ 571	$ 571	$ 571	$ -	$ -	$ -
Other liabilities	5,596	5,596	5,596	-	-	-
Mortgages payable	219,478	283,314	8,553	16,484	24,794	233,483
	$ 225,645	$ 289,481	$ 14,720	$ 16,484	$ 24,794	$ 233,483

(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 April 21, 2021, the REIT completed a $3,000 financing secured by its Harmony Pointe MHC. The debt is fixed rate at 3.09% for 20 years and 72 months of interest only.

On May 7, 2021, the REIT filed a (final) short form base shelf prospectus, pursuant to which, for a period of 25 months thereafter, the REIT (and Unitholders) may sell up to an aggregate of $300,000 of (i) Units; (ii) senior or subordinated unsecured debt securities of the REIT; (iii) subscription receipts; (iv) warrants; and (v) securities comprised of more than one of the foregoing, or any combination thereof. This filing provides the REIT with the flexibility to access debt and equity markets on a timely basis.