FLAGSHIP COMMUNITIES REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

(In US Dollars)

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

	Note	September 30, 2021	December 31, 2020
Current Assets			
Cash and cash equivalents		**$ 27,733**	$ 11,499
Tenant and other receivables, net	5	**577**	638
Prepaids and other assets	6	**786**	1,226
Lender escrow deposits	7	**3,136**	1,825
Total current assets		**32,232**	15,188
Deposits on pending acqusitions		**125**	-
Investment properties	8	**546,628**	428,391
Property and equipment, net	9	**2,340**	1,800
Note receivable - related party	15	**2,460**	-
		551,553	**430,191**
Total Assets		**$ 583,785**	$ 445,379
Current Liabilities			
Trade and other payables		**$ 275**	$ 598
Other liabilities	10	**7,526**	5,140
Mortgages payable, net	12	**589**	514
Total current liabilities		**8,390**	6,252
Mortgages payable, net	12	**250,345**	219,344
Class B Units	13	**98,336**	73,399
		348,681	292,743
Total Liabilities		**357,071**	298,995
Unitholders' Equity			
Unitholder's equity	14	**226,714**	146,384
Total Liabilities and Unitholders' Equity		**$ 583,785**	$ 445,379

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income (Unaudited)

(In thousands of US dollars)

		Refer to Note 1	
	Note	**Three months ended September 30, 2021**	Nine months ended September 30, 2021
Revenues			
Rental revenue and related income	16	$ **11,399**	$ 30,883
Property operating expenses	17	**3,807**	10,421
Net operating income		**7,592**	20,462
Other Expenses/(Income)			
General and administrative	18	**1,432**	4,120
Finance costs from operations	19	**2,037**	5,916
Accretion of mark-to-market adjustment on mortgages payable	4,12	**(257)**	(771)
Depreciation	9	**53**	125
Other (income)		**(32)**	(53)
Fair value adjustment - Class B units	13	**10,200**	24,937
Distributions on Class B units		**692**	2,077
Fair value (gain) on investment properties	8	**(8,412)**	(22,690)
Fair value adjustment - Unit Based Comp	25	**9**	9
Transaction costs	14	**-**	236
Net Income and Comprehensive Income		$ **1,870**	$ 6,556

See accompanying notes to the condensed consolidated interim financial statements.

Flagship Communities Real Estate Investment Trust

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity (Unaudited)

(In thousands of US dollars)

				Refer to Note 1		
	Note	**Units**	**Units**	**Distributions**	**Cumulative Net Income**	**Total Unitholders' Equity**
Balance, December 31, 2020		7,226,185	$ 99,898	$ (852)	$ 47,338	$ 146,384
Units issued, net of issuance costs	14	4,500,000	77,303	-	-	77,303
Net income and comprehensive income		-	-	-	6,556	6,556
Distributions	14	-	-	(3,529)	-	(3,529)
Balance, September 30, 2021		**11,726,185**	**$ 177,201**	**$ (4,381)**	**$ 53,894**	**$ 226,714**

See accompanying notes to the condensed consolidated interim financial statements.

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

		Refer to Note 1
		Nine months ended September 30, 2021
Cash flow provided by operating activities		
Net Income and Comprehensive Income	$	6,556
Add (deduct):		
Depreciation		125
Fair value adjustment on Class B units		24,937
Distributions paid to Class B Unitholders		2,077
Accretion of mark-to-market adjustment on mortgages payable		(771)
Fair value (gain) on investment properties		(22,690)
Transaction costs associated with issuance of Units		236
Finance costs from operations		5,916
Interest received		(20)
Change in non-cash working capital		
Tenant and other receivables, net		61
Prepaids and other assets		440
Escrows		(1,311)
Trade and other payables		(323)
Other liabilities		2,195
		17,428
Cash flow provided by financing activities		
Proceeds from issuance of Units, net of costs		77,303
Transaction costs associated with issuance of Units		(236)
Distributions paid to Unitholders		(3,338)
Distributions paid to Class B Unitholders		(2,077)
Proceeds from mortgages payable		32,700
Issuance costs associated with financing activities		(506)
Repayment of mortgages payable		(353)
Interest paid		(5,910)
		97,583
Cash flow (used in) investing activities		
Cash paid for asset acquisitions		(92,472)
Cash paid for pending acquisitions		(125)
Cash received for asset disposal		929
Capital expenditures on investment properties		(4,004)
Purchase of property and equipment		(665)
Issuance of note receivable - related party		(2,460)
Interest received		20
		(98,777)
Increase in cash and cash equivalents		16,234
Cash and cash equivalents, beginning of period		11,499
Cash and cash equivalents, ending of period	**$**	**27,733**

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 issuance 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 September 30, 2021, the REIT owns 58 (December 31, 2020 - 52) MHCs located across Arkansas, Kentucky, Illinois, Indiana, Missouri, 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 statements 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 on November 10th, 2021.

(b) Basis of presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, class B units (“Class B Units”) of the REIT’s subsidiary, Flagship Operating, LLC, and deferred trust units (“DTUs”) which have been measured at fair value. The condensed consolidated interim financial statements are presented in thousands of U.S. dollars, which is the REIT's functional currency.

(c) Principles of consolidation

The REIT consolidates its interest in entities in which it has control. Control is defined by the power to govern an entity’s financial and operating policies so as to be able to obtain benefits from its activities. These condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries, including, Flagship Operating GP, LLC, which owns Legacy Properties GP, LLC and Flagship Properties, LLC. Subsidiaries are entities controlled by the REIT. The financial statements of the subsidiaries are prepared for the same reporting periods as the REIT using consistent accounting policies. All intercompany balances, transactions and unrealized (gains) and losses arising from intercompany transactions are eliminated upon consolidation.

(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, DTUs, 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 condensed consolidated interim statement of net 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 price alone or the share price discounted using the average volatility of comparable companies in the same industry.

DTUs - The DTUs have been classified as puttable instruments, required to be accounted for as financial liabilities, and are measured at FVTPL. The fair value of the outstanding DTUs is measured every period by reference to the volume-weighted average closing price of a Unit on the TSX for the five trading days immediately preceding the last day of the period, with changes in measurement recorded in the condensed consolidated interim statement of net income and comprehensive income.

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 acquisition or business combination. 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.

(a) Employee Benefits

Unit Based Compensation

The REIT maintains an Omnibus Equity Incentive Plan (“Equity Incentive Plan”) for its employees and trustees. The Equity Incentive Plan provides for awards of Restricted Units (“RU”), Performance Units (“PU”), DTUs, and Options, each as defined therein. Awards under the Equity Incentive Plan may be settled by Units issued from treasury or, if so elected by the participant and subject to the approval of the Board of Trustees, cash measured by the value of the DTUs on the settlement date. Awards earn additional DTUs for distributions that would otherwise have been payable in cash. These additional DTUs vest on the same basis as the initial DTUs to which they relate.

Awards are redeemable at the holder's option and therefore are 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. Awards do not meet the exemption conditions of IAS 32 and are presented as a liability.

DTUs are recorded in trustee fees, included in general and administrative expenses on the condensed consolidated interim statement of net income and comprehensive income, at the volume-weighted average closing price of a Unit on the TSX for the five trading days immediately preceding the date of grant. The liability is measured every period, and upon settlement, with changes in measurement recorded in Fair value adjustment - Unit Based Comp on the condensed consolidated interim statement of net income and comprehensive income.

(b) Standards issued but not yet effective for the three and nine months ended September 30, 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 ("FC LLC") and by Legacy SSK Portfolio ("SSK Entities"). Following certain reorganization transactions, upon closing of the IPO, FC LLC merged with and into a limited liability company subsidiary of the REIT, and the SSK Entities were 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 include a mark-to-market adjustment of $7,115 using the expected interest rates of all existing loans from the Initial Communities (Note 12).

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 (Note 13). 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 was 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 and Other Receivables, Net

	As at September 30, 2021	As at December 31, 2020
Tenant receivables	$ 503	$ 526
Other receivables	122	199
Allowance for doubtful accounts	(48)	(87)
Total	**$ 577**	$ 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. A tenant receivable is written down to its estimated realizable value when the REIT has reason to believe that the tenant will not be able to fulfill its obligations under the lease agreement.

6. Prepaids and Other Assets

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

	As at September 30, 2021	As at December 31, 2020
Prepaid insurance	$ 218	$ 424
Lender reserves	-	421
Other prepaids and deposits	568	381
Total	**$ 786**	$ 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 September 30, 2021, the REIT had lender escrow balances of $3,136 (December 31, 2020 - $1,825).

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

8. Investment Properties

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

	Nine months ended September 30, 2021	Year ended December 31, 2020
Investment properties, opening balance	**$ 428,391**	$ -
Acquisitions - Oct 7, 2020 (a)	**-**	411,599
Capital expenditures	**4,004**	889
Acquisitions of investment properties (b)	**92,472**	12,945
Disposal of investment properties (c)	**(929)**	-
Fair value gain on investment properties	**22,690**	2,958
Ending balance	**$ 546,628**	$ 428,391

Asset Acquisitions

During the nine months ended September 30, 2021, the REIT acquired the following:

(b) On January 4, 2021, the REIT expanded its Oakview Pointe MHC with the acquisition of 8 new lots for $59, bringing the entire community to 149 home sites. Investment property acquired totaled $59.

(b) On January 5, 2021, the REIT acquired an MHC having 77 lots and 49 rental homes in the Louisville, Kentucky market for $3,105. Investment property acquired totaled $3,120.

(b) On February 9, 2021, the REIT acquired an MHC having 74 lots and 52 rental homes in the Bowling Green, Kentucky market for $2,989. Investment property acquired totaled $3,011.

(b) On May 12, 2021, the REIT acquired an MHC having 167 lots and 112 rental homes in the Little Rock, Arkansas market for $5,366. Investment property acquired totaled $5,356.

(b) On May 27, 2021, the REIT expanded its Pinecrest Pointe MHC with the acquisition of 3 adjacent acres containing 10,000 square feet of self-storage for $282. Investment property acquired totaled $285.

(b) On July 2, 2021, the REIT acquired two MHCs having a combined 677 lots and 267 rental homes in the Evansville, Indiana and St Louis, Missouri markets for $65,268. Investment property acquired totaled $65,108.

(b) On Aug 16, 2021, the REIT acquired an MHC having 231 lots and 27 rental homes in the Springfield, Illinois market for $16,279. Investment property acquired totaled $15,444.

(b) During the nine months ended September 30, 2021, the REIT also acquired rental homes independent of these acquisitions for $89 which equaled the total investment property acquired.

(c) During the nine months ended September 30, 2021 the REIT disposed of $929 rental homes. Disposal of these rental homes was at fair value resulting in no (gain) loss recognized in the condensed consolidated interim statements of net income and comprehensive income.

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

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

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

(b) On December 17, 2020, the REIT announced the acquisition of seven MHCs consisting of 379 lots and 91 rental homes for $12,831. Investment property acquired totaled $12,945. The acquisitions were all within the REITs initial 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 gross proceeds from IPO (Note 4).

The REIT records investment property at cost net of any additional liabilities or assets acquired.

Investment properties consist of MHCs and a fleet of rental homes for lease to residents of the MHCs. The REIT used a combination of internal valuation methodologies and external appraisals to value the investment properties as at September 30, 2021 and December 31, 2020.

The REIT engages third party appraisers to prepare valuations such that the entire portfolio of MHCs is appraised at least once every year. The estimated fair value of the MHCs was determined using the direct capitalization method. The direct capitalization method analyzes the relationship of one year's stabilized net operating income to total MHC value. The stabilized net operating income is capitalized at a rate that implicitly considers expected growth in cash flow and growth in MHC value over an investment horizon. 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 of the MHCs.

The key metrics of the capitalization rates applicable to the REIT's MHCs as at September 30, 2021 and December 31, 2020 were as follows:

Capitalization Rates	**As at September 30, 2021**	As at December 31, 2020
High	**7.00%**	6.25%
Low	**4.50%**	5.35%
Weighted Average	**5.33%**	5.52%
% Change		
+ 0.025	**4.56** %	4.45 **%**
- 0.025	**(4.84)** %	(4.88) **%**
$ Change		
+ 0.025	**$23,686**	$19,079
- 0.025	**($25,148)**	($20,920)

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

9. Property and Equipment, Net

	Autos & Trucks	Equipment - Office and Maintenance	Head Office Building	Head Office Land	Farm Land and Improvements	Total
Cost						
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -
October 7, 2020 acquisition (Note 4)	-	802	526	224	271	1,823
Additions	-	1	-	-	-	1
At December 31, 2020	**$ -**	**$ 803**	**$ 526**	**$ 224**	**$ 271**	**$ 1,824**
Additions	100	465	32	-	68	665
At September 30, 2021	**$ 100**	**$ 1,268**	**$ 558**	**$ 224**	**$ 339**	**$ 2,489**
Accumulated depreciation						
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -
October 7, 2020 acquisition (Note 4)	-	-	-	-	-	-
Additions	-	20	4	-	-	24
At December 31, 2020	**$ -**	**$ 20**	**$ 4**	**$ -**	**$ -**	**$ 24**
Additions	2	115	7	-	1	125
At September 30, 2021	**$ 2**	**$ 135**	**$ 11**	**$ -**	**$ 1**	**$ 149**
Net book value						
At August 12, 2020	$ -	$ -	$ -	$ -	$ -	$ -
At December 31, 2020	$ -	$ 783	$ 522	$ 224	$ 271	$ 1,800
At September 30, 2021	**$ 98**	**$ 1,133**	**$ 547**	**$ 224**	**$ 338**	**$ 2,340**

10. Other Liabilities

	As at September 30, 2021	As at December 31, 2020
Property related accruals	**$ 3,404**	$ 2,010
Tenant security deposits	**2,223**	1,722
Distributions payable	**729**	538
Unearned revenue	**1,032**	870
DTUs	**138**	-
Total	**$ 7,526**	$ 5,140

11. Line of Credit

On May 12, 2021 the REIT entered into a revolving line of credit ("Line of Credit") for $5,000. The Line of Credit matures on May 12, 2024 and incurs interest at Prime plus 0.50%. As at September 30, 2021 there was no outstanding balance on the Line of Credit and unamortized deferred issuance costs were $20 (December 31, 2020 - $Nil and $Nil, respectively)

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

12. Mortgages Payable, Net

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

		As at September 30, 2021		As at December 31, 2020
Mortgages payable	$	**245,347**	$	213,000
Unamortized mark-to market adjustment		**6,087**		6,858
Unamortized deferred issuance costs		**(500)**		-
Total mortgages payable		**250,934**		219,858
Less: current portion		**(589)**		(514)
Amount classified as non-current portion	**$**	**250,345**	$	219,344

The REIT's weighted average contractual annual interest rate on its mortgages payable as at September 30, 2021 was approximately 3.44% (December 31, 2020 - 3.57%), which excludes the impact of the amortization of the mark-to-market adjustment and amortization of deferred issuance costs.

The mortgages payable balances as at September 30, 2021, excluding unamortized mark-to-market adjustment and unamortized deferred issuance costs, are due as follows:

Period ending December 31,		**Principal payments**
2021	$	161
2022		602
2023		735
2024		772
2025		820
Thereafter		242,257
Total	**$**	**245,347**

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 September 30, 2021, the REIT was in compliance with all financial covenants relating to its mortgages payable.

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

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

		Nine months ended September 30, 2021
Mortgages payable, net, December 31, 2020	**$**	**219,858**
Cash Flows		
Proceeds from mortgages payable		32,700
Issuance costs associated with financing activities		(506)
Repayment of mortgages payable		(353)
		251,699
Non-Cash Changes		
Accretion of mark-to-market adjustment on mortgages payable		(771)
Amortization of deferred issuance costs		6
Mortgages payable, net, September 30, 2021	**$**	**250,934**

13. 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 the condensed consolidated interim statements of net income and comprehensive income. As at September 30, 2021 fair value was determined to be the REIT Unit's closing price due to the close proximity to the end of the 12-month restricted period which resulted in a fair value adjustment of $24,937. As at December 31, 2020 fair value was determined by the REIT Unit's closing price, discounted using average rates of volatilities of comparable companies. The average volatility and discount rate used as of December 31, 2020 was 38.77% and 8.41%, respectively.

The following table presents the outstanding Class B Units and the change in fair value of the Class B Units for the nine months ended September 30, 2021.

	Class B Units		Value
Class B Units, August 12, 2020	**-**	**$**	**-**
Class B units issued, October 7, 2020	5,432,940		74,594
Fair value adjustments	-		(1,195)
Class B Units, December 31, 2020	**5,432,940**	**$**	**73,399**
Fair value adjustment	-		24,937
Class B Units, September 30, 2021	**5,432,940**	$	98,336

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

14. Unitholders' Equity

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

	Number of Units		Value
Units outstanding, August 12, 2020	-	$	-
Units issued on IPO closing, October 7, 2020 (a)	6,250,000		93,750
Units issue for acquisition consideration, October 7, 2020 (b)	38,685		580
Units issued - overallotment, October 22, 2020 (c)	937,500		14,063
Less: issue costs (d)	-		(8,495)
Units outstanding, December 31, 2020	**7,226,185**		**99,898**
Units issued on equity offering closing June 14, 2021, including exercise of an overallotment option (f)	4,500,000		81,000
Less: issue costs (g)	-		(3,697)
Units outstanding, September 30, 2021	**11,726,185**	**$**	**177,201**

(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) Issuance 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. On May 10, 2021 Unitholders passed an ordinary resolution at the REIT's unitholder meeting to approve the Omnibus Equity Incentive Plan, including any previous grants of award and all unallocated awards issuable thereunder (Note 25).

(f) On June 9, 2021, the REIT filed a supplement to a base shelf prospectus and entered into an underwriting agreement for the purpose of completing an equity offering, which closed on June 14, 2021. The REIT raised gross proceeds of $81,000 (including from the exercise, in part, of an over-allotment option granted to the underwriters of the offering) pursuant to the equity offering through the issuance of 4,500,000 Units at a price of $18.00 per Unit.

(g) Issuance costs relating to the equity offering and over-allotment including underwriters' fees and other costs directly associated was approximately $3,697 and were charged directly to unitholders' equity.

Transaction costs relating to the equity offering and over-allotment were charged directly to transaction expense.

The REIT declared distributions to unitholders of record in the amount of $1,495 ($0.0425 per Unit) and $3,529 ($0.0425 per Unit) for the three and nine months ended September 30, 2021, respectively. Total distributions payable as at September 30, 2021 and December 31, 2020 were $498 and $307, respectively.

15. Related Party Transactions

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

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

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

(a) Payroll and benefits include $155 and $844 incurred to key management personnel during the three and nine months ended September 30, 2021, respectively, which includes short-term employee payroll and benefits.

(b) For the three and nine months ended September 30, 2021, the REIT billed Empower Park a total of $346 and $960, of which $303 and $854 was payroll and benefits, $12 and $34 was management fees, and $31 and $72 was other miscellaneous items, respectively. As at September 30, 2021, the REIT had a receivable, included in tenant and other receivables, net, from Empower Park of $109 (December 31, 2020 - $203).

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

(d) For the three and nine months ended September 30, 2021, the REIT incurred expenses for services provided by related parties that included HVAC, paving/concrete repair, legal, IT and landscape services. As at September 30, 2021, the REIT had accounts payable and accrued liabilities due to related parties of $24 (December 31, 2020 - $7). The following table breaks out spending for each related party.

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

Company Name	Ownership & Control	Description of Services	Three months ended September 30, 2021	Nine months ended September 30, 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 conditioning units as well as servicing existing units.	$ 207	$ 414
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 blacktop and concrete services for the communities as well as a number of other maintenance services.	$ 13	$ 78
BG3	100% owned by the brother of the REIT's CEO.	Provides landscaping services for various investment properties.	$ 30	$ 119
Adams Stepner Wolterman and Dusing (ASWD)	A holder of Class B Units with significant ownership of the REIT is a former partner and is currently compensated for any work that he completes on behalf of Adam Stepner Wolterman and Dusing	Law firm that helps the REIT with various legal matters such as loan closings, acquisition diligence, contract reviews, etc.	$ -	$ 14
JDK	100% owned by the brother of the REIT's CEO.	IT and desktop support	$ 14	$ 34
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 REIT's investment properties. Per agreement with Empower Park, the REIT will pay floor plan interest on homes located on the REIT's investmnet properties as well as reimburse Empower for any gross profit losses on home sales within the REIT's investment properties.	$ 85	$ 184
Total			**$ 349**	**$ 843**

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

16. Revenues

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

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
Rental revenue	**$**	**9,796**	$	26,418
Utilities reimbursement		**1,177**		3,378
Fee income		**373**		936
Other		**53**		151
Total Revenues	**$**	**11,399**	$	30,883

Leases generally have terms of one year or less with most leases being month to month. There is one investment property that has 3 year leases. As at September 30, 2021, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

Period ending September 30,	**Base rent**	
2022	$	287
2023		181
2024		52
Total	**$**	**520**

17. Property Operating Expenses

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
Utility costs	**$**	**1,241**	$	3,586
Payroll and benefits		**974**		2,541
Taxes and insurance		**853**		2,345
Repairs and maintenance		**378**		902
Other property-based costs		**361**		1,047
Total Operating Expenses	**$**	**3,807**	$	10,421

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

18. General and Administrative Expenses

	Three months ended September 30, 2021	Nine months ended September 30, 2021
Payroll and benefits	$ 847	$ 2,329
Legal / Consulting	119	447
Audit and tax fees	73	290
Taxes and insurance	133	336
Trustee fees	68	196
Travel	71	174
Other	121	348
Total Operating Expenses	$ 1,432	$ 4,120

19. Finance Costs

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

Finance costs from operations	Three months ended September 30, 2021	Nine months ended September 30, 2021
Interest expense	$ 61	$ 180
Interest - mortgages	1,973	5,730
Amortization of deferred issuance costs	3	6
Finance costs from operations	$ 2,037	**$ 5,916**

20. Employee Benefit Plan

Management of the REIT has adopted a defined contribution plan under Internal Revenue Service code section 401(k) for all eligible employees. A participant may elect to defer up to the maximum percentage of compensation permissible under Code Section 401(k). Management of the REIT elects to match employee deferrals under the Basic Safe Harbor Match: The REIT matches 100% of the first 3% of each employee's contribution and 50% of the next 2%. Employer matching contributions to the Plan totalled $19 and $59 during the three and nine months ended September 30, 2021, respectively.

21. Segment Reporting

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

22. Commitment and Contingencies

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

As at September 30, 2021 the REIT has entered into a commitment to purchase investment property in Walton, Kentucky by waiving diligence related to that purchase agreement (note 26). This commitment has not been recognized in the condensed consolidated interim statement of financial position.

23. Capital Management

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

24. Financial Instruments and Risk Management

Financial Instruments

The carrying values of the REIT's short-term financial assets and liabilities, as well as deposits on pending acquisitions and the note receivable – related party, 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 tables summarizes the categories and fair values of the REIT's financial instruments.

	Fair value as at September 30, 2021		
	Level 1	**Level 2**	**Level 3**
Financial Assets and Liabilities			
DTUs	-	$ (138)	-
Class B Units	-	$ (98,336)	-
Mortgages payable	-	$ (244,687)	-

	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 September 30, 2021 was estimated by discounting expected cash flows using a rate of 3.46% (December 31, 2020 – 3.13%), 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 tenant and other receivables, net. One related party debtor comprised 18.9% of the REITs outstanding tenant and other receivables, net balance as at September 30, 2021. 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.

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

(b) Liquidity risk

The REIT is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The REIT manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. The REIT constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. The REIT expects to be able to meet all obligations as they become due using some or all of the following sources of liquidity - cash flow generated from property operations; property-specific mortgages; and existing cash and cash equivalents on hand. As at September 30, 2021, the REIT had working capital of $23,842 (December 31, 2020 - $8,936). All of the REIT's financial liabilities are due within one year except for mortgages payable.

As at September 30, 2021	**Carrying Amount**	**Contractual cash flows**	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**5+ years**
Trade and other payables	$ 275	$ 275	$ 275	$ -	$ -	$ -
Other liabilities	7,526	7,526	7,526	-	-	-
Mortgages payable	250,934	330,100	9,601	18,552	27,835	274,112
Total	**$ 258,735**	**$ 337,901**	**$ 17,402**	**$ 18,552**	**$ 27,835**	**$ 274,112**

As at December 31, 2020	**Carrying Amount**	**Contractual cash flows**	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**5+ years**
Trade and other payables	$ 598	$ 598	$ 598	$ -	$ -	$ -
Other liabilities	5,140	5,140	5,140	-	-	-
Mortgages payable	219,858	284,579	8,508	16,328	24,649	235,094
Total	**$ 225,596**	**$ 290,317**	**$ 14,246**	**$ 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.

25. Unit-based Compensation

Deferred Trust Units

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

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

The following table summarizes DTU activity for the nine months and year ended September 30, 2021 and December 31, 2020, respectively, and the number of DTUs outstanding as at September 30, 2021 and December 31, 2020, respectively.

	Number of Units		Value
Units outstanding, December 31, 2020	-	$	-
Trustee fees (a)	7,476		128
Distribution reinvestment (b)	53		1
Fair value adjustment - Unit Based Comp	-		9
Units outstanding, September 30, 2021	**7,529**	**$**	**138**

(a) Trustee fees related to the issuance of DTU for the three and nine months ended September 30, 2021 were $68 and $128, respectively, resulting in 3,779 and 7,476 DTUs being issued, respectively.

(b) Distributions, that would otherwise be payable in cash, resulted in additional DTUs of 44 and 53 being issued for the three and nine months ended September 30, 2021, respectively.

26. Subsequent Events

On October 22, 2021 the REIT announced that the Board of Trustees approved a 5% increase to its monthly cash distribution to unitholders to $0.0446 per REIT unit or $0.5355 per REIT unit on an annual basis. The new monthly cash distribution will commence with the November 2021 distribution when declared, to be payable in December 2021.

On October 25, 2021 the REIT announced the acquisition of two RV Resort communities for an aggregate purchase price of approximately $8,350. The RV resorts are located in Wapakoneta, Ohio and Walton, Kentucky and include 75+ acres and 467 sites.