# FLAGSHIP COMMUNITIES REAL ESTATE INVESTMENT TRUST

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021

## (in US Dollars)

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

| | Note | | June 30, 2022 | | December 31, 2021 (Audited) |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash and cash equivalents | | $ | **19,446** | $ | 15,451 |
| Tenant and other receivables, net | 4 | | **817** | | 753 |
| Prepaids and other assets | 5 | | **2,147** | | 1,843 |
| Lender escrow deposits | 6 | | **3,119** | | 1,575 |
| Total current assets | | | **25,529** | | 19,622 |
| Other non-current assets | 7 | | **400** | | - |
| Investment properties | 8, 24 | | **709,321** | | 670,523 |
| Property and equipment, net | 9 | | **3,395** | | 2,520 |
| Note receivable - related party | 15 | | **2,460** | | 2,460 |
| | | | **715,576** | | 675,503 |
| **Total Assets** | | $ | **741,105** | $ | 695,125 |
| **Current Liabilities** | | | | | |
| Trade and other payables | | $ | **801** | $ | 978 |
| Line of credit | 10 | | **1,000** | | - |
| Other liabilities | 11 | | **8,801** | | 7,486 |
| Mortgages payable, net | 12 | | **712** | | 637 |
| Total current liabilities | | | **11,314** | | 9,101 |
| Mortgages payable, net | 12 | | **298,509** | | 258,474 |
| Class B Units | 13, 24 | | **83,916** | | 104,856 |
| | | | **382,425** | | 363,330 |
| **Total Liabilities** | | | **393,739** | | 372,431 |
| **Unitholders' Equity** | | | | | |
| Unitholder's equity | 14 | | **347,366** | | 322,694 |
| **Total Liabilities and Unitholders' Equity** | | $ | **741,105** | $ | 695,125 |

*See accompanying notes to the condensed consolidated interim financial statements.*

**Flagship Communities Real Estate Investment Trust**

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

*(In thousands of US dollars)*

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| Rental revenue and related income | 16 | **$ 14,363** | $ 9,835 | **$ 28,056** | $ 19,484 |
| Property operating expenses | 17 | **4,903** | 3,405 | **9,338** | 6,614 |
| **Net operating income** | | **9,460** | 6,430 | **18,718** | 12,870 |
| **Other Expenses/(Income)** | | | | | |
| General and administrative | 18 | **1,745** | 1,398 | **3,494** | 2,689 |
| Finance costs from operations | 19 | **2,570** | 1,960 | **4,804** | 3,877 |
| Accretion of mark-to-market adjustment on mortgages payable | 12 | **(258)** | (258) | **(515)** | (515) |
| Depreciation | 9 | **66** | 41 | **133** | 74 |
| Other (income) | | **(31)** | (12) | **(64)** | (21) |
| Fair value adjustment - Class B Units | 13 | **(24,821)** | 12,455 | **(21,637)** | 14,737 |
| Distributions on Class B Units | | **732** | 692 | **1,462** | 1,385 |
| Fair value adjustment - investment properties | 8 | **3,512** | (8,085) | **2,662** | (14,278) |
| Fair value adjustment - unit based compensation | 26 | **(79)** | - | **(77)** | - |
| Transaction costs | 14 | **-** | 184 | **-** | 236 |
| **Net Income (Loss) and Comprehensive Income (Loss)** | | **$ 26,024** | $ (1,945) | **$ 28,456** | $ 4,686 |

*See accompanying notes to the condensed consolidated interim financial statements.*

## Flagship Communities Real Estate Investment Trust

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

*(In thousands of US dollars)*

| | Note | Units | | Units | | Distributions | | Cumulative Net Income | | Total Unitholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2020** | | **7,226,185** | **$** | **99,898** | **$** | **(852)** | **$** | **47,338** | **$** | **146,384** |
| Units issued, net of issuance costs | 14 | 4,500,000 | | 77,303 | | - | | - | | 77,303 |
| Net income and comprehensive income | | - | | - | | - | | 4,686 | | 4,686 |
| Distributions | 14 | - | | - | | (2,034) | | - | | (2,034) |
| **Balance, June 30, 2021** | | **11,726,185** | **$** | **177,201** | **$** | **(2,886)** | **$** | **52,024** | **$** | **226,339** |
| | | | | | | | | | | |
| **Balance, December 31, 2021** | | **14,141,185** | **$** | **221,489** | **$** | **(6,141)** | **$** | **107,346** | **$** | **322,694** |
| Net income and comprehensive income | | - | | - | | - | | 28,456 | | 28,456 |
| Distributions | 14 | - | | - | | (3,784) | | - | | (3,784) |
| **Balance, June 30, 2022** | | **14,141,185** | **$** | **221,489** | **$** | **(9,925)** | **$** | **135,802** | **$** | **347,366** |

*See accompanying notes to the condensed consolidated interim financial statements.*

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

| | | Six months ended June 30, | | |
|---|---|---|---|---|
| | | **2022** | | 2021 |
| **Cash flow provided by operating activities** | | | | |
| Net Income (Loss) and Comprehensive Income (Loss) | **$** | **28,456** | $ | 4,686 |
| Add (deduct): | | | | |
| Depreciation | | **133** | | 74 |
| Gain on sale of property and equipment | | **14** | | - |
| Fair value adjustment - Class B Units | | **(21,637)** | | 14,737 |
| Distributions declared on Class B Units | | **1,462** | | 1,385 |
| Accretion of mark-to-market adjustment on mortgages payable, net | | **(515)** | | (515) |
| Fair value adjustment - investment properties | | **2,662** | | (14,278) |
| Transaction costs associated with issuance of Units | | **-** | | 236 |
| Finance costs from operations | | **4,804** | | 3,877 |
| Interest received | | **(44)** | | - |
| Change in non-cash working capital | | | | |
| Tenant and other receivables, net | | **(64)** | | 160 |
| Prepaids and other assets | | **(304)** | | (127) |
| Lender escrow deposits | | **(1,544)** | | (580) |
| Trade and other payables | | **(178)** | | (100) |
| Other liabilities | | **1,315** | | 727 |
| | | **14,560** | | 10,282 |
| **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 | | **(3,784)** | | (1,843) |
| Distributions paid to Class B Unitholders | | **(1,461)** | | (1,385) |
| Proceeds from line of credit | | **1,000** | | - |
| Proceeds from mortgages payable | | **41,470** | | 3,000 |
| Issuance costs associated with financing activities | | **(604)** | | (131) |
| Repayment of mortgages payable | | **(247)** | | (237) |
| Interest paid | | **(4,798)** | | (3,877) |
| | | **31,576** | | 72,594 |
| **Cash flow (used in) investing activities** | | | | |
| Cash paid for investment property acquisitions | | **(36,561)** | | (11,825) |
| Cash paid for other non-current assets | | **(400)** | | (1,388) |
| Cash received for investment property disposal | | **874** | | 414 |
| Capital expenditures on investment properties | | **(5,076)** | | (2,022) |
| Cash received for property and equipment disposal | | **10** | | - |
| Cash paid for property and equipment | | **(1,032)** | | (259) |
| Interest received | | **44** | | - |
| | | **(42,141)** | | (15,080) |
| **Increase in cash and cash equivalents** | | **3,995** | | 67,796 |
| **Cash and cash equivalents, beginning of period** | | **15,451** | | 11,499 |
| **Cash and cash equivalents, ending of period** | **$** | **19,446** | $ | 79,295 |

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

As at June 30, 2022, the REIT owns 66 (December 31, 2021 - 63) MHCs located across Arkansas, Kentucky, Illinois, Indiana, Missouri, Ohio, and Tennessee.

## 2. Basis of Presentation

*(a) Statement of compliance*

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). These condensed consolidated interim financial statements were approved by the Board of Trustees on August 10, 2022.

*(b) Basis of presentation*

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

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

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

*(c) Principles of consolidation*

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

## 3. Significant Accounting Policies

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

*(a) Trust Units*

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

*(b) Standards issued but not yet effective for the three and six months ended June 30, 2022:*

IAS 1 - Presentation of Financial Statements ("IAS 1"), was amended in January 2020. The IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify the definition of a right to defer settlement and specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application 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. Tenant and Other Receivables, Net

| | | As at June 30, 2022 | | As at December 31, 2021 |
|---|---|---|---|---|
| Tenant receivables | $ | 731 | $ | 602 |
| Other receivables | | 153 | | 187 |
| Allowance for doubtful accounts | | (67) | | (36) |
| **Total** | $ | 817 | $ | 753 |

The movement in the provision for impairment of tenant and other receivables was as follows:

| | | For the six months ended June 30, 2022 | | For the year ended December 31, 2021 |
|---|---|---|---|---|
| **Allowance for doubtful accounts, opening balance** | $ | 36 | $ | 87 |
| Change in expected credit loss provision | | 31 | | (51) |
| **Allowance for doubtful accounts, ending balance** | $ | 67 | $ | 36 |

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

## 5. Prepaids and Other Assets

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

| | Note | | As at June 30, 2022 | | As at December 31, 2021 |
|---|---|---|---|---|---|
| Prepaid insurance | | $ | 780 | $ | 1,328 |
| Deferred issuance costs | 14 | | 472 | | - |
| Other prepaids and deposits | | | 895 | | 515 |
| **Total** | | $ | 2,147 | $ | 1,843 |

## 6. Lender Escrow Deposits

Escrows for real estate taxes, insurance, and capital repairs are maintained under the control of the mortgagor for payment on behalf of the REIT. As at June 30, 2022 and December 31, 2021, the REIT had lender escrow balances of $3,119 and $1,575, respectively.

## 7. Other Non-Current Assets

Other non-current assets are funds held in escrow for future investment property acquisitions. As at June 30, 2022 and December 31, 2021, the REIT had other non-current assets of $400 and $Nil, respectively.

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

## 8. Investment Properties

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

| | | For the six months ended June 30, 2022 | | For the year ended December 31, 2021 |
|---|---|---|---|---|
| **Investment properties, opening balance** | **$** | **670,523** | $ | 428,391 |
| Capital expenditures | | **5,076** | | 6,672 |
| Acquisitions of investment properties (a) | | **37,258** | | 158,107 |
| Disposal of investment properties (b) | | **(874)** | | (1,460) |
| Fair value adjustment - investment properties | | **(2,662)** | | 78,813 |
| **Investment properties, ending balance** | **$** | **709,321** | $ | 670,523 |

***Asset Acquisitions***

*During the six months ended June 30, 2022, the REIT had the following investment property activity:*

*(a)* On February 15, 2022 the REIT acquired a 13-acre manufactured housing resort community from a related party, Empower Park, for $7,533 and 37,448 Class B Units (measured by reference to the volume-weighted average closing price of a Unit for the 10 trading days prior to the date of closing). Total consideration paid was $8,230. Investment property acquired totaled $8,238.

*(a)* On April 29, 2022, the REIT acquired a manufacturing housing community in Riverton, Illinois which included 103 lots and 74 rental homes for $6,318. Investment property acquired totaled $6,361

*(a)* On May 18, 2022, the REIT acquired and combined two manufacturing housing communities in Florence, Kentucky which included 345 lots for $22,522. Investment property acquired totaled $22,659

*(b)* During the six months ended June 30, 2022 the REIT disposed of 60 rental homes totaling $874. Disposal of these rental homes was at fair value resulting in no (gain) loss recognized in the condensed consolidated interim statements of net income (loss) and comprehensive income (loss).

*During the six months ended June 30, 2021, the REIT had the following investment property activity:*

*(a)* On January 4, 2021, the REIT expanded an existing MHC with the acquisition of 8 new lots for $59, bringing the entire community to 149 home sites. Investment property acquired totaled $58.

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

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

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

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

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

*(b)* During the six months ended June 30, 2021 the REIT disposed of 29 rental homes totalling $551. Disposal of these rental homes was at fair value resulting in no (gain) loss recognized in the condensed consolidated interim statements of net income (loss) and comprehensive income (loss).

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

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

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

| **Capitalization Rates** | **As at June 30, 2022** | As at December 31, 2021 |
|---|---|---|
| High | **6.95 %** | 7.00 % |
| Low | **4.00 %** | 4.50 % |
| **Weighted Average** | **4.69 %** | 4.73 % |
| | | |
| **% Change** | | |
| + 0.025 | **5.08 %** | 5.05 % |
| - 0.025 | **(5.66) %** | (5.61) % |
| | | |
| **$ Change** | | |
| + 0.025 | **$34,491** | $32,439 |
| - 0.025 | **($38,413)** | ($36,097) |

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

## 9. Property and Equipment, Net

| | Autos & Trucks | Office and Maintenance Equipment | Furniture and Fixtures | Head Office Building and Land | Farm Land and Improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **As at December 31, 2020** | **$ -** | **$ 803** | **$ -** | **$ 750** | **$ 271** | **$ 1,824** |
| Additions | 144 | 632 | 19 | 32 | 68 | 895 |
| Disposals | - | (1) | - | - | - | (1) |
| **As at December 31, 2021** | **$ 144** | **$ 1,434** | **$ 19** | **$ 782** | **$ 339** | **$ 2,718** |
| Additions | 1 | 427 | 79 | 401 | 124 | 1,032 |
| Disposals | (26) | - | - | - | - | (26) |
| **As at June 30, 2022** | **$ 119** | **$ 1,861** | **$ 98** | **$ 1,183** | **$ 463** | **$ 3,724** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **As at December 31, 2020** | **$ -** | **$ 20** | **$ -** | **$ 4** | **$ -** | **$ 24** |
| Additions | 4 | 160 | - | 7 | 3 | 174 |
| **As at December 31, 2021** | **$ 4** | **$ 180** | **$ -** | **$ 11** | **$ 3** | **$ 198** |
| Additions | 9 | 104 | 4 | 14 | 2 | 133 |
| Disposals | (2) | - | - | - | - | (2) |
| **As at June 30, 2022** | **$ 11** | **$ 284** | **$ 4** | **$ 25** | **$ 5** | **$ 329** |
| | | | | | | |
| **Net book value** | | | | | | |
| As at December 31, 2020 | $ - | $ 783 | $ - | $ 746 | $ 271 | $ 1,800 |
| As at December 31, 2021 | $ 140 | $ 1,254 | $ 19 | $ 771 | $ 336 | $ 2,520 |
| **As at June 30, 2022** | **$ 108** | **$ 1,577** | **$ 94** | **$ 1,158** | **$ 458** | **$ 3,395** |

## 10. Line of Credit

On May 12, 2021 the REIT entered into a revolving line of credit ("Line of Credit"), secured by the investment property of two MHCs, for $5,000. The Line of Credit matures on May 12, 2024 and incurs interest at Prime plus 0.50%. As at June 30, 2022 and December 31, 2021 there was $1,000 and $Nil outstanding on the Line of Credit and unamortized deferred issuance costs were $14 and $18, respectively. The Line of Credit requires the REIT to comply with various covenants all of which the REIT was in compliance with as at June 30, 2022.

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

## 11. Other Liabilities

| | | As at June 30, 2022 | | As at December 31, 2021 |
|---|---|---|---|---|
| Property related accruals | $ | 3,026 | $ | 1,974 |
| Finance costs payable | | 501 | | 445 |
| Tenant security deposits | | 2,653 | | 2,358 |
| Distributions payable | | 875 | | 873 |
| Unearned revenue | | 1,440 | | 1,622 |
| DTUs | | 306 | | 214 |
| **Total** | $ | 8,801 | $ | 7,486 |

## 12. Mortgages Payable, Net

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

| | | As at June 30, 2022 | | As at December 31, 2021 |
|---|---|---|---|---|
| Mortgages payable | $ | 295,144 | $ | 253,921 |
| Unamortized mark-to market adjustment | | 5,314 | | 5,829 |
| Unamortized deferred issuance costs | | (1,237) | | (639) |
| **Total mortgages payable** | | 299,221 | | 259,111 |
| Less: current portion | | (712) | | (637) |
| **Amount classified as non-current portion** | $ | 298,509 | $ | 258,474 |

The REIT's weighted average contractual annual interest rate on its mortgages payable as at June 30, 2022 and December 31, 2021 was approximately 3.60% and 3.43%, respectively, which excludes the impact of the amortization of the mark-to-market adjustment and amortization of deferred issuance costs

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

| Period ending December 31, | | Principal payments |
|---|---|---|
| 2022 | $ | 344 |
| 2023 | | 732 |
| 2024 | | 769 |
| 2025 | | 817 |
| 2026 | | 863 |
| Thereafter | | 291,619 |
| **Total** | $ | 295,144 |

The REIT's mortgages payable contains customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. As at June 30, 2022, 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:

| | | For the six months ended June 30, 2022 | | For the year ended December 31, 2021 |
|---|---|---|---|---|
| **Mortgages payable, net, opening balance** | **$** | **259,111** | $ | 219,858 |
| *Cash Flows* | | | | |
| Proceeds from mortgages payable | | **41,470** | | 41,400 |
| Issuance costs associated with financing activities | | **(604)** | | (648) |
| Repayment of mortgages payable | | **(247)** | | (479) |
| | | **299,730** | | 260,131 |
| *Non-Cash Changes* | | | | |
| Accretion of mark-to-market adjustment on mortgages payable | | **(515)** | | (1,029) |
| Amortization of deferred issuance costs | | **6** | | 9 |
| **Mortgages payable, net, ending balance** | **$** | **299,221** | $ | 259,111 |

## 13. Class B Units

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

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

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

| | Class B Units | | Value |
|---|---|---|---|
| **Class B Units, December 31, 2020** | **5,432,940** | **$** | **73,399** |
| Fair value adjustments | - | | 31,457 |
| **Class B Units, December 31, 2021** | **5,432,940** | **$** | **104,856** |
| Class B units issued (Note 8) | 37,448 | | 697 |
| Fair value adjustment | - | | (21,637) |
| **Class B Units, June 30, 2022** | **5,470,388** | **$** | **83,916** |

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

## 14. Unitholders' Equity

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

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

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

On May 17, 2022, the REIT filed a supplement to its base shelf prospectus, dated May 7, 2021, and entered into an equity distribution agreement for the purpose of completing at-the-market equity offering(s) (the "ATM Offering"). Pursuant to the ATM Offering, the REIT may distribute Units, from time to time, up to an aggregate amount of $50,000. As at June 30, 2022 the REIT has not issued any Units under the ATM Offering and related deferred issuance costs were $472.

For the six months ended June 30, 2021 and the year ended December 31, 2021 the REIT declared distributions to unitholders of record in the amount of $3,784 ($0.0446 per Unit) and $5,289 ($0.0425 per Unit until the December 15, 2021 distribution at which time the amount increased to $0.0446 per Unit), respectively. Total distributions payable as at both June 30, 2022 and December 31, 2021 were $631.

## 15. Related Party Transactions

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

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

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

*(a)* On July 2, 2021 the REIT entered into a promissory note ("Note Receivable-Related Party") in the amount of $2,460 with Empower Park. The Note Receivable-Related Party includes monthly interest only payments, which began on August 2, 2021, through maturity on July 2, 2031 at which time the entire principal balance and any unpaid interest is due. The Note Receivable-Related Party incurs interest at the Prime rate. For the three and six months ended June 30, 2022, interest revenue was $26 and $45, respectively ($Nil for both the three and six months ended June 30, 2021).

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

*(b)* On February 15, 2022 the REIT acquired a 13-acre manufactured housing resort community from a related party, Empower Park, for $7,533 and 37,448 Class B Units. Total consideration paid was $8,230.

*(c)* Payroll and benefits include $286 and $924 incurred to key management personnel during the three and six months ended June 30, 2022, respectively, which includes short-term employee payroll and benefits ($298 and $689 for the three and six months ended June 30, 2021, respectively).

*(d)* For the three and six months ended June 30, 2022, the REIT billed Empower Park a total of $382 and $638, of which $352 and $582 was payroll and benefits, $20 and $34 was management fees, and $10 and $22 was other miscellaneous items, respectively ( $354 and $614; $312 and $551; $15 and $21; $27 and $42 for the three and six months ended June 30, 2021, respectively). As at June 30, 2022 and December 31, 2021, the REIT had a receivable, included in tenant and other receivables, net, from Empower Park of $152 and $149, respectively.

*(e)* For the three and six months ended June 30, 2022 and 2021, the REIT was billed for services provided by related parties that included HVAC, paving/concrete repair, IT and landscape services. As at June 30,2022 and December 31, 2021, the REIT had total accounts payable and accrued liabilities due to related parties of $701 and $11, respectively.

The following table breaks out billings for each related party.

| **Company Name** | **Ownership & Control** | **Description of Services** | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|---|---|
| | | | **2022** | 2021 | **2022** | 2021 |
| Call Now HVAC | 50% owned by the REIT's Chief Executive Officer ("CEO"), Chief Investment Officer ("CIO") and another holder of Class B Units. Managing member of the entity is a non-related party | Provides HVAC services to various properties including installing new air conditioning units as well as servicing existing units. | **$ 107** | $ 145 | **$ 198** | $ 207 |
| BG3 | 100% owned by the brother of the REIT's CEO. | Provides landscaping services to properties. | **$ 65** | $ 13 | **$ 173** | $ 89 |
| JDK | 100% owned by the brother of the REIT's CEO. | Provides IT and desktop support | **$ 9** | $ 10 | **$ 28** | $ 20 |
| Empower Park | Wholly owned by the REIT's CEO, CIO and another holder of Class B Units. | Acquires and develops MHCs that do not meet the REIT's investment criteria and conducts sales of manufactured homes located on the REIT's investment properties. The REIT has agreed to pay floor plan interest on homes located on the REIT's investmnet properties and reimburse Empower for any losses on home sales within the REIT's investment properties. | **$ 744** | $ 66 | **$ 1,095** | $ 99 |
| **Total** | | | **$ 925** | $ 234 | **$ 1,494** | $ 415 |

*(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 six months ended June 30, 2021 or 2022, respectively.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Rental revenue | **$ 12,300** | $ 8,400 | **$ 24,103** | $ 16,621 |
| Utilities reimbursement | **1,581** | 1,118 | **2,989** | 2,201 |
| Fee income | **429** | 268 | **828** | 613 |
| Other | **53** | $ 49 | **136** | 49 |
| **Total Revenues** | **$ 14,363** | $ 9,835 | **$ 28,056** | $ 19,484 |

## 17. Property Operating Expenses

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Utility costs | **$ 1,579** | $ 1,121 | **$ 3,295** | $ 2,345 |
| Payroll and benefits | **1,012** | 834 | **1,935** | 1,567 |
| Taxes and insurance | **1,313** | 766 | **2,409** | 1,492 |
| Repairs and maintenance | **421** | 314 | **722** | 524 |
| Other property-based costs | **578** | 370 | **977** | 686 |
| **Total Operating Expenses** | **$ 4,903** | $ 3,405 | **$ 9,338** | $ 6,614 |

## 18. General and Administrative Expenses

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Payroll and benefits | **$ 1,000** | $ 830 | **$ 2,066** | $ 1,482 |
| Legal / Consulting | **124** | 88 | **256** | 335 |
| Audit and tax fees | **117** | 106 | **189** | 217 |
| Taxes and insurance | **115** | 98 | **227** | 188 |
| Trustee fees | **102** | 67 | **202** | 132 |
| Travel | **126** | 48 | **241** | 103 |
| Other | **161** | 161 | **313** | 232 |
| **Total Operating Expenses** | **$ 1,745** | $ 1,398 | **$ 3,494** | $ 2,689 |

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

## 19. Finance Costs

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Interest expense | **$ 153** | $ 65 | **$ 280** | $ 120 |
| Interest - mortgages | **2,414** | 1,893 | **4,518** | 3,754 |
| Amortization of deferred issuance costs | **3** | 2 | **6** | 3 |
| **Finance costs from operations** | **$ 2,570** | $ 1,960 | **$ 4,804** | $ 3,877 |

## 20. Employee Benefit Plan

Management of the REIT has adopted a defined contribution plan under Internal Revenue Service code section 401(k) for all eligible employees. A participant may elect to defer up to the maximum percentage of compensation permissible under code section 401(k). Management of the REIT elects to match employee deferrals under the Basic Safe Harbor Match: The REIT matches 100% of the first 3% of each employee’s contributions and 50% of the next 2%. Employer matching contributions to the Plan totalled $45 and $68 during the three and six months ended June 30, 2022, respectively ($24 and $40 during the three and six months ended June 30, 2021, respectively).

## 21. Segment Reporting

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

## 22. Commitment and Contingencies

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

## 23. Capital Management

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

## 24. Fair Value Measurement

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

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

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

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

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

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

The mortgages payable, net are carried at amortized cost. For disclosure purposes, the fair value of the mortgages payable as at June 30, 2022 and December 31, 2021 was estimated by discounting expected cash flows using a rate of 5.21% and 3.45%, respectively, which is the expected rate available for debt of similar terms at the end of each respective period (Level 2).

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

| | Fair value as at June 30, 2022 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets and Liabilities** | | | |
| Investment properties | - | - | $ 709,321 |
| DTUs | $ (306) | - | - |
| Class B Units | $ (83,916) | - | - |
| Mortgages payable | - | $ (246,536) | - |

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

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

## 25. Financial Risk Management

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

(a) Risk

Financial instruments that potentially subject the REIT to significant concentrations of credit risk consist principally of cash and cash equivalents, tenant and other receivables, net, and Note Receivable – Related Party. The only debtor to comprise more than 10% of the REITs outstanding tenant and other receivables, net balance as at June 30, 2022 and December 31, 2021, respectively, was a related party debtor (See Note 15). Additionally, the Note Receivable – Related Party accounted for 10.82% and 13.18% of the aforementioned financial instruments, respectively. The REIT regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. Credit risk arises from the possibility that residents in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting residents of sound financial standing and by diversifying its mix of residents. It also monitors resident payment patterns and discusses potential resident issues with property managers on a regular basis. Cash carries minimal credit risk as all funds are maintained with reputable financial institutions. The related party receivable, included in tenant and other receivables, net, and the Note Receivable – Related Party also carries minimal credit risk due to the nature of the relationship of the debtor to the REIT. The carrying amount of financial assets represents the maximum credit exposure.

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

(b) Liquidity risk

The REIT is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The REIT manages maturities of the fixed rate mortgages payable and monitors the repayment dates to ensure sufficient capital will be available to cover obligations. The REIT constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. The REIT expects to be able to meet all obligations as they become due using some or all of the following sources of liquidity - cash flow generated from property operations; property-specific mortgages; existing cash and cash equivalents on hand; and available capacity on lines of credit. As at June 30, 2022 and December 31, 2021, the REIT had working capital of $14,215 and $10,521, respectively. All of the REIT's financial liabilities are due within one year except for mortgages payable.

| As at June 30, 2022 | Carrying Amount | Contractual cash flows | Within 1 year | 1 to 2 years | 2 to 5 years | 5+ years |
|---|---|---|---|---|---|---|
| Trade and other payables | $ 801 | $ 801 | $ 801 | $ - | $ - | $ - |
| Other liabilities | 8,801 | 8,801 | 8,801 | - | - | - |
| Mortgages payable | 299,221 | 410,956 | 11,361 | 22,876 | 58,468 | 318,251 |
| **Total** | **$ 308,823** | **$ 420,558** | **$ 20,963** | **$ 22,876** | **$ 58,468** | **$ 318,251** |

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

(c) Interest rate risk

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

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

## 26. Unit-based Compensation

### Deferred Trust Units

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

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

| | Number of Units | | Value |
|---|---|---|---|
| **Units outstanding, December 31, 2020** | - | $ | - |
| Trustee fees | 11,089 | | 199 |
| Distribution reinvestment | 121 | | 2 |
| Fair value adjustment - unit based compensation | - | | 13 |
| **Units outstanding, December 31, 2021** | **11,210** | **$** | **214** |
| Trustee fees (a) | 8,515 | | 164 |
| Distribution reinvestment (b) | 253 | | 5 |
| Fair value adjustment - unit based compensation | - | | (77) |
| **Units outstanding, June 30, 2022** | **19,978** | **$** | **306** |

*(a)* Trustee fees related to the issuance of DTU for the three and six months ended June 30, 2022 were $93 and $164, resulting in 3,474 and 8,515 DTUs being issued, respectively ($66 and 3,740 DTUs for both the three and six months ended June 30, 2021).

*(b)* Distributions, that would otherwise be payable in cash, resulted in additional DTUs of 147 and 253 being issued for the three and six months ended June 30, 2022, respectively (DTUs of 9 for both the three and six months ended June 30, 2021).

## 27. Subsequent Events

*(a)* On July 7, 2022 the REIT borrowed $10,700 from a life insurance lender, for which one MHC was the collateral. The interest rate on the note is 4.98% for 20 years with the first 60 monthly payments being interest only.