

The background of the entire page is a low-angle photograph of a skyscraper with a grid of windows. In the upper left corner, an American flag is flying, partially overlapping the building. A red horizontal band is positioned across the middle of the image, containing the company name and tagline.

# FIRM CAPITAL APARTMENT REIT

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CAPITAL PRESERVATION • DISCIPLINED INVESTING

# MD&A

## MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED  
DECEMBER 31, 2021

## MANAGEMENT DISCUSSION & ANALYSIS

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### FORWARD LOOKING STATEMENTS

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Firm Capital Apartment Real Estate Investment Trust ("**Firm Capital Apartment REIT**", "**FCA**", "**TSXV: FCA.U/FCA.UN**" or the "**Trust**") should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2021 and December 31, 2020. All disclosures including tables presented herein, related to an interim period are unaudited. This MD&A has been prepared taking into account material transactions and events up to and including March 14, 2022. Additional information about the Trust, including the Trust's Annual Information Form, required by NI 51-102, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our web site at [www.firmcapital.com](http://www.firmcapital.com).

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2022 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Such risk factors include, but are not limited to, risks associated with real property ownership, availability of cash flow, general uninsured losses, future property acquisitions, environmental matters, tax related matters, debt financing, unitholder liability, potential conflicts of interest, potential dilution, reliance on key personnel, changes in legislation and changes in the income tax act. The Trust cannot assure investors that actual results will be consistent with any forward-looking statements and the Trust assumes no obligation to update or revise such forward-looking statements to reflect actual events or new circumstances. All forward-looking statements contained in this MD&A are qualified by this cautionary statement. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Trust undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

### TRUST NAME CHANGE:

#### CORPORATE REORGANIZATION AND NAME CHANGE

On January 1, 2020, the Trust completed its plan of arrangement (the "**Arrangement**") to convert Firm Capital American Realty Partners Corp. (the "**Corporation**") into a Real Estate Investment Trust and continuing to trade under symbols FCA.U and FCA.UN. Under the terms of the Arrangement, each outstanding common share of the Corporation was exchanged for one unit of the Trust. On September 21, 2020, to better reflect the investment activities of the Trust and its focus on multi-residential investments, the Board of Trustees approved a name change to **Firm Capital Apartment Real Estate Investment Trust**.

## MANAGEMENT DISCUSSION & ANALYSIS

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### BASIS OF PRESENTATION

The Trust has adopted International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board as its basis of financial reporting. The Trust’s reporting currency is the US dollar (“**USD**”) and all amounts reported in this MD&A are in USD, unless otherwise noted.

Certain financial information presented in this MD&A reflects non-IFRS financial measures including Net Rental Income, Funds From Operations (“**FFO**”) and Adjusted Funds From Operations (“**AFFO**”), AFFO Payout Ratio (“**AFFO Payout Ratio**”) (each as defined below). These measures are commonly used by real estate investment companies as useful metrics for measuring performance; however, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other real estate investment companies. The Trust believes that FFO is an important measure to evaluate operating performance, AFFO and AFFO Payout Ratio are important measures of cash available for distribution and, Net Rental Income is an important measure of operating performance. “**GAAP**” means generally accepted accounting principles described by the Chartered Professional Accountants of Canada (“**CPA**”) Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a public entity, the Trust applies IFRS as described in Part I of the CPA Handbook - Accounting.

Occupancy rate represents the total number of units leased as a percentage of the total number of units owned. Leased properties consist solely of those units that are occupied by a tenant at the given date.

Net Rental Income is a term used by industry analysts, investors, and management to measure operating performance of Canadian real estate investment companies. Net Rental Income represents rental revenue from properties less repairs and maintenance, insurance, utilities, property management, property taxes, bad debt, and other property operating costs. Net Rental Income excludes certain expenses included in the determination of net income such as interest, amortization, corporate overhead and taxes.

Net income (loss) before other income (expenses) (“**net income before fair value adjustments**”) is a measure that the Trust uses in order to present the key operations and administration of the Trust, excluding certain items. Items that are excluded from this total and are presented in other income (expenses) include transaction costs, foreign exchange gain (loss), fair value adjustments of investment properties, gain (loss) on dispositions, fair value gain (loss) on derivative financial instruments and unit-based compensation.

FFO is a term used to evaluate operating performance but is not indicative of funds available to meet the Trust’s cash requirements. The Trust calculates FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada (“**Real PAC**”), for entities adopting IFRS. FFO is defined as net income before fair value gains/losses on real estate properties, gains/losses on the disposition of real estate properties, deferred income taxes, and certain other non-cash adjustments.

AFFO is a term used as a non-IFRS financial measure by most Canadian real estate investment companies but should not be considered as an alternative to net income, cash flows from operations, or any other measure prescribed under IFRS. The Trust

## MANAGEMENT DISCUSSION & ANALYSIS

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considers AFFO to be a useful measure of cash available for distributions. AFFO should not be interpreted as an indicator of cash generated from operating activities, as it does not consider changes in working capital and includes a deduction for capital expenditures. AFFO is defined as FFO adjusted for (i) adding back deferred financing fees amortization as outlined in the statement of cashflows (ii) deducting an estimate for capital expenditures of 2.5% of Net Operating Income, and (iii) making such other adjustments as may be determined by the trustees of the Trust at their discretion. In addition, the Trust calculates AFFO by adjusting Net Income calculated on the Trust's consolidated financial statements for all changes in non-cash working capital and making such other adjustments as may be determined by the directors of the Trust at their discretion. The AFFO payout ratio is calculated by taking the Distributions paid and dividing it by the AFFO.

Net Income/(Loss) Before Other Income/(Expenses), Net Rental Income, FFO and AFFO should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS. Net Rental Income, FFO and AFFO, are not intended to represent operating profits for the period, or from a property, nor should any of these measures be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Readers should be further cautioned that Net Rental Income, FFO and AFFO as calculated by the Trust may not be comparable to similar measures presented by other real estate companies.

## MANAGEMENT DISCUSSION & ANALYSIS

### Q4/2021 AND YEAR TO DATE HIGHLIGHTS

#### EARNINGS

- For the three months ended December 31, 2021, net income was approximately \$3.5 million, in comparison to the \$2.5 million reported for the three months ended December 31, 2020. For the year ended December 31, 2021, net income was \$3.8 million, in comparison to the \$5.6 million net income reported for the year ended December 31, 2020;
- Excluding non-cash fair value adjustments, net income was \$0.5 million for the three months ended December 31, 2021, in line with the \$0.5 million reported for the three months ended December 31, 2020. Excluding non-cash fair value adjustments, net income was \$2.2 million for the year ended December 31, 2021, a 12% increase over the \$2.0 million reported for the year ended December 31, 2020; and
- For the three months ended December 31, 2021, AFFO was approximately \$0.5 million, in comparison to the \$0.6 million reported for the three months ended December 31, 2020. For the year ended December 31, 2021, AFFO was \$2.2 million, an 11% increase over the \$2.0 million reported for the year ended December 31, 2020.

	Three Months Ended		Twelve Months Ended	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Net Income/(Loss)	\$ 3,478,939	\$ 2,471,888	\$ 3,840,463	\$ 5,604,353
Net Income Before Fair Value Adjustments	\$ 497,949	\$ 450,531	\$ 2,193,018	\$ 1,944,047
FFO	\$ 244,667	\$ 468,125	\$ (903,503)	\$ 4,739,715
AFFO	\$ 497,684	\$ 616,601	\$ 2,230,050	\$ 2,013,423
Distributions	\$ 448,658	\$ 455,170	\$ 1,811,618	\$ 1,911,984
AFFO Per Unit	\$ 0.07	\$ 0.08	\$ 0.29	\$ 0.26
Distributions Per Unit	\$ 0.06	\$ 0.06	\$ 0.24	\$ 0.24
AFFO Payout Ratio	90%	74%	81%	95%

- **INCREASED NAV BY 10.3% CAGR TO \$10.15 (CAD \$12.86) PER TRUST UNIT:**  
Since Q3/2017, the Trust has increased NAV from \$7.85 (CAD \$9.80) per Trust Unit to \$10.15 (CAD \$12.86) per Trust Unit for a +10.3% Compounded Annual Growth Rate (“CAGR”);
- **AVERAGE RENT INCREASES ACROSS INVESTMENT PORTFOLIO:**  
For the three months ended December 31, 2021, average rents increased by 1.5% to \$1,228 per unit from the \$1,211 per unit reported for the three months ended September 30, 2021;

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- **SECOND DISTRIBUTION INCREASE:**

On February 8, 2022, the Trust announced a 4.2% increase in quarterly distributions from \$0.059 per Trust Unit to \$0.0615 per Trust Unit commencing with the Q2/2022 Distributions;

- **Q2/2022 DISTRIBUTION:**

On February 8, 2022, the Trust declared and approved quarterly distributions of \$0.0615 per unit for unitholders of record on June 30, 2022, payable on or about July 15, 2022;

- **HOUSTON, TX ACQUISITION:**

On February 8, 2022, the Trust acquired the remaining 50% interest in the Houston, TX Equity Accounted and Preferred Investment for \$4.1 million. The Trust will now own 100% of this investment and will report it going forward as an investment property on the Trust's financial statements; and

- **100% RETURN OF CAPITAL ON 2021 DISTRIBUTIONS:**

The Trust's distributions for 2021 were tax efficient for unitholders as it delivered a 100% return of capital.

### **INVESTMENT STRUCTURE**

The Trust's portfolio consists of (i) Wholly Owned Real Estate Investments ("Investment Properties"), (ii) Joint Venture Real Estate Investments ("Equity Accounted and Preferred Investments", "Preferred Investments", "Preferred Equity" or "Common Equity"), and (iii) Preferred Capital Investments.

- (i) **Wholly Owned Real Estate Investments:**

The Trust opportunistically acquires 100% of multi-family residential real estate assets in large core markets on an accretive basis and when the Trust's cost of equity is compelling. Continuing growth in this investment category will require the Trust to raise additional capital through either the private and/or public debt and equity capital markets.

- (ii) **Joint Venture Real Estate Investments:**

The Trust has successfully utilized a joint venture strategy with partners who bring strong, local expertise in its core and non-core markets. The Trust strives to have a minimum 50% ownership interest and will fund the equity in a combined preferred/common equity investment structure. The preferred equity provides a fixed rate of return resulting in a secured structure ahead of the partner's ownership interest, while the common equity provides an upside return for investors as the investment meets its targeted objectives. The joint venture strategy de-risks the Trust's investment.

- (iii) **Preferred Capital Investments:**

The Trust, using Firm Capital's 30-year plus experience as a leader in the mortgage lending industry, provides preferred capital secured by multi-family residential real estate properties. Preferred capital investments continue to provide attractive, risk adjusted returns for the Trust. Preferred capital ranks ahead of equity, and behind secured debt in the capital structure of a real estate

## MANAGEMENT DISCUSSION & ANALYSIS

investment. These types of investments typically generate a higher yield and an overall better risk-adjusted return for the Trust than the underlying real estate when real estate valuations are at a premium or high cost of borrowing for the 1<sup>st</sup> mortgage. In the near term, the Trust expects to continue to increase its allocation to this investment class.

The chart below illustrates the Trust’s equity position in each investment portfolio:

ACQUISITION & LOAN FUNDING STRUCTURE		
Wholly-Owned Real Estate Investments (Long-Term)	Joint Venture Real Estate Investments (Medium-Term)	Preferred Capital Investments (Short-Term)
New Conventional First Mortgage Typically Fannie Mae & Freddie Mac (65% to 75% LTV)	New Conventional First Mortgage Typically Fannie Mae & Freddie Mac (65% to 75% LTV)	New Conventional First Mortgage Typically Fannie Mae & Freddie Mac (65% to 75% LTV)
Equity FCA REIT (100% remaining equity)	Preferred Equity FCA REIT (~8% rate)	Preferred Capital Loan FCA REIT (~12% rate)
	Common Equity FCA REIT (50% remaining equity)	Equity Borrower (100% remaining equity)
	Common Equity Joint Venture Partner (50% remaining equity)	

## STRATEGIC DIRECTION

The Trust’s strategy and primary objective is to use the proven industry experience of management, board of trustees, and joint venture partners to acquire and own U.S. Multi-Family Residential Real Estate Properties to grow the NAV per unit, generate attractive distributions and total unitholder returns.

Over the short and medium-term, the Trust expects to grow its wholly owned real estate investment portfolio by exercising its first offer to acquire the interest of partners on some of its existing joint ventures. Over the medium to long-term, the Trust’s target is to maintain a 1:1 ratio of wholly owned vs. joint venture partner ownership, while continuing to grow its Preferred Capital Investments that provide enhanced cashflows secured by asset classes we own.

## MANAGEMENT DISCUSSION & ANALYSIS

### INVESTMENT PORTFOLIO

Outlined below is a summary of the Investment Portfolio for the three months ended December 31, 2021, and September 30, 2021:

	December 31, 2021				September 30, 2021		
Region	Number of Units	IFRS Value	Occupancy	Average Monthly Rent	Occupancy	Average Monthly Rent	
<b>Wholly-Owned Real Estate Investments</b>							
Florida	153	\$ 32,404,323	98.7%	\$ 1,436	98.7%	\$ 1,410	
Texas	158	23,571,111	97.5%	\$ 946	98.1%	\$ 911	
New Jersey	189	22,429,858	96.8%	\$ 1,153	97.9%	\$ 1,147	
<b>Total / Weighted Avg.</b>	<b>500</b>	<b>\$ 78,405,292</b>	<b>97.6%</b>	<b>\$ 1,174</b>	<b>98.2%</b>	<b>\$ 1,153</b>	
<b>Joint Venture Real Estate Investments</b>							
New York	261	\$ 5,161,326	95.0%	\$ 1,543	95.0%	\$ 1,533	
Maryland	353	9,128,096	94.3%	\$ 1,418	92.1%	\$ 1,424	
Texas	485	17,558,102	94.0%	\$ 985	95.5%	\$ 962	
Connecticut	109	2,368,473	98.2%	\$ 1,249	96.3%	\$ 1,232	
Georgia	138	6,311,000	95.7%	\$ 1,175	98.6%	\$ 1,128	
<b>Total / Weighted Avg.</b>	<b>1,346</b>	<b>\$ 40,526,997</b>	<b>94.8%</b>	<b>\$ 1,248</b>	<b>94.9%</b>	<b>\$ 1,233</b>	
<b>Preferred Capital Investments</b>							
New York City	N/A	\$ 1,296,043	N/A	N/A	N/A	N/A	
Texas	N/A	1,468,899	N/A	N/A	N/A	N/A	
<b>Total / Weighted Avg.</b>		<b>\$ 2,764,942</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	
<b>Total / Weighted Avg.</b>	<b>1,846</b>	<b>\$ 121,697,231</b>	<b>95.6%</b>	<b>\$ 1,228</b>	<b>95.4%</b>	<b>\$ 1,211</b>	

### INVESTMENT PORTFOLIO OCCUPANCY AND AVERAGE RENT

#### **Wholly-Owned Real Estate Investment Portfolio**

As at December 31, 2021, occupancy was 97.6%, a decrease of 60 basis points in comparison to the 98.2% reported at September 30, 2021. This decrease was driven by lower leasing velocity in both Texas and New Jersey.

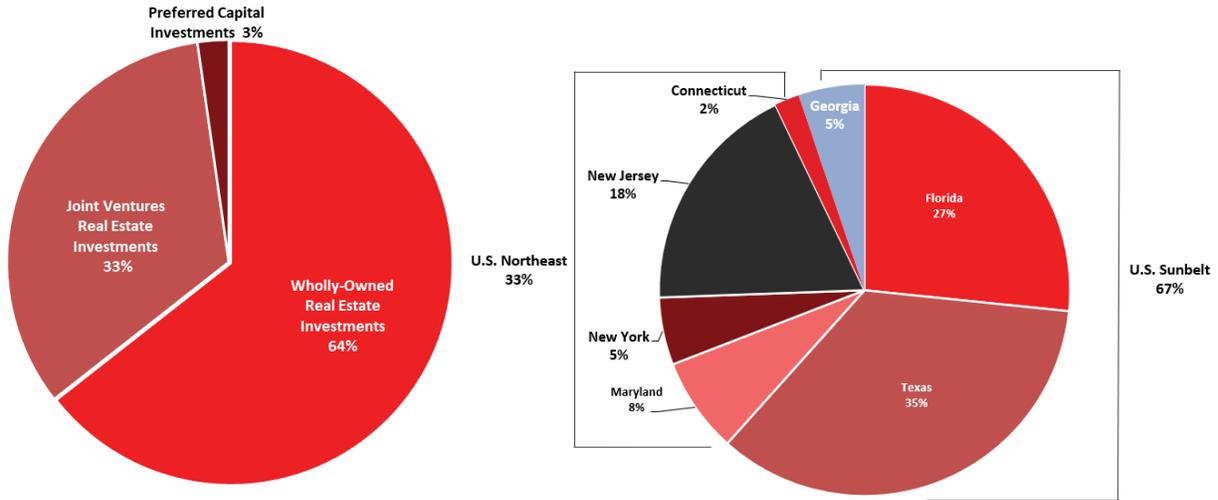
Average monthly rents for the three months ended December 31, 2021 were \$1,174 per month, a 2% increase in comparison to the \$1,153 per month reported for the three months ended September 30, 2021. This increase is driven by rental rate increases in Florida and Texas.

#### **Joint Venture Real Estate Investment Portfolio**

As at December 31, 2021, occupancy was 94.8%, a 10 basis point decrease in comparison to the 94.9% reported at September 30, 2021. This was driven by December move outs in Georgia and Texas.

Average monthly rents for the three months ended December 31, 2021 were \$1,248 per month, a 1% increase from the \$1,233 average monthly rent as at September 30, 2021. The increases were driven by increases in the U.S. Sunbelt; offset by decreases in Maryland.

**INVESTMENT PORTFOLIO BY GEOGRAPHY AND INVESTMENT TYPE**



The Trust’s investment portfolio is concentrated in two geographical areas:

- (i) **U.S. Sunbelt:** includes properties in Texas, Florida and Georgia. This represents 67% of the Investment Portfolio.
- (ii) **U.S. Northeast:** includes properties in New York, New Jersey, Maryland, and Connecticut. This represents 33% of the Investment Portfolio.

**REVIEW OF COVID-19 IMPACT TO THE TRUST**

Given the impact of the changing circumstances surrounding the COVID-19 pandemic and related responses from various levels of government, the Trust has been impacted by shutdowns, eviction and rent moratoriums. In particular, apartment fundamentals have been impacted negatively in the U.S. Northeast. This has resulted in lower rental demand, higher uncertainty in rent collections and capitalization rate expansion. As such, the Trust has updated its valuation assumptions in these markets and has recorded provisions for impairment of its preferred equity investments in these locations. However, the increased rental demand in the U.S. Sunbelt due to less restrictive COVID-19 regulations has created increased valuations / capitalization rate compression. As a result, the Trust has updated its valuation assumptions and recorded fair value increases on investments within its investment portfolio located in these states.

**QUARTERLY FINANCIAL OVERVIEW**

The following is a discussion of the combined results as outlined in the financial statements, as well as a review of selected quarterly financial information of the Trust:

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended				Twelve Months
	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2021
Rental Revenue	\$ 1,751,472	\$ 1,781,855	\$ 1,288,830	\$ 1,055,437	\$ 5,877,596
Property Operating Expenses	(920,585)	(819,708)	(624,757)	(555,660)	(2,920,710)
<b>Net Rental Income</b>	<b>830,887</b>	<b>962,147</b>	<b>664,073</b>	<b>499,777</b>	<b>2,956,886</b>
Income from Equity Accounted and Preferred Investments	745,997	730,362	788,707	861,526	3,126,591
Income from Preferred Capital Investments	47,653	118,604	287,050	127,363	580,669
General and Administrative	(487,967)	(567,154)	(592,172)	(498,399)	(2,145,692)
Finance Costs	(638,620)	(648,438)	(557,057)	(481,319)	(2,325,435)
Convertible Debentures	(422,595)	292,471	(391,068)	(2,374,126)	(2,895,318)
Fair Value Adjustments of Investment Properties and Equity accounted investments	4,022,543	4,248,037	2,052,638	1,097,505	11,420,722
Provision for Impairment on Preferred Investments and Preferred Capital Investments	(284,330)	(3,551,167)	(689,317)	(1,792,485.00)	(6,317,299)
Other (1)	(334,628)	969,069	(809,343)	(385,759)	(560,661)
<b>Net Income</b>	<b>\$ 3,478,939</b>	<b>\$ 2,553,930</b>	<b>\$ 753,511</b>	<b>\$ (2,945,917)</b>	<b>\$ 3,840,463</b>

	Three Months Ended				Twelve Months
	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2020
Rental revenue	\$ 1,041,151	\$ 979,192	\$ 1,033,978	\$ 1,070,855	\$ 4,125,175
Property operating expenses	(651,262)	(536,400)	(506,173)	(482,896)	(2,176,729)
<b>Net rental income (loss)</b>	<b>389,889</b>	<b>442,792</b>	<b>527,805</b>	<b>587,959</b>	<b>1,948,446</b>
Income from Equity Accounted and Preferred Investments	1,047,197	573,532	545,959	671,026	2,837,714
Income from Preferred Capital Investments	120,557	159,987	103,459	122,458	506,461
Income from Mortgage Investments	-	54,430	55,974	-	110,404
General and administrative	(506,480)	(339,427)	(327,231)	(468,124)	(1,641,263)
Finance costs	(508,402)	(440,781)	(439,185)	(429,345)	(1,817,716)
Convertible Debentures	-	1,200	1,146,983	848,363	1,996,546
Fair Value Adjustments of Investment Properties and Equity accounted investments	2,616,826	-	-	(1,768,263)	848,563
Other (1)	(687,699)	164,805	(209,144)	1,547,235	815,197
<b>Net Income</b>	<b>\$ 2,471,888</b>	<b>\$ 616,536</b>	<b>\$ 1,404,620</b>	<b>\$ 1,111,310</b>	<b>\$ 5,604,354</b>

(1) The combination of foreign exchange gain/(loss), unit based recovery (expense) and income tax expense.

## REVIEW OF QUARTERLY AND YEAR TO DATE RESULTS

### REVENUES

For the three months ended December 31, 2021, rental revenue was approximately \$1.8 million, in line with the \$1.8 million reported for the three months ended September 30, 2021, and an increase over the \$1.0 million reported for the three months ended December 30, 2020. For the year ended December 31, 2021, rental revenue was \$5.9 million, a 42% increase from the \$4.1 million reported for the year ended December 31, 2020. The quarterly and annual increases are largely due to the higher rents as described above and the post-acquisition consolidation of the New Jersey Portfolio as described below.

## **MANAGEMENT DISCUSSION & ANALYSIS**

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### **PROPERTY OPERATING EXPENSES**

For the three months ended December 31, 2021, property operating expenses were approximately \$0.9 million, an increase from \$0.8 million reported for the three months ended September 30, 2021. For year ended December 31, 2021, property operating expenses were \$3.0 million, in comparison to the \$2.2 million reported for year ended December 31, 2020. The quarterly increases are due to higher property tax assessments in the Texas Portfolio. The annual increases are largely due to the post-acquisition consolidation of the New Jersey Portfolio as described below.

### **NET RENTAL INCOME FROM INVESTMENT PROPERTIES**

For the three months ended December 31, 2021, net rental income was approximately \$0.8 million, in comparison to the \$1.0 million reported for the three months ended September 30, 2021. The quarterly decreases are largely due to higher property tax assessments in the Texas portfolio.

For the year ended December 31, 2021, net rental income was approximately \$3.0 million, in comparison to the \$2.0 million reported for the year ended December 31, 2020. This Increase is largely due to the impact of the New Jersey Portfolio acquisition and higher rents as described above, offset by higher property operating expenses.

### **INCOME FROM EQUITY ACCOUNTED AND PREFERRED INVESTMENTS**

For the three months ended December 31, 2021, income from equity accounted and preferred investments was \$0.7 million, in comparison to the \$0.7 million income reported for the three months ended September 30, 2021, and the \$1.0 million reported for the three months ended December 31, 2020.

For the year ended December 31, 2021, income from equity accounted investments was \$3.1 million, a 14% increase over the \$2.8 million reported for the year ended December 31, 2020. The increase over the three and twelve months ended December 31, 2021, is largely due to increased rents realized from various value add programs and the full period impact of acquisitions, offset by post-acquisition consolidation of the New Jersey Portfolio as described below.

### **PRO FORMA CONSOLIDATION OF EQUITY ACCOUNTED INVESTMENTS**

Outlined below are the financial statements of the Trust including the pro forma consolidation of its interests in equity accounted investments: assuming proportionate consolidation, the Trust would have total assets of approximately \$180.8 million.

## MANAGEMENT DISCUSSION & ANALYSIS

*(In \$thousands unless otherwise stated)*

December 31, 2021

	The Trust (1)	New York, NY	Brentwood, MD	Houston, TX	Bronx, NY	Hartford, CT	Canton, GA	Houston, TX	Hyattsville, MD	Total
<b>Assets</b>										
Cash & Restricted										
Cash	\$ 5,071	\$ 97	\$ 59	\$ 139	\$ 150	\$ 72	\$ 69	\$ 105	\$ 230	\$ 5,993
Accounts Receivable	677	127	90	320	81	163	81	1,106	915	3,559
Other Assets & Investments	185	(75)	(32)	(120)	185	(66)	(34)	(74)	(55)	(86)
Preferred Capital Investments	2,765	-	-	-	-	-	-	-	-	2,765
Investment Properties	78,405	6,208	4,855	13,264	12,952	6,526	11,668	16,375	18,278	168,532
	<b>\$ 87,103</b>	<b>\$ 6,357</b>	<b>\$ 4,972</b>	<b>\$ 13,604</b>	<b>\$ 13,369</b>	<b>\$ 6,695</b>	<b>\$ 11,784</b>	<b>\$ 17,511</b>	<b>\$ 19,368</b>	<b>\$ 180,763</b>
<b>Liabilities</b>										
Accounts Payable	\$ 3,574	\$ 804	\$ 61	\$ 361	\$ 187	\$ 110	\$ 114	\$ 459	\$ 97	5,768
Other Liabilities	649	44	12	5	20	61	20	7	44	862
Long Term Liabilities	46,246	8,521	2,507	7,687	10,063	5,718	8,521	13,205	16,875	119,344
	<b>\$ 50,469</b>	<b>\$ 9,370</b>	<b>\$ 2,580</b>	<b>\$ 8,053</b>	<b>\$ 10,270</b>	<b>\$ 5,890</b>	<b>\$ 8,655</b>	<b>\$ 13,671</b>	<b>\$ 17,017</b>	<b>\$ 125,975</b>
<b>Equity</b>										
Unitholders Equity	36,634	(3,013)	2,392	5,551	3,099	806	3,129	3,841	2,351	54,789
	<b>\$ 36,634</b>	<b>\$ (3,013)</b>	<b>\$ 2,392</b>	<b>\$ 5,551</b>	<b>\$ 3,099</b>	<b>\$ 806</b>	<b>\$ 3,129</b>	<b>\$ 3,841</b>	<b>\$ 2,351</b>	<b>\$ 52,437</b>
	<b>\$ 87,103</b>	<b>\$ 6,357</b>	<b>\$ 4,972</b>	<b>\$ 13,604</b>	<b>\$ 13,369</b>	<b>\$ 6,695</b>	<b>\$ 11,784</b>	<b>\$ 17,511</b>	<b>\$ 19,368</b>	<b>\$ 180,763</b>

Note:(1) Excludes equity investments from the Trust's balance sheet as those are reflected on the proportionate consolidation chart.

As at December 31, 2021, the Trust has has invested in the following Equity Accounted and Preferred Investments:

*(In \$millions unless otherwise stated)*

Location	Units	Investment Properties	Equity		Preferred Investment	Total Investment	Preferred Yield
			Common Equity Ownership %	Accounted Investment - Common Equity			
New York City	129	\$ 27.3	22.8%	\$ -	\$ 1.7	\$ 1.7	8%
Brentwood, MD	118	19.4	25.0%	2.3	0.1	2.4	8%
Houston, TX	235	26.5	50.0%	6.0	3.5	9.6	9%
Bronx, NY	132	25.9	50.0%	3.5	-	3.5	8%
Hartford, CT	109	13.1	50.0%	1.0	1.3	2.4	8%
Canton, GA	138	23.3	50.0%	3.4	3.0	6.3	8%
Houston, TX	250	32.8	50.0%	4.5	3.5	8.0	9%
Hyattsville, MD	235	36.6	50.0%	2.7	4.1	6.8	8%
<b>Total/ Weighted Average</b>	<b>1,346</b>	<b>\$ 204.8</b>	<b>44.0%</b>	<b>\$ 23.3</b>	<b>\$ 17.2</b>	<b>\$ 40.5</b>	<b>8.4%</b>

Outlined below are the details of the Trust's net investment in the equity accounted investment comprised of common equity, accounted for using the equity method and preferred equity, accounted as preferred investment loans carried at amortized cost, along with the balance sheet and statement of income (each at 100% of the underlying property) and income allocation from the equity accounted and preferred investments as of December 31, 2021 and December 31, 2020.

## MANAGEMENT DISCUSSION & ANALYSIS

	Equity Accounted Investments	Preferred Investments	Total
<b>As at December 31, 2019</b>	<b>\$ 16,082,203</b>	<b>\$22,383,164</b>	<b>\$ 38,465,367</b>
Investment Activity			
- Equity Accounted Investments	5,025,630	-	5,025,630
- Preferred Investments	-	8,287,177	8,287,177
- Disposition of Equity Accounted Investments	(1,672,279)	-	(1,672,279)
- Redemption of Preferred Investments	-	(2,694,769)	(2,694,769)
Income Items			
- Income from Equity Accounted Investments	500,502	-	500,502
- Fair Value Adjustments on Investment Properties	(240,268)	-	(240,268)
- Income from Preferred Investments	-	2,375,548	2,375,548
- Less: Distributions and interest received	(99,249)	(1,815,096)	(1,914,345)
<b>As at December 31, 2020</b>	<b>\$ 19,596,539</b>	<b>\$28,536,024</b>	<b>\$ 48,132,563</b>
Investment Activity			
- Equity Accounted Investments	1,236,693	-	1,236,693
- Preferred Investments	-	976,513	976,513
- Redemption of Preferred Investments	-	(5,136,821)	(5,136,821)
- Derecognition of New Jersey Portfolio on Acquisition of Assets	(3,360,757)	(2,704,077)	(6,064,834)
Income Items			
- Income from Equity Accounted Investments	1,080,148	-	1,080,148
- Fair Value Adjustments on Investment Properties	5,355,621	-	5,355,621
- Provision for Impairment on Preferred Investments	-	(5,020,631)	(5,020,631)
- Income from Preferred Investments	-	2,046,442	2,046,442
- Less: Distributions and interest received	(628,125)	(1,450,574)	(2,078,699)
<b>As at December 31, 2021</b>	<b>\$ 23,280,120</b>	<b>\$17,246,877</b>	<b>\$ 40,526,997</b>

## MANAGEMENT DISCUSSION & ANALYSIS

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Cash	\$ 788,251	\$ 709,568
Restricted Cash	4,635,344	3,036,713
Accounts Receivable	1,290,580	962,889
Other Assets	943,557	816,782
Investment Properties	204,811,406	221,398,580
	<b>\$ 212,469,138</b>	<b>\$ 226,924,532</b>
<b>Liabilities</b>		
Accounts Payable	2,952,377	2,754,339
Security Deposits	637,041	826,920
Mortgages	137,305,058	145,514,689
	<b>\$ 140,894,476</b>	<b>\$ 149,095,949</b>
<b>Equity</b>		
Retained Earnings	\$ 11,179,381	\$ 11,665,219
Preferred Equity	30,700,770	35,935,735
Common Equity	29,694,509	30,227,629
	<b>\$ 71,574,662</b>	<b>\$ 77,828,582</b>
	<b>\$ 212,469,138</b>	<b>\$ 226,924,532</b>
<b>Investment Allocation for the Trust</b>		
Equity Accounted Investments	\$ 23,280,120	\$ 19,596,539
Preferred Investments	17,246,877	28,536,024
	<b>\$ 40,526,997</b>	<b>\$ 48,132,563</b>

	Years Ended	
	December 31, 2021	December 31, 2020
<b>Net Income</b>		
Rental Revenue	\$ 20,407,531	\$ 21,573,542
Property Operating Expenses	(10,387,958)	(11,135,627)
<b>Net Rental Income</b>	<b>10,019,573</b>	<b>10,437,914</b>
General & Administrative	(69,116)	(80,900)
Interest Expense	(6,192,069)	(6,850,585)
Fair Value Adjustments on Investment Properties	3,462,681	(1,965,009)
<b>Net Income Before Interest from Preferred Investments</b>	<b>\$ 7,221,069</b>	<b>\$ 1,541,421</b>
Less: Interest from Preferred Investments	(2,559,101)	(3,392,057)
<b>Net Income</b>	<b>\$ 4,661,968</b>	<b>\$ (1,850,636)</b>
<b>Income Earned by the Trust</b>		
Income from Equity Accounted Investments	\$ 1,080,148	\$ 500,502
Fair Value Adjustments on Investment Properties	5,355,621	(240,268)
Income from Preferred Investments	2,046,472	2,375,548
Provision for Impairment on Preferred Investments	(5,020,631)	-
	<b>\$ 3,461,610</b>	<b>\$ 2,635,782</b>

### RECENT PORTFOLIO ACTIVITY

- On January 31, 2020, the Trust closed an equity accounted and preferred investment to acquire the Woodglen Village, a 250-unit multi-family residential portfolio located in Houston, TX (the “**Woodglen Acquisition**”). The purchase price for 100% of the Woodglen Acquisition was \$27.9 million (including transaction costs). The Woodglen

## MANAGEMENT DISCUSSION & ANALYSIS

Acquisition was financed, in part with a \$22.1 million, 4.6% first mortgage due on February 9, 2023. The Trust contributed \$3.4 million (100% ownership) of preferred equity yielding 9% and \$1.2 million of common equity representing a 50% ownership stake in the investment. On February 8, 2022, the Trust acquired the remaining 50% interest in this investment for \$4.1 million. The Trust will now own 100% of this investment and will report it going forward as an investment property in the financial statements.

- On September 22, 2020, the Trust closed an equity accounted and preferred investment to acquire a 235 unit multi-family residential portfolio located in Hyattsville, MD (the “**North Pointe Acquisition**”). The purchase price for 100% of the North Point Acquisition was \$40.5 million (including transaction costs). The North Point Acquisition was financed, in part with a \$29.7 million, 3.0% first mortgage due on September 21, 2024. The Trust contributed \$4.0 million of preferred equity yielding 8% and \$3.4 million of common equity representing a 50% ownership interest in the investment.
- On December 23, 2020, the Trust completed a sale of its interest in fourteen multi-family buildings located in Bridgeport, Connecticut to its joint venture partner. The Trust received net proceeds of approximately \$4.5 million from the Bridgeport sale consisting of a repayment of its preferred equity (inclusive of accrued interest) of \$2.8 million and \$1.7 million for the common equity.
- On February 25, 2021, the first mortgage on the Bronx, NY investment was refinanced for total gross proceeds of \$21.6 million. With the \$3.1 million net proceeds received from the refinancing and an additional \$2.0 million contributed by the common equity owners, \$5.1 million of Preferred Equity was repaid. The new mortgage has a 3.51% interest rate with a 12-year term amortizing over 30 years.
- On June 7, 2021, the Trust completed the acquisition of the New Jersey equity accounted and preferred investment (“**New Jersey Portfolio**”).

This transaction has been recognized as an asset acquisition whereby the associated costs have been capitalized. The consideration has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of transaction. The purchase price equation for the New Jersey Portfolio transaction is as follows:

<b>Investment properties, including transaction costs</b>	<b>\$</b>	<b>22,292,997</b>
Cash and restricted cash		109,237
Accounts receivable		199,787
Account payables and accrued liabilities		(378,709)
Mortgages payable		(13,533,056)
<b>Net assets acquired</b>	<b>\$</b>	<b>8,690,256</b>
<b>Consideration:</b>		
Purchase price	\$	2,516,520
Equity accounted and preferred investment		6,064,834
Fair value adjustment on acquisition		108,902
<b>Total Consideration</b>	<b>\$</b>	<b>8,690,256</b>

## MANAGEMENT DISCUSSION & ANALYSIS

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The Trust establishes loss provisions applicable to its preferred investments using a 12 month expected credit loss approach as described in note 4 of the Trust's consolidated financial statements.

Upon acquisition, the Trust classified this investment as an investment property, whereby rental revenues and operating expenses are recorded rather than income from preferred and equity accounted investments. The impact of this classification is increased rental revenues and operating expenses; offset by lower income from preferred and equity accounted investments.

At each reporting date, the Trust assesses the borrower's ability to make contractual payments based on current market conditions. Based on the impact of the COVID-19 pandemic, the Trust updated its valuation model and recorded impairment of preferred investments. For the year ended December 31, 2021, the impairment of preferred investments was \$5.0 million (2020 - \$nil). This provision was recorded for the New York City equity accounted and preferred investment due to the impact of COVID-19 in the U.S. Northeast as mentioned above.

### INCOME FROM PREFERRED CAPITAL INVESTMENTS

As at December 31, 2021, the Trust has invested in the following preferred capital investments:

- **New York Portfolio:** Investment of \$2.5 million in a \$12 million, interest only preferred capital investment to fund the acquisition by a New York based real estate investment firm of a portfolio of three apartment buildings in Manhattan, New York. The investment earns an interest rate of 12% per annum and matures on January 1, 2023.
- **Houston Portfolio:** On September 10, 2021, the Trust Invested \$1.5 million in a \$4.8 million preferred capital loan for the same portfolio of five apartment buildings with the new owner. The Houston Preferred Capital earns an interest rate of 10% per annum and matures on September 9, 2025.

The Trust establishes loss provisions applicable to its preferred capital investments using a 12 month expected credit loss approach as described in note 5 of the Trust's consolidated financial statements.

At each reporting date, the Trust assesses the borrower's ability to make contractual payments based on current market conditions. The Trust updated its valuation model and exercised judgement in assessing its inputs given the uncertainty of the COVID-19 pandemic and recorded a provision for impairment of preferred capital investments. For the year ended December 31, 2021, the impairment of preferred capital investments was \$1.3 million (2020 - \$nil). This provision was recorded for the New York City portfolio due to the impact of COVID-19 in the U.S. Northeast as mentioned above.

### FAIR VALUE ADJUSTMENTS ON THE INVESTMENT PORTFOLIO

As of December 31, 2021, the Trust owned the following investment properties:

- 500 wholly owned apartment units with a fair value of approximately \$78.4 million;
- 1,346 equity accounted apartment units with an investment fair value of approximately \$40.2 million.

## MANAGEMENT DISCUSSION & ANALYSIS

Each quarter, the Trust determines the fair value of its wholly owned and equity accounted and preferred investment portfolios using a combination of an internally managed valuation model and external appraisals using the income approach as well as comparable property sales.

For the year ended December 31, 2021, the total fair value gain to investment properties was \$6.0 million in comparison to the \$1.1 million for the year ended December 31, 2020. The Trust has updated its assumptions used in determining the fair value of investment properties and exercises judgment in assessing its inputs given the uncertainty created by the COVID-19 pandemic. This gain is largely due to capitalization rate compression and rental rate increases in 2021.

For the year ended December 31, 2021, the total fair value adjustment to equity accounted investment properties was a gain of \$5.4 million in comparison to the \$0.2 million net loss reported for the year ended December 31, 2020. This gain is largely due to capitalization rate compression and rental rate increases in 2021.

### LEVERAGE

The Trust monitors its leverage (defined as Mortgages / Investment Portfolio) as a measure of anticipating future growth through the private and public debt markets versus its liquidity in the short term. The table below calculates the Trust's leverage as at December 31, 2021 and December 31, 2020.

	Dec 31, 2021	Dec 31, 2020
Investment Portfolio	\$ 121,697,231	\$ 103,247,371
Less: Mortgages <sup>(1)</sup>	(30,620,959)	(17,573,175)
<b>Net Equity</b>	<b>\$ 91,076,272</b>	<b>\$ 85,674,196</b>

<b>Leverage (Mortgages / Investment Portfolio)</b>	<b>25.2%</b>	<b>17.0%</b>
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(1) Exclusive of the Convertible Debentures, including the Convertible Debentures at December 31, 2021, leverage would be 37.6%.

### GENERAL AND ADMINISTRATIVE (“G&A”)

For the three months ended December 31, 2021, G&A was approximately \$0.5 million, in comparison to the \$0.5 million reported for the three months ended December 31, 2021.

For the year ended December 31, 2021, G&A was \$2.2 million, in comparison to the \$1.6 million reported for the year ended December 31, 2020.

### FINANCE COSTS

For the three months ended December 31, 2021, finance costs were approximately \$0.6 million, in comparison to the \$0.5 million reported for the three months ended December 31, 2020. For the year ended December 31, 2021, finance costs were \$2.3 million, an increase over the \$1.8 million reported for the year ended December 31, 2020. The increased in comparison to the three and twelve months ended December 31, 2020 are largely due to the impact of the post-acquisition consolidation of the New Jersey Portfolio as described below.

The Trust monitors its normalized finance costs (“Cash Finance Costs”) excluding non-cash accretion or amortization expense as a measure of liquidity. The table below

## MANAGEMENT DISCUSSION & ANALYSIS

calculates the cash finance costs for the three and twelve months ended December 31, 2021 and 2020.

	Three Months Ended		Twelve Months Ended	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Finance Costs	\$ 638,620	\$ 508,402	\$ 2,325,435	\$ 1,817,716
Less: Accretion/ Amortization	(20,507)	(83,587)	(110,954)	(118,086)
<b>Cash Finance Costs</b>	<b>\$ 618,113</b>	<b>\$ 424,815</b>	<b>\$ 2,214,481</b>	<b>\$ 1,699,630</b>
<b>% Change - Cash Finance Costs</b>		<b>46 %</b>		<b>30 %</b>

### FUNDS FROM OPERATIONS (“FFO”), ADJUSTED FUNDS FROM OPERATIONS (“AFFO”).

For the three months ended December 31, 2021, FFO was \$0.2 million, in comparison to \$1.4 million reported for the three months ended September 30, 2021 and \$0.5 million reported for the three months ended December 31, 2020. For the year ended December 31, 2021, FFO was negative \$0.9 million, in comparison to the \$4.7 million reported for the year ended December 31, 2020. The quarterly and year-to-date variance is due to fluctuation in the trading prices of the Trust’s units and convertible debentures. These changes resulted in fair value gains in early 2020 and losses in late 2021.

For the three months ended December 31, 2021, AFFO was \$0.5 million, in comparison to \$0.6 million reported for the three months ended September 30, 2021, and \$0.6 million reported in three months ended December 31, 2020. For the year ended December 31, 2021, AFFO was \$2.2 million, a 10% increase compared to the \$2.0 million reported for the year ended December 31, 2020.

The increase in AFFO for year ended December 31, 2021 is largely due to increase in rental rates across portfolio and the impact of the New Jersey portfolio acquisition as described above offset by the higher property operating costs. The decrease in AFFO for the three months ended December 31, 2021 in comparison to the three months ended December 31, 2020, is largely driven by the higher property tax assessments for the Texas portfolio.

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended			Twelve Months Ended	
	Dec 31, 2021	Sep 30, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
<b>Net income</b>	<b>\$ 3,478,939</b>	<b>\$ 2,553,930</b>	<b>\$ 2,471,888</b>	<b>\$ 3,840,463</b>	<b>\$ 5,604,354</b>
Add (deduct):					
Income Tax Expense	545,616	-	-	545,616	-
Fair Value Adjustments to Investment Properties	(1,086,484)	(3,346,266)	(1,088,831)	(6,065,102)	(1,088,831)
Fair Value Adjustments to Investment Properties Held in Equity Accounted Investments	(2,936,059)	(901,771)	(1,527,995)	(5,355,621)	240,268
Provision for Impairment - Preferred Investments	(66,457)	3,223,306	-	5,020,631	-
Provision for Impairment - Preferred Capital Investments	350,787	327,861	-	1,296,668	-
Foreign Exchange Gain	(62,181)	(565,273)	529,476	(297,112)	(134,162)
Finance Cost Amortization	20,507	67,449	83,587	110,954	118,086
<b>FFO</b>	<b>\$ 244,667</b>	<b>\$ 1,359,236</b>	<b>\$ 468,125</b>	<b>\$ (903,503)</b>	<b>\$ 4,739,715</b>
Add (deduct):					
Fair Value Adjustments to Convertible Debentures	422,595	(292,471)	-	2,895,318	(1,996,546)
Fair Value Adjustments to Unit Based Compensation	(148,806)	(403,796)	158,223	312,157	(681,035)
Capital Expenditures	(20,772)	(24,054)	(9,747)	(73,922)	(48,711)
<b>AFFO</b>	<b>\$ 497,684</b>	<b>\$ 638,915</b>	<b>\$ 616,601</b>	<b>\$ 2,230,050</b>	<b>\$ 2,013,423</b>
<b>Weighted Average Units</b>	<b>7,604,375</b>	<b>7,610,885</b>	<b>7,716,762</b>	<b>7,660,140</b>	<b>7,841,795</b>
<b>FFO per Unit</b>	<b>\$ 0.03</b>	<b>\$ 0.18</b>	<b>\$ 0.06</b>	<b>\$ (0.12)</b>	<b>\$ 0.60</b>
<b>AFFO per Unit</b>	<b>\$ 0.07</b>	<b>\$ 0.08</b>	<b>\$ 0.08</b>	<b>\$ 0.29</b>	<b>\$ 0.26</b>

As AFFO is viewed as a measure of cash available for distributions, the following table reconciles AFFO to cash flow from operations:

	Three Months Ended			Twelve Months Ended	
	Dec 31, 2021	Sep 30, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Total Operating Activities	\$ 4,255	\$ 1,539,296	\$(1,389,248)	\$ 3,147,475	\$ 116,862
Changes in non-cash working capital items:					
Foreign Exchange Gain on Convertible Debentures	(26,180)	463,849	(553,759)	(14,948)	(161,916)
Accounts Receivable	9,610	29,201	1,659,688	(1,409,327)	1,691,053
Prepaid Expenses and Other Assets	106,044	(192,520)	108,687	16,947	(14,086)
Accounts Payable and Accrued Liabilities	219,748	(544,457)	(66,201)	(337,283)	(453,842)
Income from Equity Accounted Investments	149,492	6,323	95,570	489,625	401,253
Income from Preferred Investments	64,358	62,477	205,282	627,951	560,452
Income from Preferred Capital Investments	53,309	(135,927)	36,853	80,643	56,519
Foreign exchange gain	(62,181)	(565,273)	529,476	(297,112)	(134,162)
Capital expenditures	(20,772)	(24,054)	(9,747)	(73,922)	(48,711)
<b>AFFO</b>	<b>497,684</b>	<b>\$ 638,915</b>	<b>\$ 616,601</b>	<b>2,230,050</b>	<b>\$ 2,013,423</b>
<b>AFFO per Unit</b>	<b>\$ 0.07</b>	<b>\$ 0.08</b>	<b>\$ 0.08</b>	<b>\$ 0.29</b>	<b>\$ 0.26</b>

### COMPARABLE CASH FLOWS

Comparable operating, investing and financing cash flows for the three and twelve months ended December 31, 2021, and 2020 are outlined below:

	Three Months Ended		Twelve Months Ended	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Operating Activities	\$ 4,255	\$ (1,529,450)	\$ 3,147,475	\$ 116,864
Investing Activities	(200,536)	4,091,779	1,563,762	(9,374,663)
Financing Activities	(612,063)	(614,103)	(3,206,313)	5,783,685
<b>Increase/ (Decrease) in Cash</b>	<b>\$ (808,344)</b>	<b>\$ 1,948,226</b>	<b>\$ 1,504,924</b>	<b>\$ (3,474,115)</b>
Cash, Beginning of Period	5,879,673	1,618,179	3,566,405	7,040,520
<b>Cash, End of Period</b>	<b>\$ 5,071,329</b>	<b>\$ 3,566,405</b>	<b>\$ 5,071,329</b>	<b>\$ 3,566,405</b>

## MANAGEMENT DISCUSSION & ANALYSIS

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Net cash generated by operating activities increased in comparison to the three and twelve months ended December 31, 2020 largely due changes in working capital and higher cash flows received from the investment portfolio as described above.

Net cash flows generated by investing activities for the three months ended December 31, 2021 decreased in comparison to the three months ended December 31, 2020 largely due to the 2020 disposition of the Bridgeport, CT portfolio.

Net cash generated by investing activities for the three months ended December 31, 2021 increased in comparison to the twelve months ended December 31, 2020 largely due to the net proceeds received from the redemption of Preferred and Preferred Capital Investments.

Net cash generated by financing activities decreased for the twelve months ended December 31, 2021 largely due to the \$12.6 million of gross proceeds raised in 2020 as part of the Trust's marketed offering; offset by the trust unit repurchase.

### RELATED PARTY TRANSACTIONS

The Trust has entered into the following transactions with related parties:

- I. On November 1, 2015, The Trust entered into a Management Agreement with Firm Capital Realty Partners Advisors Inc. (the "**Manager**"), an entity related to a director of the Trust. Under the terms of the Agreement, the Manager provides a number of services to the Trust, and is entitled to certain fees payable monthly, as follows:
  - a) **Asset Management Fee:** 0.75% of the Gross Invested Assets of the Trust,
  - b) **Acquisition Fee:**
    - i. 1.0% of the first \$300 million of aggregate Gross Book Value in respect of Properties acquired in a particular year; and thereafter
    - ii. 0.75% of aggregate Gross Book Value in respect of Properties acquired in such year.
  - c) **Performance Incentive Fees:** 15% of AFFO once AFFO exceeds \$0.63 per Unit.
  - d) **Placement Fees:** 0.25% of the aggregate value of all debt and equity financing arranged by the Manager.
  - e) **Property Management Fees:**
    - i. Multi-unit residential properties with 120 units or less, 4.0% of Gross Revenue collected from the property;
    - ii. Multi-unit residential properties with more than 120 units, 3.5% of Gross Revenue collected from the property;
    - iii. Industrial or commercial property, 4.25% of Gross Revenue collected from the property; provided, however, that for such properties with a single tenant 3.0% of Gross Revenue collected from the property
  - f) **Commercial Leasing Fees:** 3.0% of the net rental payments for the first year of the lease, and 1.5% of the net rental payments for each year during duration of the lease; provided, however, that where a third party broker arranges for

## MANAGEMENT DISCUSSION & ANALYSIS

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the lease of any such property that is not subject to a long-term listing agreement, the Manager shall be entitled to reduced commission equal to 50% of the foregoing amounts with respect to such property.

- g) Commercial Leasing Renewal Fees:** Renewals of space leased on commercial terms (including lease renewals at the option of the tenant) which are handled exclusively by the Manager shall be subject to a 0.50% commission on the net rental payments for each year of the renewed lease. When a long-term listing agreement is in effect for leasing and marketing of space with a party other than the Manager, the Manager shall cooperate fully with the broker and the leasing fees will not be payable to the Manager.
- h) Construction Development Property Management Fees:** Where the Manager is requested by the Trust to construct tenant improvements or to renovate same, or where the Manager is requested by the Trust to construct, modify, or re-construct improvements to, or on, the Properties (collectively, “**Capital Expenditures**”), the Manager shall receive 5.0% of the cost of such Capital Expenditures, including the cost of all permits, materials, labour, contracts, and subcontracts; provided, however, that no such fee shall be payable unless the Capital Expenditures are undertaken following a tendering or procurement process wherein the total cost of such Capital Expenditures exceed \$50,000.
- i) Loan Servicing Fees:** 0.25% per annum on the principal amount of each Mortgage Investment (other than syndicated loans serviced by third parties). The Loan Servicing Fee will be calculated as spread interest and deducted from the first interest received on a mortgage investment. Mortgage servicing fees will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers. Loan Servicing Fees will not be payable in respect of the Trust's cash balances or Non-Performing Loans held by the Trust, except that the Manager shall be entitled to retain any overnight float interest on all accounts maintained by the Manager in connection with the servicing of the Trust's Mortgage Investments. The Manager will retain all overnight float interest and related loan servicing fees as charged such as advance fees, discharge statement fees, realty tax escrow account charges, late payment and dishonoured payment charge fees, and all other such fees as charged by a loan servicing agent. This will only apply to the Mortgage Investments of the Trust.
- j) Origination, Commitment & Discharge Fees and Profit Sharing Fees:** The Manager shall remit to the Trust:
- i. 25% of all originating fees, commitment fees and renewal fees it receives from borrowers on mortgages it originates for the Trust (prorated to reflect the Trust's participation in the investment). The Manager will retain 100% of all originating fees, commitment fees, renewal fees and will remit 25% of such fees to the Trust calculated on the Trust's investment amount; and
  - ii. 75% of any profit sharing, discharge fees, participation fees and profit made on discounted debt that the Mortgage Banker receives in respect of all Non-Conventional Mortgages and Special Profit Transactions it

## MANAGEMENT DISCUSSION & ANALYSIS

originates for the Trust (with an 8.0% annual preferential return to be given to the Trust on the Trust's investment amount prior to the Manager receiving its unit of such fees). The Manager shall retain 100% of all servicing charges paid by borrowers which are not identified above, including, without limitation, discharge statement administration fees and all fees identified.

- k) Term and Termination:** Initial term of ten years with automatic renewal for successive five year terms. The Trust may terminate the Agreement any time after November 1, 2025 other than for cause upon the approval of two-thirds of the votes cast by unitholders at a meeting and upon 24 months prior written notice. Upon termination, the Trust shall pay to the Manager the following:
- i. 2% of the Gross Invested Assets of the Properties and the Trust's other assets; and
  - ii. any amounts which would have been earned by the Manager under the Agreement for the uncompleted portion of the term (the "**Termination Payment**").

For the year ended December 31, 2021, asset management fees were \$1.2 million (2020 - \$1.0 million), loan servicing fees were \$0.06 million (2020 - \$0.1 million), acquisition fees were \$ 0.1 million (2020 - \$0.3 million), debt placement fees were \$0.04 million (2020 - \$0.06 million), equity placement fees were \$nil (2020 - \$0.03 million) and property management fees were \$0.09 million (2020 - \$0.08 million).

Asset Management fees and loan servicing fees are included in general and administrative expenses. Property management fees are included in property operating expenses. Acquisition fees and debt placement fees are capitalized to equity accounted investments. Transaction costs associated with acquisitions are capitalized to investment properties. Equity Placement Fees have been capitalized against unitholders' equity.

As at December 31, 2021, the Trust has accrued \$1.3 million (December 31, 2020 - \$1,1 million) under this Management Agreement, which is included in accounts payable and accrued liabilities.

### CONTRACTUAL OBLIGATIONS

The Trust's contractual obligations over the next few years are as follows:

	Less than 1			Total
	year	1-2 years	>2 years	
Mortgages Payable	\$ 11,512,345	\$ 6,706,085	\$ 12,519,277	\$ 30,737,707
Convertible Debentures Payable	-	-	15,079,288	15,079,288
Accounts Payable and Accrued Liabilities	3,574,389	-	-	3,574,389
<b>Total</b>	<b>\$ 15,086,734</b>	<b>\$ 6,706,085</b>	<b>\$ 27,598,565</b>	<b>\$ 49,391,384</b>

### MORTGAGES PAYABLE

As at December 31, 2021, the Trust had mortgages payable secured by the multi-family properties of \$30.6 million (including the current portion and net of unamortized financing costs) (December 31, 2020 - \$17.6 million) which bear interest at a weighted average interest rate of 4.13% (December 31, 2020 - 4.37%) per annum, and have maturity dates ranging between October 2022 and March 2038.

## MANAGEMENT DISCUSSION & ANALYSIS

On June 7, 2021, as a result of the New Jersey Portfolio acquisition, the Trust assumed mortgages with a fair value of \$13.5 million, which bear interest at 3.83% per annum, and mature on March 1, 2038.

	December 31,	
	2021	2020
Mortgages payable	\$ 30,737,709	\$ 17,653,669
Less: current portion	(11,512,345)	(373,540)
Less: unamortized financing costs	(116,750)	(80,494)
	<b>\$ 19,108,614</b>	<b>\$ 17,199,635</b>

The following annual payments of principal and interest are in respect of these mortgages:

	Principal		Interest		Total	
2022	\$ 11,512,346	\$ 1,192,885	\$ 12,705,231			
2023	6,381,413	633,245	7,014,658			
2024	324,672	495,810	820,482			
2025	338,813	482,620	821,434			
Thereafter	12,180,464	4,753,665	16,934,129			
<b>Total</b>	<b>\$ 30,737,709</b>	<b>\$ 7,558,224</b>	<b>\$ 38,295,933</b>			

### CONVERTIBLE DEBENTURE

On August 8, 2019, the Trust closed a \$13.7 million (CAD \$18.1 million based on the Bank of Canada daily noon rate of exchange \$1.3257), 6.25% convertible unsecured subordinated debenture (the “Convertible Debenture”) offering. On August 13, 2019, the Trust closed an additional \$1.0 million (CAD \$1.3 million based on the Bank of Canada daily noon rate of exchange of \$1.3236) of the Convertible Debenture. The Convertible Debenture is due on June 30, 2026. The Convertible Debenture can be converted into trust units at an exercise price of CAD \$12.60 per trust unit (the “Conversion Option”) at any time prior to June 30, 2026. Each Convertible Debenture Unit also includes 79 trust unit purchase warrants (the “Warrants”) of the Trust. The warrants associated with Convertible Debenture expired on August 7, 2021.

As the functional currency of the Trust is USD, the Conversion Option and Warrants were classified as embedded derivatives. The Trust has elected to classify and measure the Convertible Debenture at FVTPL based on the trading price of the applicable debentures at each reporting date with changes in fair value being recognized fair value adjustments to convertible debentures.

On June 14, 2021, the Trust received approval from the TSXV to commence a Normal Course Issuer Bid (“NCIB”) to purchase up to CAD \$2.0 million principal amount of the Convertible Debentures being equal to 10% of the public float. The NCIB commenced on June 16, 2021, and will end on the earlier of June 15, 2022, or at such time as the NCIB has been completed. For the year ended December 31, 2021, no convertible debentures were purchased by the Trust. For the year ended December 31, 2020, the Trust purchased convertible debentures with a face value of CAD \$0.06 million for \$0.04 million (CAD \$0.05 million).

### UNITHOLDERS’ EQUITY

Unitholders’ Equity as of December 31, 2021 was \$77 million and consisted of the following:

## MANAGEMENT DISCUSSION & ANALYSIS

	Number of Trust Units	Unitholder's Equity
<b>Balance at December 31, 2019</b>	6,935,306	65,122,724
Revaluation of Warrants and Options	-	(979,891)
<b>Unitholder's Equity, January 1, 2020</b>	<b>6,935,306</b>	<b>\$ 64,142,833</b>
Issuance of Units from DRIP	2,669	21,623
Issuance of Units from Marketed Offering	1,590,000	11,523,781
Warrants Exercised	1,000	8,500
Net Income	-	5,604,354
Normal Course Issuer Bid	(128,100)	(721,004)
Trust Unit Repurchase	(686,200)	(2,744,200)
Distributions	-	(1,911,984)
<b>Unitholder's Equity, December 31, 2020</b>	<b>7,714,675</b>	<b>75,923,907</b>
Net Income	-	3,840,463
Normal Course Issuer Bid	(110,300)	(798,469)
Distributions	-	(1,805,106)
<b>Unitholders' Equity, December 31, 2021</b>	<b>7,604,375</b>	<b>77,160,795</b>

Outlined below are the key movements in Trust Units:

- On March 13, 2020, the Trust closed a marketed offering of 1,590,000 Trust Units at a price of \$8.20 (CAD \$10.90 per Trust Unit based on the Bank of Canada daily noon rate of exchange of \$1.3745). The Trust raised total gross proceeds of \$12.6 million (\$11.5 million net of issuance costs).
- On April 28, 2020, the Trust received approval from the TSXV Venture Exchange to commence a Normal Course Issuer Bid ("NCIB") to purchase up to 645,442 of its trust units being equal to 10% of the public float. The NCIB commenced on April 30, 2020 and ended on April 29, 2021.
- On May 27, 2020, 1,000 warrants were exercised resulting in net proceeds of \$0.008 million, while the remaining warrants expired.
- On July 27, 2020, the Trust redeemed and cancelled 686,200 Trust Units at a price of CAD \$5.35 (\$4.00) per Trust Unit representing a total gross cost of \$2.7 million (CAD \$3.7 million).
- On June 14, 2021, the Trust received approval from the TSXV to commence a NCIB to purchase up to 619,750 of Trust Units, being equal to 10% of the public float. The NCIB commenced on June 16, 2021 and will end on the earlier of June 15, 2022, or at such time as the NCIB has been completed. For the nine months ended September 30, 2021, 110,300 Trust Units were repurchased for a total gross cost of \$0.8 million at a weighted average cost of \$7.23 per Trust Unit. For the year ended December 31, 2020, the Trust repurchased 128,100 Trust Units for a total gross cost of \$0.7 million at a weighted average cost of \$5.75 per Trust Unit.

### DISTRIBUTIONS

For the year ended December 31, 2021, the Trust declared distributions of \$0.236 per Trust Unit resulting in total distributions of \$1.8 million (December 31, 2020 - \$1.9 million). As at December 31, 2021, the Trust accrued \$0.5 million, which is included in its accounts payable and accrued liabilities (December 31, 2020 - \$0.5 million).

## MANAGEMENT DISCUSSION & ANALYSIS

The policy of the Trust is to pay cash distributions on or about the 15th day after each quarter end to unitholders of record on the last business day of the preceding quarter. Distributions paid to unitholders who are non-residents of Canada are subject to Canadian withholding tax.

The excess/(shortfall) of cash flow from operating activities over distributions and net income/(loss) and comprehensive income/(loss) over distributions for the three and twelve months ended December 31, 2021 and 2020 are outlined below:

	Three Months Ended		Twelve Months Ended	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
<b>Total Operating Activities (A)</b>	\$ 4,255	\$ (1,389,248)	\$ 3,147,475	\$ 116,862
<b>Cash Finance Costs</b>				
Finance Costs	638,620	508,402	2,325,435	1,817,716
Less: Accretion/Amortization	(20,507)	(83,587)	(110,954)	(118,086)
<b>Net Cash Interest Expense (B)</b>	\$ 618,113	\$ 424,815	\$ 2,214,481	\$ 1,699,630
<b>Net Cash Flows from Operating Activities (A-B)</b>	\$ (613,858)	\$ (1,814,063)	\$ 932,995	\$ (1,582,768)
<b>Net Income/(Loss)</b>	\$ 3,478,939	\$ 2,471,888	\$ 3,840,463	\$ 5,604,353
<b>Distributions</b>	\$ 448,658	\$ 455,170	\$ 1,811,618	\$ 1,911,984
<b>Surplus/(Deficit) of Net Cash Flow From Operating Activities Over Distributions</b>	\$ (1,062,516)	\$ (2,269,233)	\$ (878,623)	\$ (3,494,752)
<b>Surplus/(Deficit) of Net Income/(Loss) Over Distributions</b>	\$ 3,030,281	\$ 2,016,718	\$ 2,028,846	\$ 3,692,369

For the three and twelve months ended December 31, 2021, the Trust reported net cash flows from operations less than distributions. The excess distribution was paid in the normal course from recurring cash flow and had no impact on the sustainability of distributions given that the distribution was covered from ongoing cash flows generated from the Trust's Investment Portfolio.

### DIVIDEND REINVESTMENT PLAN & UNIT PURCHASE PLAN

The Trust implemented a dividend reinvestment plan (the "DRIP") and a share purchase plan (the "Purchase Plan" and collectively with the DRIP, the "Plans"), each offered to holders of Common Shares resident in Canada and administered by TSX Trust Company (the "Agent"). The Plans enable Unitholders to increase their investment in the Trust by receiving distribution payments and/or optional cash payments in the form of Trust Units. Pursuant to the Plans, holders of Trust Units may elect to: (a) have all cash distributions of the Trust automatically reinvested in additional Trust Units at the Average Market Price and (b) purchase Trust Units by contributing optional cash payments to the Trust, which will be invested for additional Trust Units at the Average Market Price.

If the Average Market Price is less than US\$8.10, (the "Reference Price"), the Agent shall use such funds to purchase, at a cost less than the Reference Price, additional Trust Units for the participants through the facilities of the TSXV for a period of five (5) trading days following the relevant distribution date. To the extent the Agent is unable to purchase additional Trust Units at a cost less than the Reference Price because Trust Units are not offered or are offered at prices which, after payment of brokerage fees or commissions, would result in a cost at or exceeding the Reference Price, then the remaining funds will be applied to the purchase of Trust Units from the treasury of the

## MANAGEMENT DISCUSSION & ANALYSIS

Trust at the Reference Price. If the Average Market Price is equal to or more than the Reference Price, the funds will be applied to the purchase of Trust Units from the treasury of the Trust at the Average Market Price.

A minimum purchase of \$3,000 on the last business day of each calendar quarter (a “**Quarterly Purchase Date**”) and maximum purchases of up to \$12,000 per year (payable in one lump sum or from time to time on a Quarterly Purchase Date) are permitted under the Plans. The aggregate number of Trust Units that may be issued under the Plans may not exceed in each year 2% of the number (at the commencement of the fiscal year of the Trust) of the outstanding Trust Units.

For the nine months ended September 30, 2021, nil Trust Units were issued under DRIP. During 2020, 2,669 Trust Units were issued from treasury for total gross proceeds of \$21,623 to Unitholders who elected to receive their distributions under the DRIP.

### WARRANTS

The Trust had the following warrants outstanding and exercisable as at December 31, 2021.

Issuance Date	Number of warrants	Weighted average exercise price	Fair Value of Warrants	Expiry Date
March 13, 2020	1,590,000	\$ 10.75	\$ 29	March 13, 2022

The warrant reserve was calculated using the Black Scholes model. The following assumptions were used:

Warrant Assumptions	December 31, 2021	December 31, 2020
Stock Price	\$ 6.51	\$ 5.37
Exercise Price	\$10.75	\$10.75
Expected Life in Years	0.45	1.20
Annualized Volatility	30.00%	30.00%
Annual Rate of Monthly Dividends	\$ 0.24	\$ 0.24
Discount Rate - Bond Equivalent Yield	0.81%	0.17%

- On March 13, 2020, the Trust issued 1,590,000 warrants as part of the equity offering as further described in note 9(a)(i) of the condensed consolidated interim financial statements. The Warrants have an exercise price \$10.75 per Trust Unit and expire on March 13, 2022.
- On May 27, 2020, 1,000 warrants were exercised resulting in net proceeds of \$0.008 million, while the remaining warrants expired.

For the year ended December 31, 2021, the recovery for the warrants was \$0.02 million.

### OPTIONS

The Trust has a 10% rolling incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees, and consultants of the Trust.

On March 16, 2021, the Trust granted options to certain trustees, officers and management of the Trust to purchase a total 119,500 Trust Units. 49,300 of the options have an exercise price of \$7.50 per Trust Unit and 70,200 of the options have an exercise price of \$8.30 per Trust Unit. Of the 119,500 options granted, 99,833 options

## MANAGEMENT DISCUSSION & ANALYSIS

vested immediately, and the remaining 19,667 options will equally vest on March 16, 2022 and March 16, 2023. The options expire on March 16, 2031.

The Trust had the following options outstanding and exercisable on December 31, 2021:

Issuance Date	Number of Options	Weighted average exercise price	Fair Value of Options	Expiry Date
August 17, 2017	340,738	\$ 7.50	\$ 324,369	August 17, 2027
November 19, 2018	192,900	8.30	167,384	November 19, 2028
March 16, 2021	49,300	7.50	52,868	March 16, 2031
March 16, 2021	70,200	8.30	66,364	March 16, 2031
<b>Total/ Weighted Average</b>	<b>653,138</b>	<b>\$ 7.82</b>	<b>\$ 610,985</b>	

The option reserve was calculated using the Black Scholes model. The following assumptions were used:

Option Assumptions	December 31, 2021	December 31, 2020
Stock Price	\$ 6.51	\$ 5.37
Exercise Price	\$7.50-\$8.30	\$7.50-\$8.30
Expected Life in Years	5.63-9.21	6.63-7.89
Annualized Volatility	30.00%	30.00%
Annual Rate of Monthly Dividends	\$ 0.24	\$ 0.24
Discount Rate - Bond Equivalent Yield	0.81%	0.17%

For the year ended December 31, 2021, the expense for the options was \$0.3 million.

### SUBSEQUENT EVENTS

- **Distribution Increase:** On February 8, 2022, the Trust announced a 4.2% increase in quarterly distributions from \$0.059 per Trust Unit to \$0.0615 per Trust Unit commencing with the Q2/2022 Distributions. As a result, the Trust declared and approved quarterly of \$0.0615 per unit for unitholders of record on June 30, 2022, payable on or about July 15, 2022.
- **Houston, TX Acquisition:** On February 8, 2022, the Trust acquired the remaining 50% interest in the Houston, TX Equity Accounted and Preferred Investment for \$4.1 million. The Trust will now own 100% of this investment and will report it going forward as an Investment Property the financial statements.

### SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the consolidated financial statements are consistent with those described in note 2 of the Trust's audited consolidated financial statements for the year ended December 31, 2021.

### RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF TRUSTEES

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, the Trust's Audit Committee and Board of Trustees provide an oversight role with respect to all public financial disclosures by the Trust and have reviewed and approved this MD&A and the consolidated financial statements for years ended December 31, 2021 and 2020.

## **MANAGEMENT DISCUSSION & ANALYSIS**

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### *CONTROLS AND PROCEDURES*

The Trust maintains appropriate information systems, procedures and controls to ensure that information disclosed externally is complete, reliable, and timely. The Trust's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Trust's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2021 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Trust has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The Trust's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2021. Based on that assessment, it was determined that the Trust's internal controls over financial reporting were appropriately designed and were operating effectively. In addition, the Trust did not make any changes to the design of the Trust's internal controls over financial reporting during the three months ended December 31, 2021 that would have materially affected or would be reasonably likely to materially affect the Trust's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **RISKS AND UNCERTAINTIES**

#### *GEOGRAPHIC CONCENTRATION*

The properties are in the States of Florida, Georgia, New Jersey, New York, Texas, Maryland and Connecticut. Accordingly, the market value of the properties and the income to be generated by the Trust's performance are particularly sensitive to changes in the economic conditions and regulatory environments of those U.S. states. Adverse changes in the economic condition or regulatory environment of these U.S. states may have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

#### *ACQUISITION RISK*

The Trust may be subject to significant operating risks associated with its expanded operations. The Trust's business strategy includes growth through identifying suitable

## MANAGEMENT DISCUSSION & ANALYSIS

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acquisition opportunities, pursuing such opportunities, consummating acquisitions, and effectively operating and leasing such properties. If the Trust is unable to manage its growth effectively, it could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations. There can be no assurance as to the pace of growth through property acquisitions or that the Trust will be able to acquire assets that are accretive to earnings and/or cash flow. The Trust intends to acquire additional properties selectively. The acquisition of additional properties entails risks that investments will fail to perform in accordance with expectations. In undertaking such acquisitions, the Trust will incur certain risks, including the expenditure of funds, including non-refundable deposits, due diligence costs and inspection fees, and the devotion of management's time to transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs and benefits of the renovation and repositioning program intended for the property being acquired may prove inaccurate or may not have the intended results.

### *CO-INVESTMENT/INVESTMENTS IN ASSOCIATES*

The Trust currently is and may in the future become, invested in, or a participant in, directly or indirectly, investments in associates and partnerships with third parties. An investment in an associate or partnership involves certain additional risks, including: (i) the possibility that such associate/partners may at any time have economic or business interests or goals that will be or are inconsistent with those of the Trust or take actions contrary to the Manager's instructions or requests or to the Manager's policies or objectives; (ii) the associate/partner may have control over all of the day to day and fundamental decisions relating to a property; the risk that such associates/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such properties or repay the associates/partners' unit of property debt guaranteed by the Trust or its Subsidiary Entities or for which the Trust or its Subsidiary Entities will be liable and/or result in the Trust suffering or incurring delays, expenses and other problems associated with obtaining court approval of an investment in associates or partnership decisions; (iv) the risk that such associates/partners may, through their activities on behalf of or in the name of the associates or partnerships, expose or subject the Trust or its Subsidiary Entities to liability; and (v) the need to obtain associates/partners' consents with respect to certain major decisions or inability to have any decision making authority, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the investments in associates and partnerships may be subject to certain requirements, such as rights of first refusal, rights of first offer or drag-along rights, and certain of the investment in associates and partnership agreements may provide for buy-sell or similar arrangements. Such rights may inhibit the Trust's ability to sell an interest in a property or an investment in associates/partnership within the time frame or otherwise on the basis the Trust desires. Additionally, drag-along rights may be triggered at a time when the Trust may not desire to sell its interest in a property, but the Trust may be forced to do so at a time when it would not otherwise be in the Trust's best interest. In addition, associates/partners of the Trust may sell their interest in the applicable entity to a third party with the result that the Trust is investing in associates or partnering with an unknown third party.

## **MANAGEMENT DISCUSSION & ANALYSIS**

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### *PURCHASE AGREEMENTS*

Additional properties may be sold to the Trust in an “as is” condition, and upon acquisition of said properties, the Trust may have limited recourse with respect to conditions affecting the purchased properties. The costs of unexpected repair and remediation work could be material and may, therefore, have an adverse effect on the Trust’s financial condition and results of operations. Furthermore, representations and warranties made by the seller in a purchase agreement, if any, may survive only for a limited period after closing. If claims arising because of a breach of a representation or warranty are discovered after this period, the Trust may not be able to seek indemnification from the seller and would, therefore, suffer the financial consequences of such a breach, which could be material. Moreover, even if the Trust was entitled to indemnification from the seller, no assurance can be given that the seller would have sufficient funds to satisfy any such indemnification claims.

### *NON-REFUNDABLE DEPOSITS*

Property acquisition transactions may require deposits by the Trust and costs to be incurred by the Trust, which may be non-refundable. If such transactions fail to close, these funds may be unrecoverable in whole or in part, thereby reducing funds otherwise available to the Trust.

### *OPERATIONAL RISKS*

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed infrastructure, from a human process, or from external events. The impact of this risk may be financial loss, loss of reputation, or legal and regulatory proceedings. The Trust endeavors to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and, if deemed necessary, improvements are implemented.

### *RISKS RELATED TO PREFERRED CAPITAL LOAN DEFAULTS*

The Trust may from time to time deem it appropriate to extend or renew the term of a preferred capital loan past its maturity, or to accrue the interest on a preferred capital loan. The Trust generally will do so if it believes that there is a very low risk to the Trust of not being repaid the full principal and interest owing on the preferred capital loan. In these circumstances, however, the Trust is subject to the risk that the principal and/or accrued interest of such preferred capital loan may not be repaid in a timely manner or at all, which could impact the cash flows of the Trust during the period in which it is exercising such remedies. Further, if the valuation of the asset underlying the preferred capital loan has fluctuated substantially due to market conditions, there is a risk that the Trust may not recover all or substantially all of the principal and interest owed to the Trust in respect of such preferred capital loan. When a preferred capital loan is extended past its maturity, the loan can either be held over on a month to month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, the Trust has the ability, subject to the rights of creditors in priority to the Trust, to exercise its preferred capital enforcement remedies in respect of the extended or renewed preferred capital loan. Exercising preferred capital enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Trust during the period of enforcement. In addition, because of potential declines in real estate values, in particular given the current economic environment,

## MANAGEMENT DISCUSSION & ANALYSIS

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there is no assurance that the Trust will be able to recover all or substantially all of the outstanding principal and interest owed to the Trust in respect of such preferred capital loans by exercising its preferred capital loan enforcement remedies. Should the Trust be unable to recover all or substantially all the principal and interest owed to the Trust in respect of such preferred capital loans, the returns, financial condition and results of operations of the Trust could be adversely impacted.

### *FORECLOSURE AND RELATED COSTS*

One or more borrowers could fail to make payments according to the terms of their loan, and the Trust could therefore be forced to exercise its rights as the preferred creditor. The recovery of a portion of the Trust's assets may not be possible for an extended period during this process and there are circumstances where there may be complications in the enforcement of the Trust's rights as the preferred creditor. Legal fees and expenses and other costs incurred by the Trust in enforcing its rights as the preferred creditor against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the secured property by power of sale or otherwise, although there is no assurance that they will be recovered. If these expenses are not recoverable, they will be borne by the Trust. Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income or whether preferred capital loan payments are being made. The Trust may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

### *COVID-19 RISK*

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic, which has resulted in the federal and provincial governments, as well as U.S. federal and state governments to react. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines and a general reduction in consumer activity and the institution of government programs to assist in addressing the economic impact of COVID-19. While these affects are expected to be temporary, the duration of the business disruption and related financial impact cannot be reasonably estimated at this time and may be instituted, terminated and re-instituted from time to time as the COVID-19 outbreak worsens or waves of the COVID-19 outbreak occur from time to time.

The extent of the effect of the ongoing COVID-19 pandemic on the Trust's operational and financial performance will depend on numerous factors, including the duration, spread and intensity of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, all of which are uncertain and difficult to predict considering that the situation continues to evolve rapidly. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the Trust's business and operations.

Accordingly, these events could have a material adverse effect on the Trust's business, financial conditions and cash flows. The Trust is continuously monitoring the impact of COVID-19 and will continue to transparently communicate with its staff, tenants and stakeholders.

### *RISK OF NATURAL DISASTERS*

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The properties located in Florida, Georgia and Texas may have sustained significant storm damage in the past and may sustain significant storm damage in the future. While the Trust will take insurance to cover a substantial portion of the cost of such events, the Trust's insurance is likely to include deductible amounts and exclusions such that certain items may not be covered by insurance. Future hurricanes, floods, or other natural disasters may significantly affect the Trust's operations and some or all the properties, and more specifically, may cause the Trust to experience reduced rental revenue (including from increased vacancy), incur cleanup costs as well as administration and collection costs, or otherwise incur costs in connection with such events. Any of these events may have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations and ability to declare and pay dividends, if any, to Trust unitholders. As well, if the Trust was unable to obtain adequate insurance, and the properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the Trust's business, cash flows, and financial condition.

### *RISK OF LOSS NOT COVERED BY INSURANCE*

The Trust maintains insurance policies related to its business, including casualty, general liability, and other policies covering the Trust's business operations, employees, and assets. However, the Trust will be required to bear all losses that are not adequately covered by insurance, as well as any insurance deductibles. In the event of a substantial property loss, the existing insurance coverage may be insufficient to pay the full current market value or current replacement cost of such property loss. In the event of an uninsured loss, the Trust could lose some or all its capital investment, cash flow and anticipated profits related to one or more properties. Although the Trust believes that its insurance programs are adequate, assurance cannot be provided that the Trust will not incur losses more than insurance coverage or that insurance can be obtained in the future at acceptable levels and reasonable cost.

### *RISK RELATED TO INSURANCE RENEWALS*

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for catastrophic risks. When the Trust's current insurance policies expire, the Trust may encounter difficulty in obtaining or renewing property or casualty insurance on the properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the Trust can renew policies at levels and with limitations consistent with current policies, the Trust cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the Trust is unable to obtain adequate insurance on the properties for certain risks, it could cause the Trust to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require the Trust to maintain adequate insurance on the properties to protect against the risk of loss. If this were to occur, or if the Trust were unable to obtain adequate insurance and the properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

### *ACCESS TO CAPITAL*

## MANAGEMENT DISCUSSION & ANALYSIS

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The real estate industry is highly capital intensive. The Trust will require access to capital to maintain the properties, as well as to periodically fund its growth strategy and significant capital expenditures. There can be no assurance that the Trust will have access to sufficient capital or access to capital on terms favourable to the Trust for future property acquisitions, financing or refinancing of the properties, funding operating expenses, or other purposes.

In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the companies who borrow from them. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to cause material adverse effect on economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the Trust's access to long-term financing, in the Canadian and/or United States capital markets. As a result, it is possible that financing which the Trust may require to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by the Trust or otherwise, may not be available or, if it is available, may not be available on favourable terms to the Trust. Failure by the Trust to access required capital could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations, and ability to declare and pay dividends, if any, to Trust unitholders.

### *FINANCING RISK*

A portion of the cash flow generated by the properties will be devoted to servicing indebtedness, and there can be no assurance that the Trust will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Trust is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt, or other financing. The failure of the Trust to make or renegotiate interest or principal payments or obtain additional equity, debt, or other financing could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

The Trust will be subject to the risks associated with debt financing, including the risk that the convertible debentures, mortgages, and banking facilities secured by the properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. If the Trust decides to utilize variable rate debt, such debt will result in fluctuations in the Trust's cost of borrowing as interest rates change. To the extent that interest rates rise there may be a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

The Trust will seek to manage its financing risk by maintaining a balanced maturity profile with no significant amounts coming due in one period. Given the increased credit quality of such debt, the probability of the Trust being unable to renew the maturing debt or transfer the debt to another accredited lending institution is significantly reduced.

## MANAGEMENT DISCUSSION & ANALYSIS

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However, there can be no assurance that the renewal of debt will be on as favourable terms as existing indebtedness.

The Trust's credit facilities may also contain covenants that require it to maintain certain financial ratios on specific portfolios and/or on a consolidated basis. If the Trust does not maintain such ratios, its cash flows may be restricted and the ability to issue, declare, and pay dividends, if any, may be limited.

### *DEGREE OF LEVERAGE*

The Trust's degree of leverage could have important consequences to Trust unitholders. For example, the degree of leverage could affect the Trust's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development, or other general purposes, making the Trust more vulnerable to a downturn in business or the economy in general.

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

### *DEPENDENCE ON FIRM CAPITAL REALTY PARTNERS ADVISORS INC. ("FCRPAI")*

The Trust's earnings and operations are impacted by FCRPAI's ability to source appropriate real estate investments that provide sufficient yields for investors and FCRPAI to maintain these real estate investments. The Trust has also entered a long-term contract with FCRPAI, as more particularly described in an agreement dated January 1, 2020 as posted on SEDAR ([www.sedar.com](http://www.sedar.com)). The Trust is exposed to adverse developments in the business and affairs of FCRPAI, since the day-to-day activities of the Trust are run by FCRPAI and since all the Trust's debt and equity investments are originated by FCRPAI.

### *RELIANCE ON PROPERTY MANAGEMENT*

The Trust relies upon independent management companies to perform property management functions in respect of certain of the Properties. To the extent the Trust relies upon such management companies, the employees of such management companies will devote as much of their time to the management of the Properties as in their judgment is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Properties and their other development, investment and/or management activities.

### *LITIGATION RISKS*

In the normal course of the Trust's operations, whether directly or indirectly, it may become involved in, named as a party to, or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings, and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment, and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Trust and, as a result, could have a material adverse effect on the Trust's assets, liabilities, business, financial condition, and results of operations. Even if the Trust prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the

## MANAGEMENT DISCUSSION & ANALYSIS

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Trust's business operations, which could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations.

### *LAWS BENEFITING DISABLED PERSONS*

Laws benefiting disabled persons may result in unanticipated expenses being incurred by the Trust. Under the *Americans with Disabilities Act* of 1990 (the "ADA"), all places intended to be used by the public are required to meet certain federal requirements related to access and use by disabled persons. The *Fair Housing Amendments Act* of 1988 (the "FHAA") requires apartment properties first occupied after March 13, 1991 to comply with design and construction requirements for disabled access. For those projects receiving federal funds, the *Rehabilitation Act* of 1973 also has requirements regarding disabled access. These and other federal, state and local laws may require modifications to the Trust properties, or affect renovations of the properties. Non-compliance with these laws could result in the imposition of fines or an award of damages to private litigants and could also result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although the Trust believes that the properties are substantially in compliance with present requirements, the Trust may incur unanticipated expenses to comply with the ADA, the FHAA, and the *Rehabilitation Act* of 1973 in connection with the ongoing operation or redevelopment of the properties.

### *POTENTIAL CONFLICTS OF INTEREST WITH TRUSTEES*

There are potential conflicts of interest to which some of the trustees, officers, insiders and promoters of the Trust will be subject in connection with the operations of the Trust. Conflicts, if any, will be subject to the procedures and remedies as provided under the Ontario Business Corporations Act.

### *INTERNAL CONTROLS*

Effective internal controls are necessary for the Trust to provide reliable financial reports and to help prevent fraud. Although the Trust will undertake several procedures and will implement a number of safeguards in order to help ensure the reliability of its financial reports, in each case, including those imposed on the Trust under Canadian securities law, the Trust cannot be certain that such measures will ensure that the Trust will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Trust's results of operations or cause it to fail to meet its reporting obligations. If the Trust or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Trust's consolidated financial statements and material adverse effect on the trading price of the units.

### *U.S. LAWS AND REGULATIONS*

The Trust carries on business in the U.S. and, accordingly, is subject to United States federal, state and local laws, rules, regulations and requirements. Although the Trust believes that the Properties are substantially in compliance with present laws, rules, regulations and requirements, the Trust may incur unanticipated expenses to comply with such laws, rules, regulations and requirements. Noncompliance with these laws, rules, regulations and requirements could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and could result in, among other things, the imposition of fines or an award of damages to private litigants

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and could result in an order to correct any non-complying feature of the Properties, which could result in substantial capital expenditures.

### *U.S. CURRENCY RISK*

The Convertible Debenture financing was obtained in Canadian Dollars but invests in the US Market using US Dollars. Accordingly, the Trust has a risk that the value of the US Dollar will increase requiring more Canadian Dollars. In addition, the finance costs are paid in Canadian Dollars and a decrease in the US Dollar at such time will adversely affect the Trust.

### *FLORIDA, GEORGIA & TEXAS WEATHER*

Florida, Georgia, and Texas historically have experienced periods of extreme weather that have resulted in periods of severe thunderstorms, tornadoes, wind, and rain damage. Extreme weather, including hurricanes and/or tornadoes, can have a negative impact upon the Trust's operating results and financial condition, including damage to property and equipment, increasing material costs, increasing labour costs, increasing insurance premiums, increased time to completion of renovation due to the foregoing factors, and increase in government regulations with respect to setbacks, drainage and engineering of seawalls, and other protective features.

### *LIQUIDITY*

The Trust is a relatively new issuer and there can be no assurance that an active trading market in the units will be sustained. There is a significant liquidity risk associated with an investment in the units.

### *RELIANCE ON ASSUMPTIONS*

The Trust's investment objectives and strategy have been formulated based on the analysis and expectations regarding recent economic developments in the U.S., the future recovery of U.S. real estate markets in general, and the U.S. to Canadian dollar exchange rate. Such analysis may be incorrect and such expectations may not be realized.

### *GENERAL REAL ESTATE OWNERSHIP RISKS*

All real property investments are subject to risks generally incident to the ownership, remodeling, operation, and sale of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of or demand for similar or competing properties in a particular geographic area; (c) bankruptcies, financial difficulties, or defaults by vendors, contractors, tenants, and others; (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve occupancy at rental rates adequate to produce desired financial returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; (j) changes in tax, real estate, or environmental laws or regulations; and (k) changes in availability of financing. For these and other reasons, no assurance can be given that the investment will be profitable or that it will achieve its financial objectives.

Certain significant expenditures, including property taxes, maintenance costs, insurance costs, and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. Real property investments tend to be relatively illiquid. This illiquidity will limit the ability of the Trust to

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respond to changing economic or investment conditions. If the Trust were required to liquidate assets quickly, there is a risk the proceeds realized from such a sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, the Trust is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the properties. The properties generate revenue through rental payments made by the tenants. The ability to rent un-leased suites in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. The ability to declare and pay dividends, if any, will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases, or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms. If properties do not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, this could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations and ability to declare and pay dividends, if any, to Unitholders.

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the properties or revenues to be thus derived. Reported estimates of market rent can be seasonal and the significance of any variations from quarter to quarter would material adverse effect the Trust's annualized estimated gain-to-lease amount. There can be no assurance that upon the expiration or termination of existing leases that the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the Trust due to internal and external limitations on its ability to charge these new market based rents in the short term.

The short-term nature of residential tenant leases exposes the Trust to the effects of declining market rent, which could have a material adverse effect the Trust's results from operations and ability to declare and pay dividends, if any. Most of the Trust's residential tenant leases will be for a term of one year or less. Because the Trust's residential tenant leases generally permit residents to leave at the end of their lease term without any penalty, the Trust's rental revenue may have material adverse effects by declines in market rents more quickly than if such leases were for longer terms.

### *SUBSTITUTIONS FOR RESIDENTIAL RENTAL UNITS*

Demand for the properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. With the recent global economic crisis and its impact on the U.S. credit markets, interest rates offered by financial institutions for financing home ownership have been at historically low levels. If the interest rates offered by financial institutions for home ownership financing remain low, demand for rental properties may be

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adversely affected. A reduction in the demand for rental properties may have a material adverse effect on the Trust's ability to lease suites in the properties and on the rents charged. This, in turn, may have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations and the ability to declare and pay any dividends, if any, to Unitholders.

### *COMPETITION*

The multi-family property sector is highly competitive. The Trust faces competition from many sources, including individuals, Trust's or other entities engaged in real estate investment activities, many of whom have greater financial resources than the Trust. There is also competition from other rental properties in the immediate vicinity of the various properties and the broader geographic areas where the properties are and will be located. Furthermore, the properties that the Trust owns or may acquire compete with numerous housing alternatives in attracting tenants, including home ownership. The relative demand for such alternatives may be increased by declining mortgage interest rates, government programs which promote home ownership, or other events or initiatives which increase the affordability of such alternatives to the properties and could have a material adverse effect on the Trust's ability to retain tenants and increase or maintain rental rates. Such competition may reduce occupancy rates and rental revenues of the Trust and could have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations and the ability to declare and pay any distributions, if any, to Unitholders.

The competition for the properties available for sale may significantly increase the cost of acquiring such assets and may result in such assets being acquired by the Trust at prices or on terms which are comparatively less favourable to the Trust or may result in such assets being acquired by competitors of the Trust. In addition, the number of entities seeking to acquire multi-family properties, and/or the amount of funds competing for such acquisitions may increase. Increases in the cost to the Trust of acquiring properties may material adverse effect on the ability of the Trust to acquire such properties on favourable terms and may otherwise have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to declare and pay any distributions to Unitholders.

In addition, over-building in the multi-family sector in the United States may increase the supply of total multi-family properties, further increasing the level of competition in those markets.

### *CHANGES IN APPLICABLE LAWS*

The Trust's operations must comply with numerous federal, state, and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws, and other laws generally applicable to business operations. Non-compliance with laws could expose the Trust to liability.

Lower revenue growth or significant unanticipated expenditures may result from the Trust's need to comply with changes in Applicable Laws, including (i) laws imposing environmental remedial requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions; (ii) rent control or rent stabilization laws or other residential landlord/tenant laws; or (iii) other governmental rules and regulations or enforcement policies affecting the

## MANAGEMENT DISCUSSION & ANALYSIS

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development, use, and operation of the properties, including changes to building codes and fire and life-safety codes.

### *ENVIRONMENTAL MATTERS*

Under various environmental and ecological laws, the Trust and/or its subsidiaries could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in one or more of the properties or disposed of at other locations. The failure to deal effectively with such substances may adversely affect the Trust's ability to sell such property and could potentially also result in claims against the Trust by third parties.

### *THE COSTS OF SECURING POSSESSION AND CONTROL OF NEWLY ACQUIRED PROPERTIES MAY EXCEED EXPECTATIONS*

Upon acquiring a new property, the Trust may have to evict residents who are in unlawful possession before the Trust can secure possession and control of the property. The holdover occupants may be the former owners or tenants of a property, or they may be squatters or others who are illegally in possession. Securing control and possession from these occupants can be both costly and time-consuming. If these costs and delays exceed our expectations in a large proportion of newly acquired properties, the Trust's financial performance may suffer because of the increased expenses incurred or the unexpected delays in turning the properties into revenue-producing assets.

### *THE COSTS ARISING FROM RENOVATION OF PROPERTIES*

The Trust expects that many of the properties will require some level of renovation immediately upon their acquisition or in the future following expiration of a lease or otherwise. The Trust may acquire properties that it plans to extensively renovate. The Trust may also acquire properties that it expects to be in good condition only to discover unforeseen defects and problems that require extensive renovation and capital expenditures. In addition, the Trust will be required to make ongoing capital improvements and replacements and may need to perform significant renovations to reposition properties in the rental market. The Trust's properties will have infrastructure and appliances of varying ages and conditions. Consequently, the Trust expects that its management will routinely retain independent contractors and trade professionals to perform physical repair work and will be exposed to all the risks inherent in property renovation, including potential cost overruns, increases in labour and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits, certificates of occupancy, and poor workmanship. Although the Trust does not expect that renovation difficulties on any individual property will be significant to its overall results, if the assumptions regarding the costs or timing of renovation across the Trust's portfolio prove to be materially inaccurate, the Trust's earnings and distributable cash may be adversely affected.

### *FIXED COSTS AND INCREASED EXPENSES*

The failure to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels would likely have a material adverse effect on the Trust's business, cash flows, financial condition, and results of operations and ability to declare and pay dividends, if any. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs, and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the Trust is unable to meet mortgage payments on

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any property, losses could be sustained because of the mortgagee's exercise of its rights of foreclosure or sale.

The Trust is also subject to utility and property tax risk relating to increased costs that the Trust experience because of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised because of re-valuations of properties and their adherent tax rates. In some instances, enhancements to properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas, water, and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the Trust cannot charge back to the tenant may have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and the ability to make, declare, and pay any dividends. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures from tenants, residential leases are generally "gross" leases, and the landlord is not able to pass on costs to its tenants. Generally, the Trust's leases with tenants require the tenant to pay directly for their own utilities. The timing and amount of capital expenditures by the Trust will affect the amount of any distributions available to Unitholders.

### *INTEREST RATE RISK*

Interest rate risk is the combined risk that the Trust would experience a loss because of its exposure to a higher interest rate environment (interest rate risk) and the possibility that at the end of a mortgage term the Trust would be unable to renew the maturing debt either with the existing lender or a new lender (renewal risk).

The Trust will seek to manage its interest rate risk by negotiating, where possible, fixed interest rates on all its debt.

### *ASSUMPTIONS MAY PROVE INACCURATE*

In determining whether a particular property meets its investment criteria, the Trust makes several assumptions, including assumptions related to estimated time of possession and estimated renovation costs and time frames, annual operating costs, market rental rates and potential rent amounts, time from purchase to leasing, and tenant default rates. These assumptions may prove inaccurate, causing the Trust to pay too much for properties it acquires, to overvalue properties or to have properties not perform as expected, and adjustments to the assumptions made in evaluating potential purchases may result in fewer properties qualifying under the Trust's investment criteria. Reductions in the supply of properties that meet the Trust's investment criteria may adversely affect the Trust's operating results and ability to implement its business plan.

Furthermore, the properties are likely to vary materially in terms of time to possession, renovation, quality and type of construction, location, and hazards. The Trust's success will depend on its ability to acquire properties that can be quickly possessed, renovated, repaired, upgraded, and rented with minimal expenses and maintained in rentable condition. The Trust's ability to identify and acquire such properties will be fundamental to its success.

In addition, the recent market and regulatory environments relating to multi-family properties have been changing rapidly, making future trends difficult to forecast.