# ALIGNVEST STUDENT HOUSING
# REAL ESTATE INVESTMENT TRUST

## CONSOLIDATED FINANCIAL STATEMENTS

## AS AT DECEMBER 31, 2018

## AND FOR THE PERIOD FROM COMMENCEMENT OF OPERATIONS ON JUNE 15, 2018 TO DECEMBER 31, 2018

# Independent auditor's report

To the Unitholders of
**Alignvest Student Housing Real Estate Investment Trust**

## Opinion

We have audited the consolidated financial statements of **Alignvest Student Housing Real Estate Investment Trust** and its subsidiary [the "Trust"], which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income and comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the period from June 15, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the period from June 15, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards ["IFRS"].

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 29, 2019

**Alignvest Student Housing Real Estate Investment Trust**
**Consolidated statement of financial position**
**[in Canadian dollars]**

| As at December 31, | Note | 2018 |
|---|---|---|
| | | $ |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment properties | 5 | **106,800,000** |
| | | **106,800,000** |
| **Current assets** | | |
| Cash and cash equivalents | 6 | **11,463,206** |
| Short-term investments | | **13,401,407** |
| Prepaid expenses and other assets | 7 | **1,276,286** |
| Rent and other receivables | | **109,671** |
| | | **26,250,570** |
| **Total assets** | | **133,050,570** |
| | | |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Mortgages payable | 8 | **61,123,169** |
| Accrued liabilities | 13 | **389,399** |
| | | **61,512,568** |
| **Current liabilities** | | |
| Subscriptions received in advance | 6 | **8,206,282** |
| Mortgages payable | 8 | **1,508,044** |
| Distributions payable | 9, 13 | **1,144,685** |
| Residential tenants deposits | | **806,300** |
| Accounts payable and accrued liabilities | | **701,097** |
| | | **12,366,408** |
| **Total liabilities** | | **73,878,976** |
| **Net assets attributable to Unitholders** | 9 | **59,171,594** |
| **Total liabilities including net assets attributable to Unitholders** | | **133,050,570** |

*See accompanying notes to the consolidated financial statements.*

**Alignvest Student Housing Real Estate Investment Trust**
**Consolidated statement of income and comprehensive income**
**[in Canadian dollars]**

| | Note | For the period from June 15, 2018 to December 31, 2018 |
|---|---|---|
| | | $ |
| Revenue from investment properties | 10 | **1,974,031** |
| Property operating costs | 10 | **(781,762)** |
| **Net rental income** | | **1,192,269** |
| | | |
| Other income | | **701** |
| Interest income | | **237,789** |
| Fair value adjustment on investment properties | 5 | **4,046,755** |
| Distributions expense | 9, 13 | **(2,103,148)** |
| Interest expense | | **(529,045)** |
| General and administrative expenses | 11, 13 | **(914,777)** |
| **Increase in net assets attributable to Unitholders** | | **1,930,544** |

*See accompanying notes to the consolidated financial statements.*

**Alignvest Student Housing Real Estate Investment Trust**

**Consolidated statement of changes in net assets attributable to Unitholders**

**[in Canadian dollars]**

| | Note | Net assets attributable to Unitholders |
|---|---|---|
| | | $ |
| Unitholders' net assets, June 15, 2018 | | - |
| Proceeds from Units issued | 9 | 56,896,328 |
| Reinvestments of distributions by Unitholders | 9 | 358,743 |
| Redemption of Units | 9 | (14,021) |
| Increase in net assets attributable to Unitholders | | 1,930,544 |
| **Unitholders' net assets, December 31, 2018** | | 59,171,594 |

*See accompanying notes to the consolidated financial statements.*

**Alignvest Student Housing Real Estate Investment Trust**
**Consolidated statement of cash flows**
**[in Canadian dollars]**

| | Note | For the period from June 15, 2018 to December 31, 2018 |
|---|---|---|
| | | $ |
| **OPERATING ACTIVITIES** | | |
| Increase in net assets attributable to Unitholders | | 1,930,544 |
| Add (deduct) items to reconcile net cash flow: | | |
| Fair value adjustment on investment properties | | (4,046,755) |
| Interest income | | (237,789) |
| Distributions expense | | 2,103,148 |
| Interest expense | | 529,045 |
| Amortization of financing fees | | 29,880 |
| Net change in non-cash operating assets and liabilities | 12 | 510,839 |
| **Cash provided by operating activities** | | 818,912 |
| | | |
| **INVESTING ACTIVITIES** | | |
| Purchase of investment properties, net of mortgages assumed | | (75,300,820) |
| Purchase of short term investments | | (72,184,023) |
| Sale of short term investments | | 58,858,934 |
| Interest received | | 160,727 |
| **Cash used in investing activities** | | (88,465,182) |
| | | |
| **FINANCING ACTIVITIES** | | |
| Subscriptions received in advance | | 8,206,282 |
| Proceeds from issuance of Units | | 56,896,328 |
| Redemption of Units, net of fees | | (13,320) |
| Distributions paid | | (599,720) |
| Proceeds from mortgages | | 35,700,000 |
| Financing fees paid on mortgages | | (364,350) |
| Interest paid on mortgages | | (405,759) |
| Principal repaid on mortgages | | (309,985) |
| **Cash provided by financing activities** | | 99,109,476 |
| Net increase in cash and cash equivalents | | 11,463,206 |
| Cash and cash equivalents, beginning of period | | - |
| **Cash and cash equivalents, end of period** | | 11,463,206 |

*See accompanying notes to the consolidated financial statements.*

## 1. Trust information

Alignvest Student Housing Real Estate Investment Trust (the "Trust") is an unincorporated open-ended investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated as of May 4, 2018 and amended and restated as of June 15, 2018, and which may be further amended, restated or supplemented from time to time ("Declaration of Trust").

The registered office of the Trust is located at 100 King Street West, Suite 7050, Toronto, Ontario, M5X 1C7.

The Trust invests in high-quality purpose-built student accommodation ("PBSA") located in Canada. The Trust holds its investments in its income producing properties through its ownership in its subsidiary, Canadian Student Living Group Limited Partnership ("CSL"). Alignvest Student Housing Inc. ("ASH Inc.") acts as the general partner of CSL and manages the operations of CSL.

## 2. Basis of preparation

The consolidated financial statements of the Trust as at December 31, 2018 and for the period from June 15, 2018 to December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are prepared on a going concern basis using the historical cost method, except for investment properties which have been measured at fair value, as set out in the relevant accounting policies.

The Trust's functional and presentation currency is the Canadian dollar ("CAD").

The consolidated financial statements of the Trust for the period ended December 31, 2018, were authorized for issue by the Board of Trustees on March 28, 2019.

### *Basis of consolidation*

The consolidated financial statements reflect the operations of the Trust as well as any entity controlled by the Trust ("subsidiary"). The Trust controls an entity when the Trust is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assets, liabilities, income and expenses of a subsidiary are included in the consolidated financial statements from the date of acquisition or the date on which the Trust obtains control until the date that control ceases. Intercompany transactions, balances, unrealized gains and losses on transactions between the Trust and its subsidiary have been eliminated upon consolidation.

## 3. Summary of significant accounting policies

### *Investment properties*

Investment properties comprise of properties held to earn rentals or for capital appreciation or both. The Trust accounts for its investment properties using the fair value model. Investment properties consist of income producing properties and are initially measured at cost, including transaction costs if the transaction is deemed to be an asset acquisition. Transaction costs include commissions, land transfer taxes, and professional fees for legal and other services.

Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in net income in the period in which they arise. Fair value is supported by detailed internal valuations using market-based assumptions and independent external valuations, each in accordance with recognized valuation techniques. Fair value is based on valuations using the direct capitalization income method. Recent real estate transactions with characteristics and locations similar to the Trust's assets are also considered. The direct capitalization income method applies a capitalization rate to the property's stabilized net operating income ("NOI"), which incorporates allowances for vacancy, collection loss and structural reserves for capital expenditures for the investment property.

Transfers are made to or from an investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of an investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Investment properties are derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in net income in the period or retirement or disposal.

***Financial Instruments***

***Recognition, classification and measurement of financial instruments***
Under IFRS 9, Financial Instruments: Recognition and Measurement, financial assets must be classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL. Initially, financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. All transaction costs for such instruments are recognized directly in profit or loss. Financial assets and liabilities (other than those classified as at FVTPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are "solely payments of principal and interest" ("SPPI") on the principal amounts outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. All financial liabilities, other than those measured at FVTPL are measured at amortized cost.

The following summarizes the Trust's classification and measurement of financial assets and liabilities:

| | Classification |
|---|---|
| **Financial assets** | |
| Cash and cash equivalents | Amortized cost |
| Short-term investments | Amortized cost |
| Accounts receivable | Amortized cost |
| **Financial liabilities** | |
| Mortgages payable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Distributions payable | Amortized cost |
| Residential tenant deposits | Amortized cost |
| Trust units | FVTPL |

After initial recognition, the effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as FVTPL are included in net income for the year in which they arise. At each reporting date, financial assets measured at amortized cost or at FVTOCI, except for investments in equity instruments, require an impairment analysis using the expected credit loss model to determine the expected credit losses using judgement determined on a probability weighting basis.

A financial asset is derecognized where the rights to receive cash flows from the asset have expired, or the Trust has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either the Trust has:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Trust derecognizes a financial liability when the obligation under the liability is discharged, cancelled, or expired.

***Fair value measurements***

The Trust measures investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Trust determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

***Residential tenant deposits***
Residential tenant deposits are initially recognized at fair value and subsequently measured at amortized cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognized on a straight-line basis over the lease term.

***Trust Units***
Units of the Trust are redeemable at the option of the Unitholder and are classified as financial liabilities as they do not meet the conditions to be classified as equity. The Units are measured at the redemption amount and presented as net assets attributable to unitholders in the consolidated statements of financial position.

***Income Taxes***
The Trust qualifies as a Mutual Fund Trust pursuant to the Income Tax Act (Canada) (the "Act"). In accordance with the terms of the Declaration of Trust, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Act. The Trust is eligible to claim a tax deduction for distributions paid and, intends to continue to meet the requirements under the Act. Accordingly, no provision for income taxes payable has been made in the consolidated financial statements. Income tax obligations relating to distributions of the Trust are obligations of the Unitholders of the Trust.

***Cash and cash equivalents***
Cash and cash equivalents consist of cash at bank and restricted cash.

***Short-term investments***
Short-term investments consist of guaranteed investment certificates issued by Canadian financial institutions with an original maturity of one year or less and redeemable on demand, which are subject to an insignificant risk of changes in value.

***Revenue recognition***
Revenue from income producing properties includes rents from residential and commercial tenants under leases and ancillary income (such as utilities, parking and laundry) paid by tenants. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and is accounted for under IAS 17, Leases, and recognized on a straight-line basis over the lease term. The Trust has not transferred substantially all of the risks and benefits of ownership of its income producing properties and, therefore, accounts for leases with its tenants as operating leases.

Revenue arising from service charges or other expenses recharged to tenants, such as common area maintenance services, and ancillary income is considered non-lease components and are within the scope of IFRS 15, Revenue from Contracts with Customers. The performance obligations for such services are satisfied over time, which is generally the lease term. Amounts received from tenants to terminate leases or to compensate for damages are recognized in net income when the right to receive them arises.

***Interest income***
Interest income is recognized as it accrues using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The Trust earns interest income from its short-term investments.

***Standards issued but not yet effective***
The standards relevant to this Trust that are issued but not yet effective up to the date of issuance of the Trust's consolidated financial statements are disclosed below. This list of standards and interpretations issued are those that the Trust reasonably expects to have an impact on the Trust's consolidated financial statements when applied at a future date. The Trust intends to adopt these standards when they become effective.

***IFRS 16 – Leases***
In January 2016, the IASB issued IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard would be effective for the Trust's annual periods beginning after January 1, 2019, with earlier adoption permitted. The Trust does not believe this standard will have a material impact on the Trust's consolidated financial statements.

## 4. Critical accounting judgements, estimates and assumptions
The preparation of the Trust's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

***Valuation of investment property***
In determining estimates of fair market value for the Trust's income producing properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Significant estimates are used in determining fair value of the Trust's income producing properties include capitalization rates and stabilized NOI (which is influenced by vacancy rates, inflation rates and operating costs). Should any of these underlying assumptions change, actual results could differ from the estimated amounts. The critical estimates and assumptions underlying the valuation of income producing properties are outlined in Note 5.

**[In Canadian dollars, unless otherwise specified]**

**5. Investment properties**

| | $ |
|---|---:|
| Balance, June 15, 2018 | - |
| Acquisitions, including transaction costs | **102,753,245** |
| Fair value adjustment on investment properties | **4,046,755** |
| Balance, December 31, 2018 | **106,800,000** |

***Acquisitions***

For the period from June 15, 2018 to December 31, 2018, the Trust completed the following acquisitions:

| Acquisition date | Property | Location | Units | Beds | Purchase price ($) |
|---|---|---|---:|---:|---:|
| August 16, 2018 | 181 Lester | Waterloo, ON | 91 | 455 | **45,500,000** |
| November 29, 2018 | 111 Cooper | Ottawa, ON | 224 | 357 | **55,000,000** |
| | | | | | **100,500,000** |

In conjunction with the acquisition of 181 Lester, the Trust assumed a mortgage with an initial fair value of $27,452,425.

***Valuation methodology and process***

Investment properties are measured at fair value at each reporting date and changes in the fair value are included in net income. Fair value is supported by independent external valuations and detailed internal valuations using market-based assumptions. The following valuation techniques were considered in determining the fair value:

- Consideration of recent prices of similar properties within similar market areas; and
- The direct capitalization income method, which is based on the conversion of current and future normalized earnings potential directly into an expression of market value. The stabilized NOI for the year is divided by an overall capitalization rate (inverse of an earnings multiplier) to arrive at the estimate of fair value.

As the fair value of investment properties is determined with significant unobservable inputs, all investment properties are classified as Level 3 assets.

At each reporting date, the Trust assembles the property specific data used in the valuation model based on the process set forth in the valuation framework, reviews the valuation framework to determine whether any changes or updates are required, inputs the capitalization rates, set-offs and normalization assumptions provided by the valuators, and delivers the completed valuation framework to the external appraisers for review. The external appraisers determine the capitalization rates that should be used in valuing the properties, provide charts of comparable sales and supporting relevant market information, determining the appropriate industry standard set off amounts and normalization assumptions used in the calculation of stabilized NOI; and supplying a fair value report for the Trust to reflect in the consolidated financial statements.

The external appraisers engaged are accredited independent real estate valuation experts with a recognized and relevant professional qualification and with recent experience in the locations and types of investment property being valued. The fair value of investment properties is determined by real estate valuation experts using recognized valuation techniques and the principles of IFRS 13, Fair Value Measurement.

**[In Canadian dollars, unless otherwise specified]**

***Capitalization rate sensitivity analysis***

The investment properties are valued using capitalization rates as provided by the external appraisers in the range of 5.01% to 5.80%, resulting in an overall weighted average capitalization rate of 5.36%.

The table below shows the sensitivity of the fair value of investment properties to changes in capitalization rates:

| Capitalization rates | Increase (decrease) in capitalization rates | Fair value of investment properties ($) | Change ($) |
|---|---|---|---|
| 4.86% | -0.50% | 117,786,065 | 10,986,065 |
| 5.11% | -0.25% | 112,024,330 | 5,224,330 |
| 5.36% | | 106,800,000 | - |
| 5.61% | 0.25% | 102,041,238 | (4,758,762) |
| 5.86% | 0.50% | 97,688,465 | (9,111,535) |

## 6. Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | December 31, 2018 $ |
|---|---|
| Cash | 3,256,924 |
| Restricted cash | 8,206,282 |
| | 11,463,206 |

Restricted cash consists of cash from Unitholders for subscriptions received in advance of the settlement date and are short term in nature. The Trust received $8,206,282 of cash as at December 31, 2018 in advance for subscriptions of Units which were subsequently issued on January 1, 2019.

## 7. Prepaid expenses and other assets

Prepaid expense and other assets consist of the following:

| | December 31, 2018 $ |
|---|---|
| Deposits related to future property acquisitions | 900,000 |
| Other prepaid expenses and other assets | 376,286 |
| | 1,276,286 |

**[In Canadian dollars, unless otherwise specified]**

## 8. Mortgages payable

| | December 31, 2018 $ |
|---|---|
| Current | **1,508,044** |
| Non-current | **61,123,169** |
| | **62,631,213** |

Mortgages are collateralized by a first charge on the investment properties owned by the Trust. As at December 31, 2018, the mortgages bear interest at rates of 3.95% and 4.18%, with a weighted average interest rate of 4.08%. Both mortgages will mature in 2021 with a weighted average term to maturity of 2.7 years.

## 9. Trust Units

The Trust is authorized to issue an unlimited number of Units. Each Unit entitles the holder to one vote at all meetings of Unitholders and pro rata participation in the distributions by the Trust, and in the event of a liquidation, dissolution or wind-up of the Trust, in the net assets of the Trust.

The Units of the Trust are issued at the fair market value ("Fair Market Value") as determined by the Trustees. The Fair Market Value of the Units may or may not be equal to the net asset value of the Units.

Each Unitholder has the right to require the Trust to redeem their Units on the Redemption Date on demand subject to certain conditions. Unitholders who surrender units for redemption shall be entitled to receive the redemption price ("Redemption Price") per Unit, as determined by the Trustees pursuant to the Declaration of Trust. The Trust will satisfy redemption requests in cash, subject to the limitation that the total amount payable by the Trust in respect of redemptions for each calendar quarter shall not exceed $500,000, which may be waived at the discretion of the Trustees. To the extent the total redemption proceeds payable exceed $500,000, the balance of redemption proceeds payable can be satisfied by way of a distribution in the form of debt securities of the Trust.

The redemption of Units may be suspended by the Trust at the discretion of the Trustees if the number of Units tendered for redemption in a calendar quarter would exceed 20% of the Fair Market Value of all of the issued and outstanding Units at such time, or the redemption of the Units would result in the Trust no longer qualifying as a "mutual fund trust" for the purposes of the Act.

The Trust intends to make regular distributions of its available cash to Unitholders, payable quarterly, at the discretion of the Trustees. In accordance with the Limited Partnership Agreement ("LPA") of CSL, the distributions are determined based on the distributable income available at CSL, of which 75% is allocated to the limited partners of CSL, being the Unitholders of the Trust, and 25% is allocated to ASH Inc. as general partner of CSL.

**[In Canadian dollars, unless otherwise specified]**

For the period from June 15, 2018 to December 31, 2018, the Trust declared $1,577,360 in distributions to Unitholders of the Trust. As at December 31, 2018, there were distributions payable to Unitholders of the Trust of $858,514, which were subsequently paid on January 15, 2019 (see note 16).

***Distribution Reinvestment and Unit Purchase Plan***

Under Article 14 of the Declaration of Trust, the Trustees may at their sole discretion establish a distribution reinvestment plan at any time providing for the voluntary reinvestment of distributions by some or all Unitholders as the Trustees determine. The Trust permits Unitholders to receive distributions in the form of additional Units or cash. Unitholders may enroll in the distribution reinvestment plan (the “DRIP”), which will allow them to elect to receive all or a portion of their cash distributions in the form of additional Units at a 2.0% discount to the Fair Market Value of the Units. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

The units issued and outstanding for the period from June 15, 2018 to December 31, 2018 are as follows:

| | # |
|---|---|
| Balance, June 15, 2018 | **-** |
| Units issued | **568,827** |
| Units issued under the DRIP | **3,655** |
| Units redeemed | **(140)** |
| Balance, December 31, 2018 | **572,342** |

## 10. Revenue and property operating costs

The components of revenue and property operating costs from investment properties for the period from June 15, 2018 to December 31, 2018 are as follows:

| | Period ended December 31, 2018 $ |
|---|---|
| **Revenue from investment properties** | |
| Rental income | **1,342,729** |
| Common area maintenance | **472,844** |
| Utility income | **117,988** |
| Parking income | **29,295** |
| Miscellaneous income | **11,175** |
| | **1,974,031** |
| **Property operating costs** | |
| Management and general operating expenses | **(276,534)** |
| Maintenance and utilities expense | **(291,782)** |
| Property taxes | **(213,446)** |
| | **(781,762)** |
| **Net rental income** | **1,192,269** |

**[In Canadian dollars, unless otherwise specified]**

For residential tenants, the lease term is typically one year. As at December 31, 2018, a portion of the residential tenants have entered into lease commitments until August 2020. For commercial tenants, the lease terms are typically five years with options for further extensions. The future minimum rental receivable under operating leases as at December 31, 2018 are as follows:

| | December 31, 2018<br>$ |
|---|---|
| Within 1 year | 6,012,233 |
| Within 1 to 5 years | 1,273,589 |
| | 7,285,822 |

## 11. General and administrative expenses

The components of general and administrative expenses for the period from June 15, 2018 to December 31, 2018 are as follows:

| | Period ended<br>December 31, 2018<br>$ |
|---|---|
| Professional fees | 621,795 |
| Organizational expenses | 208,590 |
| Fund administration fees | 27,933 |
| Other | 56,459 |
| | 914,777 |

The Trust is responsible for the professional fees incurred related to the establishment and organization of the Trust. For the period from June 15, 2018 to December 31, 2018, the Trust incurred $208,590 in organizational expenses related to the establishment of the Trust.

## 12. Supplemental cash flow information

The net change in non-cash operating assets and liabilities for the period from June 15, 2018 to December 31, 2018 are as follows:

| | Period ended<br>December 31, 2018<br>$ |
|---|---|
| Prepaid expenses and other assets | (1,276,286) |
| Rent and other receivables | (109,671) |
| Accounts payable and accrued liabilities | 1,090,496 |
| Residential tenant deposits | 806,300 |
| | 510,839 |

**[In Canadian dollars, unless otherwise specified]**

### 13. Related party disclosures

For the period from June 15, 2018 to December 31, 2018, investment funds managed and/or advised by Alignvest Management Corporation ("AMC"), a related party of the Trust, invested $13,072,427 for Units of the Trust on the same terms as third-party Unitholders. As at December 31, 2018, these investment funds held 132,206 Units of the Trust. AMC is the majority shareholder of ASH Inc.

In accordance with the LPA of CSL, ASH Inc., in its capacity as general partner of CSL, is entitled to receive a share of the increase in net asset value of CSL upon the occurrence of a liquidation event (or dissolution) of CSL after its limited partners, the Unitholders of the Trust, have earned a 7% annualized preferred return on their investment in CSL ("General Partner's liquidity distribution"). The General Partner's liquidity distribution is equal to the general partner's hypothetical share of the profits, distributed based on the order of priority described in the LPA. As at December 31, 2018, a General Partners' liquidity distribution of $389,399 has been accrued and recorded as accrued liabilities (non-current). The change in General Partner's liquidity distribution of $389,399 during the period is included in professional fees in the consolidated statement of income and comprehensive income. The General Partner's liquidity distribution is measured at amortized cost.

For the period from June 15, 2018 to December 31, 2018, the Trust declared $525,788 in distributions to ASH Inc. As at December 31, 2018, there were distributions payable to ASH Inc. of $286,171, which were subsequently paid on January 15, 2019.

### 14. Management of capital

The Trust defines capital that it manages as the aggregate of its net assets attributable to unitholders and mortgages payable. The Trust's primary objective when managing capital is to ensure that the Trust has adequate operating funds to support the business operations, fund acquisitions of new investment properties and capital expenditure and maximize Unitholder value.

The total capital managed by the Trust are as follows:

| | **December 31, 2018** |
|---|---|
| | **$** |
| Mortgages payable | **62,631,213** |
| Net assets attributable to unitholders | **59,171,594** |
| | **121,802,807** |

The Trust will target to have total indebtedness of no more than 65% as a percentage of gross book value, subject to increase to 70% for short periods of time. As at December 31, 2018, the Trust had total indebtedness to gross book value of 59%. The Trust is required to maintain certain financial covenants related to its mortgage liabilities in accordance with its loan agreements, which include debt service coverage ratios. For the period from June 15, 2018 to December 31, 2018, the Trust was in compliance with all of its loan covenants and obligations under its loan agreements.

**[In Canadian dollars, unless otherwise specified]**

**15. Financial instruments and risk management**

***Fair value of financial instruments***

The fair values of the Trust's financial instruments were determined as follows:

- The carrying amounts of cash and cash equivalents, short-term investments, accounts receivables, accounts payable and accrued liabilities, distributions payable and residential tenant deposits approximate their fair values based on the short-term maturity of these financial instruments. Accrued liabilities (non-current) are measured at fair value based on value of net assets of CSL as described in Note 13.
- Investment properties are measured at fair value based on the valuation methodology described in Note 5.
- The estimated fair value of mortgages payable is estimated based on the discounted future cash flows using discount rates reflective of current market conditions for instruments with similar terms and risks. Mortgages payable are carried at amortized cost using the effective interest rate method of amortization. The carrying amount is a reasonable approximation of fair value.

The fair value hierarchy of financial instruments measured at fair value in the consolidated statement of financial position are as follows:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **December 31, 2018** | **$** | **$** | **$** |
| **Financial assets** | | | |
| Investment properties | **-** | **-** | **106,800,000** |
| | - | - | **106,800,000** |

For the period from June 15, 2018 to December 31, 2018, there were no transfers of assets or liabilities between levels.

***Risk management***

The Trust is exposed to financial risks arising from its financial assets and liabilities, such as market risk related to interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

***Market risk***
Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in the market prices and comprises of the following:

***Interest rate risk***
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Trust is exposed to interest rate risk as a result of its mortgages payable will not be refinanced on terms as favourable as those of the existing indebtedness. As at December 31, 2018, all of the mortgages payable entered into by the Trust have a fixed interest rate and mature in 2021. As the Trust acquires additional investment properties, the Trust expects to

**[In Canadian dollars, unless otherwise specified]**

enter into loan arrangements with maturities scheduled over a number of years which would minimize the exposure of the Trust to interest rate risk.

The Trust is also exposed to interest rate risk from its short-term investments, which are fixed for the duration of the term which is less than one year. The Trust aims to hold these investments for a short duration for cash management purposes.

***Credit risk***
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Trust is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying value of the financial asset. The Trust is exposed to credit risk from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Trust mitigates the risk of credit loss with respect to residential tenants by obtaining a lease guarantor and security deposits from each residential tenant and diversification of its existing portfolio of investment properties. The Trust monitors its collection process on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. When a receivable balance is considered uncollectible, it is written off and recognized in net income. Subsequent recoveries of amounts previously written off are credited against property operating costs in the consolidate statements of income.

***Liquidity risk***
Liquidity risk is the risk that the Trust will encounter difficulties in meeting its financial liability obligations. Management prepares cash flow forecasts on an ongoing basis to manage new capital issuances with the liquidity needs arising from operations, mortgage commitments, distributions to Unitholders and its acquisition pipeline.

The Trust is exposed to liquidity risk related to its debt financing, including the risk that mortgages will not be able to be refinanced. The Trust's minimizes its exposure to liquidity risk by maintaining appropriate levels of leverage on its investment properties and aim to stagger the maturities of its debt.

The table below summarizes the maturity profile of the Trusts' financial liabilities based on contractual undiscounted receipts and payments:

| **As at December 31, 2018** | **Within 1 year $** | **1 to 5 years $** | **No fixed maturity $** | **Total $** |
|---|---|---|---|---|
| Mortgages payable | **1,508,044** | **61,123,169** | **-** | **62,631,213** |
| Accounts payable and accrued liabilities | **701,097** | **-** | **389,399** | **1,090,496** |
| Distributions payable | **1,144,685** | **-** | **-** | **1,144,685** |
| Residential tenant deposits | **806,300** | **-** | **-** | **806,300** |
| | **4,160,126** | **61,123,169** | **389,399** | **65,672,694** |

### 16. Events after the reporting period

On January 1, 2019, the Trust issued 115,016 Units for $11,571,852 in subscriptions, of which $7,465,302 was subscribed by investment funds managed and/or advised by AMC.

On January 15, 2019, the Trust issued distributions of $858,514 to Unitholders of the Trust, of which $387,806 was paid in cash and $470,708 was distributed in the form of additional Units of the Trust in connection with the DRIP.

On March 1, 2019, the Trust issued 241,752 Units for $24,322,698 in subscriptions, of which $20,000,000 was subscribed by investment funds managed and/or advised by AMC.

On March 4, 2019, the Trust acquired the PBSA property at 265 Laurier Avenue East in Ottawa, Ontario (the "Annex"), consisting of 503 beds in 159 fully-furnished units for $92,000,000 and financed the acquisition with cash of $33,000,000 and mortgage debt of $59,000,000.

On March 4, 2019, CSL issued $10,000,000 in Class V LP Units to a third party that is at arm's length to the Trust and ASH Inc., as a portion of the purchase price of the Annex. Pursuant to the unit exchange right agreement between the Trust and the Class V Unitholder, the Class V Unitholder is granted the right to exchange its Class V LP Units for Units of the Trust on a one for one basis.

On March 28, 2019, the Trust announced that it has entered into a binding contract to purchase a portfolio of four PBSA properties in Ontario, Canada. The properties are located at 333 and 339 King Street North in Waterloo, Ontario; 1686 Main Street West in Hamilton, Ontario; and 1700 Simcoe Street North in Oshawa, Ontario.

On March 29, 2019, CSL issued $13,500,000 in Class C LP Units to a third party that is at arm's length to the Trust and ASH Inc.