Pure Multi-Family REIT LP

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Expressed in thousands of United States dollars

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INDEPENDENT AUDITORS' REPORT

To the Directors of Pure Multi-Family REIT (GP) Inc.

Opinion

We have audited the consolidated financial statements of Pure Multi-Family REIT LP (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018 and 2017
- the consolidated statement of income and other comprehensive income for the years then ended
- the consolidated statement of changes in partners' capital for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Management Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Management Discussion and Analysis document as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 7, 2019

(expressed in thousands of United States dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Non-current assets		
Investment properties (note 4)	**$ 1,157,616**	$ 1,133,501
Current assets		
Prepaid expenses	**3,264**	3,361
Mortgage reserve fund (note 5)	**7,322**	6,421
Amounts receivable	**541**	1,529
Cash and cash equivalents	**22,625**	25,863
	33,752	37,174
TOTAL ASSETS	**$ 1,191,368**	$ 1,170,675
LIABILITIES		
Non-current liabilities		
Mortgages payable (note 6)	**$ 542,852**	$ 571,690
Credit facility (note 7)	**26,844**	25,762
Convertible debentures (note 8)	**21,642**	21,115
Other liabilities (note 9)	**353**	125
	591,691	618,692
Current liabilities		
Mortgages payable (note 6)	**34,634**	4,563
Rental deposits	**1,478**	1,548
Unearned revenue	**1,509**	1,767
Accounts payable and accrued liabilities	**27,162**	25,498
	64,783	33,376
TOTAL LIABILITIES	**656,474**	652,068
PARTNERS' CAPITAL (note 10)	**534,894**	518,607
TOTAL LIABILITIES AND PARTNERS' CAPITAL	**$ 1,191,368**	$ 1,170,675

The accompanying notes are an integral part of these consolidated financial statements

(expressed in thousands of United States dollars)

	Limited Partners Class A	Limited Partners Class B	General Partner	Convertible Debentures (note 8)	Accumulated Earnings	Total
Balance, December 31, 2017	$ 401,648	$ 1,000	$ -	$ 1,965	$ 113,994	$ 518,607
Debenture conversion	39	-	-	(4)	-	35
Distributions to limited partners	-	-	-	-	(29,774)	(29,774)
Net income for the period	-	-	-	-	46,026	46,026
Balance, December 31, 2018	**$ 401,687**	**$ 1,000**	**$ -**	**$ 1,961**	**$ 130,246**	**$ 534,894**

	Limited Partners Class A	Limited Partners Class B	General Partner	Convertible Debentures (note 8)	Accumulated Earnings	Total
Balance, December 31, 2016	$ 269,187	$ 1,000	$ -	$ 1,984	$ 97,991	$ 370,162
Issuance of units	138,398	-	-	-	-	138,398
Offering costs	(6,147)	-	-	-	-	(6,147)
Debenture conversion	210	-	-	(19)	-	191
Distributions to limited partners	-	-	-	-	(27,193)	(27,193)
Net income for the period	-	-	-	-	43,196	43,196
Balance, December 31, 2017	**$ 401,648**	**$ 1,000**	**$ -**	**$ 1,965**	**$ 113,994**	**$ 518,607**

(expressed in thousands of United States dollars, except units and per unit amounts)

Year ended	**December 31, 2018**	December 31, 2017
REVENUES		
Rental	**$ 109,612**	$ 93,099
OPERATING EXPENSES		
Insurance	**2,160**	1,908
Property management	**-**	1,859
Property taxes	**22,311**	15,647
Property operating expenses	**24,108**	20,916
	48,579	40,330
NET RENTAL INCOME	**61,033**	52,769
NET FINANCE INCOME (EXPENSES)		
Interest income	**23**	112
Interest expense (note 11)	**(25,612)**	(22,104)
Distributions to subsidiary's preferred unitholders	**(16)**	(16)
	(25,605)	(22,008)
NET OTHER INCOME (EXPENSES)		
Other income	**409**	663
General and administrative	**(7,992)**	(5,369)
Fair value adjustments to investment properties (note 4)	**18,689**	17,602
Franchise taxes	**(508)**	(461)
	10,598	12,435
NET INCOME AND COMPREHENSIVE INCOME	**$ 46,026**	$ 43,196
Earnings per Class A unit		
Basic	**$ 0.58**	$ 0.60
Diluted (note 19)	**$ 0.58**	$ 0.60
Weighted average number of Class A units		
Basic	**76,732,128**	68,926,987
Diluted (note 19)	**80,757,084**	72,958,845
Earnings per Class B unit		
Basic	**$ 7.73**	$ 8.04
Diluted (note 19)	**$ 7.68**	$ 7.96
Weighted average number of Class B units		
Basic and diluted	**200,000**	200,000

The accompanying notes are an integral part of these consolidated financial statements

(expressed in thousands of United States dollars)

Year ended		**December 31, 2018**		December 31, 2017
Cash provided by (used in)				
OPERATIONS				
Net income	**$**	**46,026**	$	43,196
Items not involving cash:				
Amortization of transaction costs and accretion of convertible debentures		**1,215**		970
Fair value adjustments to investment properties		**(18,689)**		(17,602)
Property tax adjustments on acquisitions		**-**		(2,910)
Interest income		**(23)**		(112)
Interest expense		**24,397**		21,134
Distributions to subsidiary's preferred unitholders		**16**		16
Net change in non-cash working capital items (note 13)		**1,666**		12,288
		54,608		56,980
INVESTING				
Capital additions to investment properties		**(5,426)**		(4,922)
Interest received		**23**		112
Release of cash held in trust		**-**		45,179
Acquisitions of investment properties		**-**		(329,520)
		(5,403)		(289,151)
FINANCING				
Distributions paid to limited partners		**(28,774)**		(26,548)
Interest paid		**(24,415)**		(20,759)
Repayment of mortgages payable		**(36,599)**		(3,671)
Mortgage reserve fund		**(900)**		(1,227)
Payment of finance transaction costs		**(439)**		(1,599)
Distribution paid to subsidiary's preferred unitholders		**(16)**		(16)
Bank credit facility proceeds received		**1,000**		29,000
Mortgage proceeds received		**37,700**		133,000
Proceeds from issuance of limited partner units		**-**		138,398
Unit offering costs		**-**		(6,147)
Repayment of credit facility		**-**		(3,000)
		(52,443)		237,431
Net change in cash and cash equivalents		**(3,238)**		5,260
Cash and cash equivalents, beginning of period		**25,863**		20,603
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**22,625**	$	25,863
Supplemental cash flow information:				
Non-cash financing:				
Distributions to the limited partners included in accounts payable and accrued liabilities	**$**	**3,338**	$	2,398
Conversion of convertible debentures		**35**		191

1. PURE MULTI-FAMILY REIT LP INFORMATION

Pure Multi-Family is a limited partnership formed under the *Limited Partnership Act* (Ontario) to indirectly invest in multi-family real estate properties in the United States. Pure Multi-Family was established by Pure Multi-Family Management Limited Partnership (the "Managing GP"), its managing general partner from formation to May 24, 2018, and Pure Multi-Family REIT (GP) Inc. (the "Governing GP"), its governing general partner, pursuant to the terms of a Limited Partnership Agreement (the "LP Agreement"), dated May 8, 2012, as amended and restated May 28, 2015, as further amended August 21, 2015 and as amended and restated May 24, 2018, and as may be amended from time to time. On May 24, 2018, unitholders approved the removal of the Managing GP as a general partner of Pure Multi-Family.

Pure Multi-Family's head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. Pure Multi-Family's property management office is located at 450 – 5810 Tennyson Parkway, Plano, Texas, 75024. A copy of the LP Agreement can be obtained from the Chief Financial Officer of Pure Multi-Family and is available on SEDAR at www.sedar.com.

Pure Multi-Family was established for, among other things, the purposes of:

- acquiring common shares and a Series A preferred share of Pure US Apartments REIT Inc. (the "US REIT");
- temporarily holding cash and investments for the purposes of paying the expenses and liabilities of Pure Multi-Family and making distributions to Unitholders;
- in connection with the undertaking set out above, reinvesting income and gains of Pure Multi-Family and taking other actions besides the mere protection and preservation of Pure Multi-Family property.

The US REIT was established for, among other things, the purposes of acquiring, owning and operating multi-family real estate properties in the United States.

These consolidated financial statements for the year ended December 31, 2018 were authorized for issue by the Board of Directors of the Governing GP (the "Board") on March 7, 2019.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

A. Statement of compliance and basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs").

B. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying Pure Multi-Family's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(Q).

C. Functional and presentation currency

These consolidated financial statements are presented in United States dollars, which is Pure Multi-Family's functional currency.

D. Presentation of financial statements

Pure Multi-Family uses a classified statement of financial position. The consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months from the reporting date and non-current assets and liabilities are those where the recovery or settlement is expected to occur more than twelve months from the reporting date. Pure Multi-Family classifies the statements of income and comprehensive income using the function of expense method, which classifies expenses according to their functions, such as costs of operations or administrative activities.

E. Accounting Standards Implemented in 2018

On January 1, 2018, Pure Multi-Family implemented IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9"), in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Effective January 1, 2018, Pure Multi-Family implemented IFRS 3 *Business Combinations* ("IFRS 3"). The impacts on implementation of IFRS 15, IFRS 9 and IFRS 3 are described below.

IFRS 15

In 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and other related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards for insurance contracts, financial instruments and lease contracts. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The majority of Pure Multi-Family's revenue is rental revenue, which is outside the scope of IFRS 15. Property management and ancillary income (such as utilities, parking and laundry) are considered non-lease components and are within the scope of IFRS 15. The performance obligation for the property management and ancillary services is satisfied over time, which is generally the lease term.

Pure Multi-Family adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. The implementation of IFRS 15 did not have any impact on Pure Multi-Family's revenue streams.

IFRS 9

In 2014, the IASB issued IFRS 9 *Financial Instruments*, replacing IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), and related interpretations. IFRS 9 introduces revised guidance on the classification and measurement of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Pure Multi-Family implemented the new requirements for classification and measurement, impairment and general hedging on January 1, 2018, retrospectively with no restatement of comparative periods.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: (i) amortized cost, (ii) fair value through other comprehensive income (FVOCI), and (iii) fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: (i) amortized cost or (ii) FVTPL.

The following table summarizes the classification impact upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in changes in measurement or the carrying amount of financial assets and liabilities.

Asset/Liability Classification	Category under IAS 39	Category under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Mortgage reserve fund	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Credit facility	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost

Financial assets are not reclassified subsequent to their initial recognition unless a change takes place with regard to the business model for managing financial assets. In such an event, the classification of financial assets would be re-assessed.

IFRS 3

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* that seek to clarify whether a transaction results in an asset or a business combination. The amendment applies to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Early adoption is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Pure Multi-Family implemented the new requirement as of January 1, 2018. There were no acquisitions during the year to be assessed using the amendment.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently by group entities unless otherwise stated.

A. Basis of consolidation

The consolidated financial statements comprise the financial statements of Pure Multi-Family and its subsidiaries, over which Pure Multi-Family has control. Control exists when Pure Multi-Family has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of Pure Multi-Family and its subsidiaries.

B. Translation of foreign currency

The functional and reporting currency of Pure Multi-Family is United States dollars. Pure Multi-Family has certain transactions in Canadian dollars. Monetary items are translated at the exchange rate in effect at the statement of financial position date and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the exchange rate in effect on the dates they occur. Realized and unrealized exchange gains and losses are included in earnings.

C. Property acquisitions and business combinations

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents the acquisition of a property or a business combination. The basis of the judgment is set out in note 3(Q).

Where such acquisitions are not judged to be a business combination, they are treated as asset acquisitions. The cost to acquire the property, including transaction costs, is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as a business combination.

D. Investment properties

Investment properties are comprised of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value and related gains or losses on the disposal of an investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred. Pure Multi-Family defines fair value to be the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after the acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the consolidated statement of income and comprehensive income in the period in which they arise.

An investment property is derecognized when it has been disposed of and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognized in the consolidated statement of income and comprehensive income in the period of disposal.

E. Fair value

Pure Multi-Family measures investment properties at fair value at each balance sheet date. The 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 under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

F. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of cash and cash equivalents, amounts receivable and mortgage reserve fund.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime EFLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

On adoption of IFRS 9, there was no change to the provisions related to the Trust's financial assets.

G. Financial instruments

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is recognized at amortized cost. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and Pure Multi-Family's designation of such instruments.

H. Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and cash held at banks.

I. Convertible debentures

Convertible debentures issued by Pure Multi-Family are converted into Class A units (each a "Class A Unit") of Pure Multi-Family at the option of the holder, and the number of Class A Units to be issued does not vary with changes in their fair value.

Upon issuance, convertible debentures are separated into their debt and conversion feature components. The debt component of the convertible debenture is recognized initially at fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature of the convertible debentures is initially recognized at fair value. The convertible debentures are convertible into Class A Units at the holder's option. As a result of this obligation, the convertible debentures are exchangeable into equity (the Class A Units are equity by definition) and accordingly the conversion feature component of the convertible debentures is also equity. The conversion feature component of the convertible debentures is recorded in the consolidated statement of partners' capital.

Any directly attributable transaction costs are allocated to the debt and conversion components of the convertible debentures in proportion to their initial carrying amounts.

J. Operating segments

The primary format for segment reporting is based on geographical region and is consistent with the internal reporting provided to the chief operating decision-maker, determined to be the general partners. Pure Multi-Family currently operates in one business segment, the owning and operating of multifamily apartment properties in the sun-belt area in the United States.

K. Revenue recognition

Rental revenue is recognized on a straight-line basis over the term of the lease subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

L. Leases

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from Pure Multi-Family to the lessees are accounted for as finance leases. All current leases of Pure Multi-Family are operating leases.

M. Finance income (expenses)

Finance income (expenses) consists of interest income, mortgage interest, credit facility interest, convertible debenture interest and distributions to preferred unitholders. Finance income is recognized in the period in which it is earned, while finance expenses are recognized in the period in which they are incurred.

N. Taxes

(i) Income Taxes

Pure Multi-Family is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner of Pure Multi-Family is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of Pure Multi-Family for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "SIFT Measures"). A specified investment flow-through partnership (a "SIFT partnership", as defined in the Tax Act) will be subject to SIFT tax on its "taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general income tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" of a SIFT partnership less SIFT tax payable by a SIFT partnership is deemed to be a taxable dividend received by the SIFT partnership from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. Any such deemed taxable dividend would be allocated to the partners of a SIFT partnership and be taxable as taxable dividends in their hand. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership. Management believes that the Pure Multi-Family does not hold any "non-portfolio property" and should not be a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate Pure Multi-Family in such a manner so as to remain exempt from the SIFT Measures on a continuous basis in the future. If Pure Multi-Family becomes a SIFT partnership it will be generally subject to income taxes at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations on its taxable non-portfolio earnings, if any.

Pure Multi-Family made a protective election to be treated as a partnership for U.S. federal income tax purposes. In addition, management believes at least 90% of Pure Multi-Family's gross income for the taxation year is qualifying income within the meaning of U.S. Internal Revenue Code (the "Code") section 7704 and Pure Multi-Family is not required to register as an investment company under the Investment Company Act of 1940. As such, it is generally not subject to U.S. federal income tax under the Code. Furthermore, Pure Multi-Family's subsidiary, the US REIT, timely made and intends to maintain an election to be taxed as a U.S. real estate investment trust ("REIT") under the Code and to take the necessary steps to qualify as a REIT pursuant to the Code. In order for the US REIT to qualify as a REIT, the US REIT must meet a number of organizational and operational requirements, including a requirement to make annual dividend distributions to its shareholders equal to a minimum of 90% of

its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. As a REIT, the US REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed as a dividend to shareholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the reporting period have been met, and accordingly no provision for US federal and state income taxes has been made
Management intends to operate the US REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual and quarterly operating results, the various conditions imposed by the Code. If the US REIT fails to qualify as a REIT in any taxable year, it will be subject to US federal and state income taxes at regular US corporate rates. In addition, the US REIT may not be able to requalify as a REIT for the four subsequent taxable years. Even if the US REIT qualifies for taxation as a REIT, the US REIT may be subject to certain US state and local taxes on its income and property, and to US federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("U.S. Tax Reform"). The U.S. Tax Reform made many significant changes to the U.S. federal tax laws, including reducing the U.S. federal corporate income tax rate from 35% to 21% effective as of January 1, 2018. Future regulations and interpretations to be issued by U.S. authorities may impact the Pure Multi-Family's estimates and assumptions used in calculating its income tax provisions.

Pure Multi-Family's indirect Canadian subsidiary, Pure Multi-Family Management Ltd. ("Management Co"), is a taxable Canadian corporation subject to Canadian income tax. Income tax expense comprises current tax. Current tax is recognized in net earnings.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Texas Franchise Tax

Texas Franchise Tax applicable to Pure Multi-Family, for its investment properties operated in Texas during the year ended December 31, 2018, is equal to 0.75% of the lesser of: (i) 70% of total revenue; (ii) 100% of total revenue less cost of goods sold; (iii) 100% of total revenue less compensation expense; or (iv) 100% of total revenue less $1 million. Pure Multi-Family has recorded a provision for Texas Franchise Tax, which is included within other expenses in the consolidated statement of income and comprehensive income.

O. Earnings per unit

Basic and diluted earnings per Class A and Class B unit have been calculated based on the proportion of the earnings allocated to the respective class of units, and the respective weighted average number of Class A units and Class B units outstanding.

P. Provisions

Provisions are recognized by Pure Multi-Family when: (i) Pure Multi-Family has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as interest expense.

Q. Significant accounting estimates

Estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

The significant areas of estimation include the following:

Valuation of investment properties

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management uses the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment properties are set out in note 4.

R. Accounting standards not yet adopted

Leases

On January 13, 2016 the IASB issued IFRS 16, *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases* ("IAS 17").

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

Pure Multi-Family adopted IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. Management does not expect the standard to have a material impact on the consolidated financial statements.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

4. INVESTMENT PROPERTIES

		2018
Balance, as at December 31, 2017	$	1,133,501
Capital additions		5,426
Fair value adjustments to investment properties		18,689
Balance as at December 31, 2018	**$**	**1,157,616**

		2017
Balance, as at December 31, 2016	$	778,547
Property acquisitions		329,520
Property tax adjustments on acquisitions and dispositions		2,910
Capital additions		4,922
Fair value adjustments to investment properties		17,602
Balance as at December 31, 2017	**$**	**1,133,501**

The investment properties are pledged as security against the mortgages payable.

Valuations

Investment properties are carried at fair value. As set out in note 3(Q), in arriving at their estimates of fair value, management and the independent appraisers have used their market knowledge and professional judgment and have not relied solely on historical transactional comparisons.

Independent appraisals were performed by accredited appraisers. Management reviews each appraisal and ensures that the assumptions used are reasonable and the final fair value amount reflects those assumptions used in the determination of the fair market values of the properties.

Pure Multi-Family does not obtain appraisals for each property at each reporting date. Where Pure Multi-Family does not obtain an appraisal for a specific investment property at the reporting date, management uses specific indicators (i.e. market conditions, discount rate changes, etc.) and determines whether a change in fair value has occurred. During the 2018 and 2017, Pure Multi-Family obtained independent appraisals on all of the investment properties it held at the end of the respective year. As disclosed in note 3(Q), where appropriate, management incorporated these appraisals in its determination of fair value for each of the investment properties.

The significant assumptions made relating to the valuations of the investment properties are set out below:

	December 31, 2018		December 31, 2017	
	Weighted average	Range	Weighted average	Range
Capitalization rate	5.05%	4.50% - 5.75%	5.17%	4.75% - 6.00%

5. MORTGAGE RESERVE FUND

The mortgage reserve fund consists of cash on deposit requested by the lenders to be retained in escrow to pay for any repairs to the properties and certain costs. These funds will be released to pay the respective obligations or once certain conditions are met, such as completion of repairs. The term of the mortgage reserve fund is less than 12 months.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

6. MORTGAGES PAYABLE

	Nominal interest rate	Year of maturity	**December 31, 2018**	December 31, 2017
Valley Ranch	3.51%	2022	**$ 13,680**	$ 13,680
Prairie Creek	4.07%	2030	**43,821**	44,705
Bear Creek	4.04%	2024	**37,700**	32,080
Hackberry Creek	3.90%	2028	**29,282**	29,500
Deer Park	4.21%	2023	**15,512**	15,811
Fountainwood	4.46%	2023	**12,034**	12,278
Walker Commons	3.11%	2019	**28,470**	28,470
Preserve	3.26%	2021	**23,471**	23,983
San Brisas	3.26%	2021	**16,200**	16,554
Park West	4.02%	2030	**36,183**	36,500
Amalfi	3.83%	2027	**45,000**	45,000
Brackenridge	3.72%	2027	**30,600**	30,600
Pure Estates	3.96%	2024	**37,030**	37,824
Pure View	3.92%	2031	**37,081**	37,771
The Avenue	3.40%	2028	**42,793**	43,000
Creekside	3.98%	2027	**20,000**	20,000
Lansbrook	3.27%	2022	**16,500**	16,500
Park 28	3.84%	2032	**14,850**	14,850
Pinnacle at Union Hill	3.32%	2024	**23,750**	23,750
La Villita	3.81%	2032	**24,400**	24,400
Farmers Market	3.67%	2029	**33,500**	33,500
Total mortgages principal payable			**581,857**	580,756
Unamortized mortgage transaction costs			**(4,371)**	(4,503)
Total carrying value of mortgages payable			**577,486**	576,253
Less current portion			**34,634**	4,563
Non-current portion			**$ 542,852**	$ 571,690

The mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 3.75% as at December 31, 2018 (December 31, 2017 - 3.72%).

On December 11, 2018 Pure Multi obtained new mortgage financing on Stoneleigh at Bear Creek in the amount of $37,700,000, with a term of 5 years and bearing a fixed interest rate of 4.04%. The prior mortgage payable, secured by Stoneleigh at Bear Creek was paid in full on the same date and a mortgage prepayment expense of $325,000 was incurred (note 11).

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

Principal repayments, as of December 31, 2018, based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

2019	$ 34,634
2020	7,017
2021	44,284
2022	37,663
2023	32,360
Thereafter	425,899
	$ 581,857

7. CREDIT FACILITY

On November 28, 2017, Pure Multi-Family entered into a secured revolving credit agreement (the "Facility"), through the US REIT, with a total commitment available of up to $50,000,000. The contract period is 3 years and interest is calculated using the effective interest rate, which was 4.13% for the year ended December 31, 2018 (year ended December 31, 2017 – 3.64%). Amounts drawn under the Facility bear interest at a variable rate equal to: (i) LIBOR plus a margin ranging from 1.55% to 2.20% per annum, or (ii) a base rate plus a margin ranging from 0.55% to 1.20% per annum. As at December 31, 2018, a balance of $27,000,000 was outstanding (December 31, 2017 - $26,000,000). The Facility is secured by the Fillmore investment property located in Phoenix, Arizona.

The following summarizes the face and carrying values of the Facility:

	Face Value	Carrying Value
Balance as at December 31, 2017	$ 26,000	$ 25,762
Credit facility draws	1,000	1,000
Amortization of transaction costs	-	82
Balance as at December 31, 2018	**$ 27,000**	**$ 26,844**

	Face Value	Carrying Value
Balance as at December 31, 2016	$ -	$ -
Credit facility draws	29,000	29,000
Credit facility repayments	(3,000)	(3,000)
Credit facility financing costs	-	(245)
Amortization of transaction costs	-	7
Balance as at December 31, 2017	**$ 26,000**	**$ 25,762**

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

8. CONVERTIBLE DEBENTURES

On August 7, 2013, Pure Multi-Family issued 23,000 6.5% convertible unsecured subordinated debentures (each a "6.5% convertible debenture") at a price of $1,000 per 6.5% convertible debenture, for gross proceeds of $23,000,000. The 6.5% convertible debentures mature on September 30, 2020 and are convertible at the holder's option at any time into Class A Units at a conversion price of $5.65 per Class A Unit, in accordance with the terms of the trust indenture dated August 7, 2013. After September 30, 2018, the 6.5% convertible debentures may be redeemed by Pure Multi-Family at any time. During the year ended December 31, 2018, 39 of the originally issued 23,000 6.5% convertible debentures were converted into Class A Units (December 31, 2017 - 210 Class A Units). At December 31, 2018, $22,741,000 of the face value of the 6.5% convertible debentures was outstanding.

The following summarizes the face and carrying values of the 6.5% convertible debentures:

	Convertible Debentures Face Value	Liability Component Carrying Value	Equity Component Carrying Value
Balance as at December 31, 2017	$ 22,780	$ 21,115	$ 1,965
Conversion of convertible debenture	(39)	(35)	(4)
Amortization of transaction costs	-	195	-
Accretion of liability component	-	367	-
Balance as at December 31, 2018	**$ 22,741**	**$ 21,642**	**$ 1,961**
Balance as at December 31, 2016	$ 22,990	$ 20,793	$ 1,984
Conversion of convertible debenture	(210)	(191)	(19)
Amortization of transaction costs	-	181	-
Accretion of liability component	-	332	-
Balance as at December 31, 2017	**$ 22,780**	**$ 21,115**	**$ 1,965**

9. OTHER LIABILITIES

A. Preferred units of subsidiary

During the year ended December 31, 2013, the US REIT issued 125 preferred units at $1,000 per preferred unit for gross proceeds of $125,000. On consolidation, the preferred units of the US REIT are reflected as a liability of Pure Multi-Family.

The preferred units are non-voting preferred units. Unitholders holding preferred units are entitled to receive dividends from the US REIT at a per annum rate equal to 12.5%, payable on June 30 and December 31 of each year. Unitholders holding preferred units will be allocated such return in priority to any allocations or distributions to all other classes and series of units of the US REIT. However, after payment of such return to unitholders holding preferred units, preferred unitholders are not otherwise entitled to share in the income of the US REIT.

The US REIT may redeem the preferred units at any time, for a price equal to $1,000 per preferred unit, plus accrued and unpaid distributions.

Due to the fixed distributions and preferred treatment for preferred units, they meet the definition of a liability. In addition, the Board does not presently intend to redeem any preferred units within the next year. Thus, the preferred units are classified as non-current liabilities.
Pure Multi-Family declared distributions of $15,625 during the year ended December 31, 2018 to the preferred unitholders (year ended December 31, 2017 - $15,625).

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

B. Deferred Unit Plan

The Board adopted the Deferred Unit Plan (the “DUP”) effective as of January 1, 2018. The purpose of the DUP is to promote a greater alignment of interests between the non-executive directors (each a “Director”) of the Governing GP and the unitholders. Each eligible person (a person who is, on the applicable date, a non-executive Director) may, subject to the conditions of the DUP, elect to be a participant thereunder. A participant may elect to be paid up to 25% (the “Elected Percentage”) of his or her annual retainer (such product being referred to as the “Elected Amount”), in the form of deferred units (each, a “Deferred Unit”) in lieu of cash, provided that Pure Multi-Family shall match the Elected Amount for each participant annually in the form of Deferred Units having a value on each award date, being the last business day of each calendar quarter, equal to the Market Value (as defined in the DUP) on such dates. Under the DUP, one Deferred Unit shall be equivalent in value to one Unit. The number of Deferred Units (including fractional Deferred Units) to be credited to a participant as of any particular award date pursuant to the DUP are to be calculated by dividing: (i) the amount calculated by multiplying the dollar amount of the participant’s Elected Amount by two and dividing that product by four; by (ii) the Market Value of a Class A Unit on the award date.

Upon any cash distribution being paid on the Class A Units prior to a participant’s Redemption Date (as defined in the DUP), Pure Multi-Family will credit additional Deferred Units (each a “Distribution Deferred Unit”) to the participant's Deferred Unit account. The number of such Distribution Deferred Units is calculated by dividing: (i) the amount determined by multiplying: (a) the number of Deferred Units in such participant’s Deferred Unit account on the record date for the payment of such distribution by (b) the distribution paid per Class A Unit; by (ii) the Market Value of a Class A Unit on the distribution payment date for such distribution.

The Deferred Units (including any Distribution Deferred Units) credited to a participant’s Deferred Unit account shall vest immediately and be redeemable by the participant (or, where the participant has died, his or her estate) following an event, including disability, retirement or death, causing the participant to be no longer an Eligible Person (the “Termination Date”). The Deferred Units (including any Distribution Deferred Units) credited to a participant’s Deferred Unit account may be redeemed in whole or in part during the period (the “Redemption Period”) commencing six months after the Termination Date and ending on December 1 of the second calendar year following the participant’s termination. Under no circumstances shall Deferred Units be considered Class A Units or entitle the participant to any unitholder rights, including without limitation, voting rights, distribution entitlements or rights on liquidation, other than as set out in the DUP.

The value of the Deferred Units is recognized as Director compensation expense in the period coinciding with the Directors’ service period to which the grants relate. The Deferred Units are measured at fair value each reporting period and the change in fair value is recognized as an expense (when Pure Multi-Family’s Class A Unit price increases) or gain (when Pure Multi-Family’s Class A Unit price decreases) to compensation expense. For the year ended December 31, 2018, $114,905 in compensation expense (year ended December 31, 2017 - $nil), was included in general and administrative expense.

	Deferred Unit Plan Units		Carrying Value
Balance, December 31, 2017	-	$	-
Granting of units	17,421		111
Distribution units	396		3
Fair value adjustment	-		1
Balance as at December 31, 2018	**17,817**	**$**	**115**

C. Restricted Unit Plan

On May 24, 2018, the unitholders approved an amended and restated restricted unit plan (the “RUP”), which was initially approved by unitholders on May 21, 2014. The RUP provides for the grant of restricted units (each, a “Restricted Unit”) to directors, officers, employees, partners and consultants (as such terms are defined in the RUP) of Pure Multi-Family and its affiliates and subsidiaries. As distributions are paid on Class A Units, additional restricted units (each, a “Distribution Restricted Unit”) will be credited to the participants in an amount determined by dividing the dollar amount of the distributions payable by the fair market value per unit, as defined in the RUP, on the date of the distribution. The Board may establish performance criteria, the achievement of which may be a condition precedent to the grant in whole or in part. As well, the number of Restricted Units granted to a participant may be increased by a "performance factor" established by the Board at the time of grant.

Distribution Restricted Units vest at the same time and in the same proportion as the associated Restricted Units. The number of a participant's Restricted Units and Distribution Restricted Units which vest is the number of Restricted Units and Distribution Restricted Units credited to the participant's Restricted Unit account during the vesting period multiplied by a performance factor, if any, determined by the Board from time to time and set out in the grant agreement. Subject to the terms of the respective grant agreement, the maximum performance factor will not exceed 200%. The expiry date applicable to Distribution Restricted Units is the same as that applicable to the associated Restricted Units.

Subject to the provisions of the RUP and the grant agreement, Restricted Units and any associated Distribution Restricted Units granted or earned as outlined in the grant agreement, shall vest and become available for redemption on the third anniversary of the grant date. However, the Restricted Units granted to a participant and any associated Distribution Restricted Units shall not vest, and the participant shall not be entitled to such Restricted Units or associated Distribution Restricted Units if the performance criteria, which are specified in the grant agreements, are not met. The participant shall then be entitled to redeem such vested Restricted Units in accordance to the RUP and the grant agreement and receive the payout amount. Vested Restricted Units and Distribution Restricted Units must be redeemed no later than December 31 in the year of vesting.

It is Pure Multi-Family's intention to settle all vested Restricted Units and Distribution Restricted Units on a cash basis.

Grant and Redemption of Restricted Units and Distribution Restricted Units

During the year ended December 31, 2018, certain employees were granted an aggregate of 71,319 Restricted Units at an average price of $7.27 per Restricted Unit to be vested over a three year period. As at December 31, 2018, no Restricted Units or Distribution Restricted Units were eligible for redemption.

Valuation

The Restricted Units and Distribution Restricted Units are measured at fair value each reporting period and the change in fair value is recognized as an expense (when Pure Multi-Family's unit price increases) or a gain (when Pure Multi-Family's unit price decreases) to compensation expense. For the year ended December 31, 2018, $112,978 in compensation expense (year ended December 31, 2017 - $nil), was included in G&A expenses in relation to the grant of Restricted Units and the associated Distribution Restricted Units recognized as at December 31, 2018.

($000's, except unit amounts)	Restricted Unit Plan Units	Carrying Value
Balance, December 31, 2017	-	$ -
Granting of units	15,848	115
Distribution units	2,709	18
Fair value adjustment	-	(20)
Balance as at December 31, 2018	**18,557**	**$ 113**

In determining the fair value of the RUP liability at each reporting period, the closing unit price of the Class A Units is used to value the total Restricted Units and Distribution Restricted Units outstanding. In addition, Pure Multi-Family determines whether the performance criteria or performance factor, as applicable, will be met for each grant, and used the following weighted average assumptions in the determination of the fair value:

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

Distribution per Class A Unit, per month	$ 0.03125
Closing Class A Unit price as at December 31, 2018	$ 6.20

Included in general and administrative expense for the year ended December 31, 2018 is a fair value gain of $20,391 (year ended December 31, 2017 - $nil) relating to the Restricted Units and Distribution Restricted Units due to the decrease in the price of the Class A Units since the grant date of April 17, 2018.

10. PARTNERS' CAPITAL

A. Limited Partners and General Partner

The capital of Pure Multi-Family consists of an unlimited number of Class A Units and Class B units and the interest held by the Governing GP. Except as set out in the LP Agreement, no Class A Unit or Class B unit has any preference or priority over another. The Governing GP has made a capital contribution of $20 to Pure Multi-Family and has no further obligation to contribute capital.

On May 30, 2012, the Managing GP subscribed for 200,000 Class B units of Pure Multi-Family. On August 12, 2016, a Determination Event, as defined in the LP Agreement, occurred as a result of Pure Multi-Family's market capitalization exceeding $300,000,000 for a period of 10 consecutive trading days. Upon the occurrence of the Determination Event, the number of Class A Units, into which the Class B units may be converted to, was fixed at 2,665,835. Pure Multi-Family has not issued any additional Class B units.

As defined in the LP Agreement, the Governing GP has discretion to allocate revenue and expenses on a basis which ensures a fair distribution among unitholders. For the year ended December 31, 2018 and the year ended December 31, 2017, the Governing GP has allocated the revenue and expenses based on the weighted average number of Class A Units outstanding during the reporting periods and the respective Class B units, per the Specified Ratio, as described in the LP Agreement. For the year ended December 31, 2018, 3.36% of net income was allocated to the Class B units (year ended December 31, 2018 – 3.72%).

During the year ended December 31, 2018 the following transaction occurred:

(a) On February 2, 2018, ten 6.5% convertible debentures were converted at a conversion price of $5.65 into 1,769 Class A Units. Pure Multi-Family issued the Class A Units from treasury.
(b) On October 12, 2018, five 6.5% convertible debentures were converted at a conversion price of $5.65 into 884 Class A Units. Pure Multi-Family issued the Class A Units from treasury.
(c) On November 15, 2018, twenty-four 6.5% convertible debentures were converted at a conversion price of $5.65 into 4,247 Class A Units. Pure Multi-Family issued the Class A Units from treasury.

	December 31, 2018	December 31, 2017
Class A Units outstanding, beginning of year	76,729,771	56,068,506
Class A Units issued, public offering	-	20,624,100
Class A Units issued, debentures converted	6,900	37,165
Class A Units outstanding, end of year	**76,736,671**	**76,729,771**

B. Normal Course Issuer Bid

In September 2017, Pure Multi-Family received approval from the TSX Venture Exchange to commence a normal course issuer bid ("NCIB"), allowing for the purchase for cancellation of up to 1,000,000 Class A Units. The NCIB commenced on October 3, 2017 and expired on October 2, 2018, with no Class A Units being purchased by Pure Multi-Family.

In November 2018, Pure Multi-Family received approval from the TSX Venture Exchange to commence a NCIB, allowing for the purchase for cancellation of up to 1,500,000 Class A Units. The NCIB commenced on November 20, 2018 and expires on November 19, 2019, or such earlier date as Pure Multi-Family completes its purchases pursuant to the NCIB. Purchases subject to this NCIB will be carried out pursuant to open market transactions through the facilities of the TSX-V by CIBC on behalf of Pure Multi-Family in accordance with applicable regulatory requirements. All Class A Units purchased by Pure Multi-Family under the NCIB will be returned to treasury and cancelled. During the year ended December 31, 2018, Pure Multi-Family did not purchase and cancel any Class A Units under the NCIB.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

11. INTEREST EXPENSE

Interest expense consists of the following:

	Year ended	
	December 31, 2018	December 31, 2017
Mortgage interest	$ 21,567	$ 19,572
Convertible debenture interest	1,480	1,477
Credit facility interest	1,025	85
Amortization of transaction costs and accretion of convertible debentures	1,215	970
Mortgage prepayment expense (note 6)	325	-
	$ 25,612	**$ 22,104**

12. INCOME TAXES

A. Current income taxes

Pure Multi-Family's indirect Canadian subsidiary, Pure Multi-Family Management Ltd. ("Management Co"), is a taxable Canadian corporation subject to Canadian income tax. Pure Multi-Family's current income tax related expense for Management Co is $17,290 for the year ended December 31, 2018 (year ended December 31, 2017 - $43,210), which is included in other income (expenses) in the consolidated statement of comprehensive income.

B. Deferred income taxes

No deferred income taxes have been recorded by Pure Multi-Family.

13. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	Year ended	
Cash provided by (used in)	December 31, 2018	December 31, 2017
Amounts receivable	$ 988	$ 451
Prepaid expenses	97	(1,492)
Accounts payable and accrued liabilities	681	12,167
Other liabilities	228	-
Unearned revenue	(258)	782
Rental deposits	(70)	380
	$ 1,666	**$ 12,288**

14. CAPITAL MANAGEMENT

The LP Agreement provides for a maximum indebtedness level of up to 70% of the gross book value. The term "indebtedness" means any obligation of Pure Multi-Family for borrowed money (including the face amount outstanding under any convertible debentures and any outstanding liabilities of Pure Multi-Family arising from the issuance of subordinated notes, but excluding any premium in respect of indebtedness assumed by Pure Multi-Family for which Pure Multi-Family has the benefit of an interest rate subsidy), but excludes trade accounts payable, distributions payable to unitholders, preferred units of subsidiary, accrued liabilities arising in the ordinary course of business and short-term acquisition credit facilities. The LP Agreement defines "gross book value" as the book value of the assets of Pure Multi-Family plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets), the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by Pure Multi-Family. Pure Multi-Family's indebtedness is 52.6% as at December 31, 2018 (December 31, 2017 - 53.4%). Pure Multi-Family was in compliance with all of its investment and debt restrictions during the year ended December 31, 2018 and the year ended December 31, 2017.

There were no changes in Pure Multi-Family's approach to capital management during the year ended December 31, 2018.

15. FINANCIAL INSTRUMENTS

Financial risk management

The Board of the Governing GP (the "Directors") has the overall responsibility for the establishment and oversight of Pure Multi-Family's risk management framework. Pure Multi-Family's risk management policies are established to identify and analyze the risks faced by Pure Multi-Family, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to Pure Multi-Family's activities.

In the normal course of business, Pure Multi-Family, through the US REIT, is exposed to a number of risks that can affect its operating performance. These risks include, but are not limited to, credit risk, interest rate risk, liquidity risk, currency risk and environmental risk. These risks, and the actions taken to manage them, are as follows:

A. Credit risk

Credit risk is the risk of financial loss to Pure Multi-Family if a tenant, customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Pure Multi-Family's receivables from tenants.

Pure Multi-Family's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. Pure Multi-Family minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process. All trade receivables are current.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

B. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. Pure Multi-Family is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

Pure Multi-Family manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimizing interest expense. Whenever possible, Pure Multi-Family, through the US REIT, tries to secure fixed interest rate mortgages for the majority of its investment properties. As Pure Multi-Family does not have any mortgages maturing within the next 6 months and all of the mortgages payable bear interest at fixed rates, with only the outstanding credit facility bearing interest at a variable rate, Pure Multi-Family does not face significant interest rate risk in the context of its outstanding debt.

C. Liquidity risk

Liquidity risk is the risk that Pure Multi-Family will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit Pure Multi-Family's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Pure Multi-Family were required to liquidate the investment properties, the proceeds to Pure Multi-Family might be significantly less than the aggregate carrying value of such property.

Pure Multi-Family's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due. In addition, Pure Multi-Family intends to refinance any mortgages which mature within six months. The following table provides the future non-discounted scheduled payments of financial liabilities, including estimated interest payments:

	2019	2020	2021	2022	2023	2024 and thereafter
Mortgages payable (principal and interest)	$ 55,930	$ 27,615	$ 64,302	$ 55,793	$ 49,405	$ 492,994
Credit facility (principal and interest)	1,095	28,005	-	-	-	-
Convertible debentures (principal and interest)	1,478	23,850	-	-	-	-
Preferred units of subsidiary (principal and interest)	16	16	16	16	16	140,625
Accounts payable and accrued liabilities	27,162	-	-	-	-	-
Total	**$ 85,681**	**$ 79,486**	**$ 64,318**	**$ 55,809**	**$ 49,421**	**$ 633,619**

D. Currency risk

Pure Multi-Family is exposed to minimal currency risk since only a small portion of the expenses is in Canadian dollars.

E. Environmental risk

Pure Multi-Family, through the US REIT, is subject to various federal, state and municipal laws relating to the environment. On acquisition, Pure Multi-Family conducts environmental inspections of its properties and appropriate testing by qualified environmental consultants when required to ensure compliance with all applicable environmental laws.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

16. RELATED PARTY TRANSACTIONS

Managing GP

Pure Multi-Family is related to the Managing GP, by virtue of having an officer and director in common (Stephen Evans).

Pure Multi-Family declared distributions to the Managing GP in the amount of $999,688 during the year ended December 31, 2018 (year ended December 31, 2017 - $999,688). Included in accounts payable and accrued liabilities at December 31, 2018 was $939,688 (December 31, 2017 - $nil) payable to the Managing GP.

Tipton Asset Group, Inc.

Tipton Asset Group, Inc. ("Tipton") was the property manager for Pure Multi-Family up until September 30, 2017. Pure Multi-Family was related to Tipton by virtue of having an officer and director in common (Bryan Kerns) with a subsidiary of Pure Multi-Family until December 31, 2017. As of January 1, 2018, Tipton was no longer considered a related party to Pure Multi-Family, as Mr. Kerns was not reappointed as an officer and director with Pure Multi-Family or any of its subsidiaries. During the year ended December 31, 2017, Tipton charged property management fees of $1,858,703 and due diligence and acquisition analysis fees of $706,741, which were capitalized upon the acquisition of the related properties.

17. LEASES

Property Lease Revenue

Pure Multi-Family, through the US REIT, has entered into lease agreements on its investment properties. The residential property leases typically have lease terms of 1 to 12 months. Future minimum rental revenue to be earned under non–cancellable operating leases is $48,323,432 as at December 31, 2018 (December 31, 2017 - $49,710,451).

In accordance with the adoption of IFRS 15, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocations:

	Year ended	
	December 31, 2018	December 31, 2017
Rental revenue	$ 101,491	$ 86,297
Parking revenue, storage revenue and property management recoveries [(1)]	5,572	4,482
Other service fees [(1)]	2,549	2,320
	$ 109,612	**$ 93,099**

Notes:
(1) Amounts represent revenue recognized in accordance with IFRS 15.

Operating Lease Commitment

Pure Multi-Family has an operating lease agreement, expiring in 2025, for the lease of the US REIT corporate office located in Plano, Texas, with total payments of approximately $1.4 million required over the lease term.

18. FAIR VALUE MEASUREMENT

For certain of Pure Multi-Family's financial instruments, including cash and cash equivalents, amounts receivable, mortgage reserve fund, and accounts payable and accrued liabilities, the carrying amounts approximate the fair value due to the short-term nature of the instruments.

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

The fair value of the mortgages payable, credit facility and preferred units have been calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates are either provided by lenders or are observable in the open market. The fair value of the convertible debentures, deferred unit plan and restricted unit plan have been calculated using quoted prices in active markets. The fair value hierarchy of assets and liabilities measured at fair value on the consolidated statement of financial position or disclosed in the notes to the financial statements is as follows:

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investment properties	$ -	$ -	$ 1,157,616	$ -	$ -	$ 1,133,501
Mortgages payable	-	521,720	-	-	547,121	-
Credit facility	-	27,000	-	-	26,000	-
Convertible debentures	24,560	-	-	23,919	-	-
Preferred units of subsidiary	-	125	-	-	125	-

There have been no transfers between the levels during the year.

As disclosed above, the fair value methodology for Pure Multi-Family's investment properties is considered Level 3, as significant unobservable inputs are required to determine fair value. Refer to note 3 for a description of how management determines fair value and for further details of the average capitalization rates and ranges for investment properties.

Investment properties as at December 31, 2018 and December 31, 2017 have been valued using the overall capitalization rate ("OCR") method, an income-based approach, whereby the stabilized net operating income is capitalized at the requisite OCR.

Valuations determined by the OCR method are most sensitive to changes in capitalization rates.

The table below summarizes the sensitivity of the fair value of investment properties to changes in the capitalization rate at December 31, 2018:

	OCR Sensitivity	
Rate sensitivity	Fair value	Change in fair value
+ 75 basis points	$ 1,007,226	$ (150,390)
+ 50 basis points	1,052,798	(104,818)
+ 25 basis points	1,102,710	(54,906)
Base rate (5.05%)	1,157,616	-
- 25 basis points	1,218,310	60,694
- 50 basis points	1,285,765	128,149
- 75 basis points	1,361,184	203,568

(tabular amounts expressed in thousands of United States dollars, except units and per unit amounts)

19. DILUTED EARNINGS PER CLASS A UNIT

The components of diluted earnings per unit are summarized in the following tables:

	Year ended	
	December 31, 2018	December 31, 2017
Basic net income and comprehensive income	$ 46,026	$ 43,196
Dilutive interest expense [(1)]	2,042	1,989
Diluted net income and comprehensive income	48,068	45,185
Diluted net income and comprehensive income allocated to Class A unitholders	**46,532**	**43,593**
Diluted net income and comprehensive income allocated to Class B unitholders	**$ 1,536**	**$ 1,592**

Notes:
(1) Dilutive interest expense includes the removal of the interest expense related to the dilutive 6.5% convertible debentures.

	Year ended	
	December 31, 2018	December 31, 2017
Weighted average number of Class A units – basic	76,732,128	68,926,987
Dilutive effect of the conversion of convertible debentures using the treasury stock method [(1)]	4,024,956	4,031,858
Weighted average number of Class A units – dilutive	**80,757,084**	**72,958,845**

Notes:
(1) Conversion of 6.5% convertible debentures based on exercise price of $5.65 per Class A Unit.