

Condensed Consolidated Interim Financial Statements
(In U.S. dollars)

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Period from January 17, 2013 (date of formation) to
March 31, 2013
(Unaudited)

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Financial Position
(In thousands of U.S. dollars)

March 31, 2013
(Unaudited)

Assets

Current assets:

Cash and cash equivalents	\$ 8,863
Restricted cash (note 4)	12,590
Tenant and other receivables (note 5)	2,681
Prepaid expenses and other assets (note 6)	1,067
Derivative financial instruments (note 9(c))	289
<u>Total current assets</u>	<u>25,490</u>

Non-current assets:

Investment properties (note 7)	1,104,096
Restricted cash on mortgage	6,059
Other assets	511
Derivative financial instruments (note 9(c))	47
Management contracts	3,352
<u>Total non-current assets</u>	<u>1,114,065</u>

\$ 1,139,555

Liabilities and Equity

Current liabilities:

Accounts payable and other liabilities (note 8)	\$ 17,830
Distributions payable	2,223
Mortgage notes payable (note 9)	11,427
<u>Total current liabilities</u>	<u>31,480</u>

Non-current liabilities:

Mortgage notes payable (note 9)	646,233
Class B redeemable units (note 10)	125,984
Deferred income	575
<u>Total non-current liabilities</u>	<u>772,792</u>

Total liabilities 804,272

Unitholders' equity (note 12) 333,299
Retained earnings 1,984

\$ 1,139,555

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

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Income and Comprehensive Income
(In thousands of U.S. dollars)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

Revenue:	
Rental	\$ 9,677
Other	1,603
	<hr/> 11,280
Expenses:	
Operating	(4,268)
Real estate taxes	(1,017)
	<hr/> (5,285)
Income from operations	5,995
Finance costs (note 15)	(3,149)
General, administrative and trust expenses (note 14)	(734)
Depreciation and amortization	(15)
	<hr/> 2,097
Income before income taxes	2,097
Income tax expense	(113)
	<hr/> \$ 1,984
Net income and comprehensive income	<hr/> <hr/> \$ 1,984

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

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Changes in Equity
(In thousands of U.S. dollars)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

	Amount of units issued	Distributions	Cumulative net income	Total
Balance, January 17, 2013	\$ —	\$ —	\$ —	\$ —
Public offering, net of costs	334,929	—	—	334,929
Net income and comprehensive income	—	—	1,984	1,984
Distributions	—	(1,630)	—	(1,630)
Balance, March 31, 2013	\$ 334,929	\$ (1,630)	\$ 1,984	\$ 335,283

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

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Cash Flows
(In thousands of U.S. dollars)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

Cash flows from (used in) operating activities:	
Net income	\$ 1,984
Adjustments for:	
Finance costs	3,149
Amortization of management contracts	48
Net effect of changes in operating accounts:	
Rent and other receivables (note 5)	818
Prepaid expenses and other assets	(113)
Accounts and other accrued expenses	(8,902)
	<u>(3,016)</u>
Cash flows from (used in) financing activities:	
Proceeds from issuance of units, net of issuance costs (note 12)	198,980
Payments for redemption of Class B redeemable units (note 10)	(26,302)
	<u>172,678</u>
Cash flows from (used in) investing activities:	
Purchase of investment properties	(160,824)
Additions to investment properties (note 7)	(359)
Restricted cash (note 4)	384
	<u>(160,799)</u>
Increase in cash and cash equivalents	8,863
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	<u>\$ 8,863</u>

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

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

Milestone Apartments Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust dated January 17, 2013, and governed by the laws of the Province of Ontario. The REIT was formed for the purpose of acquiring and owning multifamily properties in select target markets in the United States.

The operations of the REIT commenced on March 6, 2013 when it completed an initial public offering (the "Offering"), issued trust units for cash, and acquired an interest in Milestone Multifamily Investors LP (the "Partnership") and Milestone Management LP (the "Property Manager"). This acquisition resulted in the REIT indirectly acquiring 52 multi-suite residential properties (the "Initial Properties"). Of the Initial Properties, 60% of the total suites are located in the state of Texas, with 34% located in the Dallas/Fort Worth area, 20% located in the Houston area, and 6% located in Austin and San Antonio. The remaining 40% of the REIT's suites are located in Florida, Arizona, Tennessee, Georgia and Utah.

The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario.

1. Basis of preparation:

(a) Statement of compliance:

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standard Board ("IASB") and using accounting policies described herein.

These condensed consolidated interim financial statements were approved by the Board of Trustees on May 13, 2013.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

1. Basis of preparation (continued):

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, derivative financial instruments and Class B redeemable units which have been measured at fair value. The condensed consolidated interim financial statements are presented in U.S. dollars, which is the REIT's functional currency, and all amounts have been rounded to the nearest thousand, except when otherwise indicated.

2. Significant accounting policies:

(a) Basis of consolidation:

The condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are entities controlled by the REIT. The financial statements of subsidiaries are prepared for the same reporting period as the REIT using consistent accounting policies. All intercompany transactions and account balances have been eliminated on consolidation.

(b) Business combinations:

Business combinations are accounted for under the acquisition method under which all identifiable assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Transaction costs incurred in connection with the acquisition are expensed as incurred.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(c) Foreign currency translations:

Transactions in currencies other than U.S. dollars are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into U.S. dollars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in U.S. dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in U.S. dollars translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into U.S. dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized as profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Investment properties:

A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment properties include land and building structures, as well as homes situated on the properties. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(e) Management contracts:

Acquired management contracts are originally recorded at their fair value and are amortized on a straight-line basis over their estimated life, not to exceed five years.

(f) Cash and cash equivalents:

Cash and investments include unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have a maturity of 90 days or less at their date of purchase and are stated at cost, which approximates net realizable value.

(g) Restricted cash:

Restricted cash can only be used for specified purposes. Amounts are usually restricted by the financial institution which holds the debt on the property.

(h) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

Revenue from investment properties includes all rental income earned from the properties, including minimum rent earned from tenants under lease agreements, property tax and operating cost recoveries, and all other miscellaneous income paid by tenants under the terms of the leases. Revenue recognition under a lease commences when a tenant has the right to use the property and revenue is recognized pursuant to the terms of the lease agreement. Rental revenue includes rental and other charges billed to residents.

Other income includes amounts collected by the Properties primarily for application fees, late fees, other fees charged to tenants, utility reimbursements, as well as, management fees and other fees for related services earned from contracts with third parties.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

Amounts collected from residents are recognized as income when due, which, due to the short term nature of the leases, approximates straight line revenue recognition. Lease incentives granted are recognized as an integral part of the total rental revenue over the term of the lease. Management and related fees are recognized to the extent that it is probable that the economic benefit will flow to the REIT and the revenue can be realized and measured. Revenue is recognized in the accounting period in which the related services are rendered.

An allowance for doubtful accounts is maintained for estimated losses, resulting from the inability of tenants to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the REIT and creditworthiness of the tenants.

(i) Financial Instruments:

The REIT initially recognizes loans and receivables on the date that they are originated. All other financial assets, (including assets designated as at fair value through profit or loss), are recognized initially on the trade date, which is the date that the REIT becomes a party to the contractual provisions of the instrument. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the REIT is recognized as a separate asset or liability.

Financial assets and liabilities are offset and positioned when, and only when, the REIT has the legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

- (i) The following summarizes the REIT's classification and measurement of financial assets and liabilities:

Financial assets and liabilities	Classification	Subsequent measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Derivative financial instruments	Available for sale	Fair value
Mortgage notes payable	Other financial liabilities	Amortized cost
Class B redeemable units	Other financial liabilities	Fair value
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Distributions payable	Other financial liabilities	Amortized cost

The REIT classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The REIT initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the REIT becomes a party to the contractual provisions of the instrument.

The REIT derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Mortgages and other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method.

Financing fees and other costs incurred in connection with debt financing are recorded net of the related debt obligation and amortized using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR calculation.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(ii) Derivative financial instruments:

The REIT uses derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the condensed consolidated interim financial statements.

The REIT uses foreign currency forward contracts to limit the exposure of converting U.S. cash flow into Canadian dollars. These are not designated as fair value or cash flow hedges for accounting purposes; therefore, gains or losses arising from the change in fair value are recognized in net income.

(j) Finance costs:

Finance costs comprise interest expense on borrowings, distributions on redeemable units classified as liabilities and gain (loss) on change in the fair value of Class B redeemable units.

Finance costs associated with financial liabilities presented at amortized cost, are recognized in net income using the effective interest method.

(k) Employee benefits:

(i) Short-term employee benefits:

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized as the amount expected to be paid under the short-term cash bonus or profit plans if the REIT has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(ii) Defined contribution plan:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the statement of income and comprehensive income in the periods during which related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(l) Income taxes:

(i) Canadian status:

The REIT is a mutual fund trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow-Through Trust ("SIFT") pursuant to the Income Tax Act (Canada) is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a mutual fund trust that is not a SIFT trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(ii) U.S. REIT status:

The REIT is treated as a U.S. corporation for all purposes under the United States Internal Revenue Code of 1986, as amended (the "Code"), and, as a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding the fact that it is organized as a Canadian entity. In general, a company which elects real estate investment trust status, distributes 90% of its real estate investment trust taxable income to its shareholders in any taxable year, and complies with certain other requirements is not subject to U.S. federal income taxation to the extent of the income which it distributes. If it fails to qualify as a real estate investment trust in any taxable year, it will be subject to U.S. federal income tax at regular corporate income tax rates on its taxable income. The REIT reviewed the real estate investment trust requirements and determined that it qualified as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income taxes or excise taxes has been made with respect to the income of the REIT.

Certain of The REITs' operations or a portion thereof are conducted through taxable REIT subsidiaries, or TRS ("corporate subsidiaries"). A TRS is a C-corporation that has not elected REIT status and as such is subject to U.S. federal and state corporate income tax. The REIT has recorded a provision for U.S. federal and state taxes associated with the TRS of approximately \$24 for the period ended March 31, 2013, which is included in income tax expense in the condensed consolidated interim statement of income and comprehensive income.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(iii) Texas Margin tax:

Effective January 1, 2007, the state of Texas enacted new legislation that repeals the taxable capital and earned surplus components of the franchise tax and replaces such measures with an annual franchise tax on modified gross income of taxable entities, known as the Texas Margin Tax, which is equal to the lesser of: (1) 70% of a taxable entity's total revenue; or (2) 100% of total revenue less, at the election of the taxpayer: (a) cost of goods sold; or (b) compensation. The rate of tax applicable to the REIT is 1%. Taxable entity is defined to include REITs, corporations, limited liability companies, business trusts, and other legal entities. The REIT has recorded a provision for Texas Margin Tax of approximately \$45 for the period ended March 31, 2013, which is included in income tax expense in the condensed consolidated interim statement of income and comprehensive income.

(iv) Current taxes:

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

(v) Deferred taxes:

Deferred tax of the taxable REIT subsidiaries is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) REIT units:

The REIT units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with International Accounting Standards 32, Financial Instruments - Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The REIT units meet the conditions of IAS 32 and are, therefore classified and accounted for as equity.

(n) Class B redeemable units:

The Class B redeemable units of the Partnership are redeemable for cash or REIT units at the option of the REIT. The REIT units are puttable and, therefore, the Class B redeemable units meet the definition of a financial liability under IAS 32. Further, the Class B redeemable units are designated as fair value through profit or loss financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The Class B redeemable units are, in all material aspects, economically equivalent to the REIT units on a per unit basis. The distributions paid on Class B redeemable units are accounted for as finance costs.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(o) Sources of estimation uncertainties:

In making estimates, the REIT relies on external information and observable conditions where possible, supplemented by internal analysis as required. There are no known trends, commitments, events or even uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates in these condensed consolidated interim financial statements. The estimates used in determining the recorded amount for assets and liabilities in the condensed consolidated interim financial statements include the following:

(i) Investment properties:

The estimates used when determining the fair value of investment properties are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

(ii) Other:

Estimates are also made in the determination of the fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the REIT to its counterparties, the credit risk of the REIT's counterparties relative to the REIT, the estimated future cash flows and discount rates.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

2. Significant accounting policies (continued):

(p) Critical judgments:

(i) Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill is recognized. The REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the acquisition transaction.

(ii) Income taxes:

The REIT is a mutual fund trust pursuant to the Income Tax Act (Canada) and a real estate investment trust pursuant to the Code. Under the current tax legislation, the REIT is generally not liable to pay Canadian or US federal income tax provided that its taxable income is fully distributed to unitholders each year. The REIT has reviewed the requirements for real estate investment trust status and has determined that it qualifies as real estate investment trust pursuant to the Code.

(q) Future accounting changes:

The following standards and amendments to existing standards issued by the International Standards Board may be relevant to the REIT in preparing its consolidated financial statements in future periods:

Standards	Effective date
IFRS 9, Financial Instruments (2010)	Annual period beginning on or after January 1, 2015
IAS 32, Financial Instruments - Presentation (amendments)	Annual period beginning on or after January 1, 2014

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

3. Acquisitions:

On March 6, 2013, subsidiaries of the REIT indirectly acquired from Milesouth Apartment Portfolio LP ("Milesouth") and The Milestone Group, LLC and affiliates, ("The Milestone Group") all outstanding Class A units of the Partnership for a net purchase price of \$459,613. At the time of its acquisition by the REIT, the Partnership indirectly owned 52 multi-residential properties and a fully owned property management business. The assets acquired and liabilities assumed have been accounted for as a business combination using the acquisition method of accounting. The recognized amounts of assets acquired and liabilities assumed are as follows:

Assets:	
Investment properties	\$ 1,103,737
Tenant and other receivables	3,499
Prepaid expenses and other assets	1,465
Derivative instruments	10
Management contracts	3,400
Restricted cash	19,033
Cash and cash equivalents	11,854
	1,142,998
Liabilities:	
Mortgage notes payable, including mark-to market adjustment of \$17,631	657,859
Accounts payable and other liabilities	25,526
	683,385
Net assets acquired	\$ 459,613
Consideration given by the REIT:	
Cash consideration from the initial public offering	\$ 172,678
REIT Units	135,949
Class B redeemable units of the Partnership	150,986
	\$ 459,613

The REIT is in the process of completing the valuation of the net asset acquired, and the purchase price allocation may be adjusted in the future periods.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

4. Restricted cash:

Funds held by lenders	\$	11,655
Tenant security deposits		935
	\$	12,590

5. Rent and other receivables:

Tenant rent receivable, net of allowance of \$126	\$	106
Insurance loss receivable		206
Other operating receivables		2,369
	\$	2,681

6. Prepaid expenses and other assets:

Prepaid insurance, net	\$	25
Utility deposits		238
Other prepaid expenses		804
	\$	1,067

7. Investment properties:

Balance, January 17, 2013	\$	—
Acquisitions		1,103,737
Capital expenses		359
Balance, March 31, 2013	\$	1,104,096

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

7. Investment properties (continued):

The REIT determined the fair value of each investment property using the direct capitalization income method. The stabilized net income for the period is divided by an overall capitalization rate. The capitalization rates were derived in part from a combination of third-party appraisals and industry trends (Level 3 inputs - note 17).

The key valuation assumptions used by the REIT in determining fair value of its investment properties are set out in the following table:

Capitalization rate - range	6.0% - 6.7%
Capitalization rate - weighted average	6.5%

The fair values of investment properties are most sensitive to changes in capitalization rates. As at March 31, 2013, a 25-basis-point increase in the weighted average capitalization rate would change the value of the investment properties by \$41.2 million.

8. Accounts payable and other liabilities:

Real estate tax liability	\$ 4,010
Accrued mortgage interest	2,092
Resident prepaid rent	794
Operating payables	4,966
Tenant security deposits	2,808
Current portion of deferred income	323
Accrued expenses	2,784
Unit based compensation	53
	<hr/>
	\$ 17,830

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

9. Mortgage notes payable:

Mortgages payable are secured by investment properties and bear interest at various fixed and variable rates. Mortgages payable include \$17.25 million with interest only payments until August 1, 2014. Mortgages payable are classified as current liabilities if they are due and payable within 12 months after the date of the statement of financial position.

At March 31, 2013, the REIT's debt consisted of the following:

	Interest rate	Maturity	Amount
Conventional fixed rate debt:			
Beech Street Capital, LLC	4.15%	2/1/2022	\$ 149,187
CBRE Capital Markets, Inc.	3.93%	2/1/2019	141,892
CBRE Capital Markets, Inc.	4.16%	2/1/2022	43,768
CBRE Capital Markets, Inc.	3.76%	7/1/2022	17,250
Holliday Fenoglio Fowler, L.P.	5.97%	5/1/2016	26,068
Walker Dunlop Master Credit Facility	3.37%	4/1/2015	234,334
Total conventional fixed debt	3.87%		612,499
Tax exempt variable rate bonds:			
Prudential Multifamily Mortgage, Inc.	1.14% - 1.15%	2/1/2028	23,740
Prudential Multifamily Mortgage, Inc.	1.15%	2/1/2027	7,760
Total tax exempt variable debt	1.14%		31,500
Mortgage balance			643,999
Mark-to-market adjustment, net			17,334
Debt placement costs, net of accumulated amortization of \$98			(3,673)
Carrying value, March 31, 2013			657,660
Less current portion			11,427
Long-term portion, March 31, 2013			\$ 646,233

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

9. Mortgage notes payable (continued):

Future principal payments on the mortgages payable are as follows:

	Principal payment	Balloon payment	Total
2013	\$ 8,451	\$ –	\$ 8,451
2014	11,888	–	11,888
2015	8,358	223,635	231,993
2016	6,941	24,952	31,893
2017	7,134	–	7,134
Thereafter	22,785	329,855	352,640
Total	\$ 65,557	\$ 578,442	\$ 643,999

(a) Tax-exempt mortgage notes payable:

As of March 31, 2013, the REIT had four variable rate tax-exempt loans in the amount of \$31,500 which were collateralized by four properties. The loans were financed from the proceeds of tax-exempt bonds, which have certain income requirements for residents in a certain number of units. However, in no event is the rent charged for any unit below the market rate rent for that particular property. These variable rate tax-exempt loans are payable in monthly installments of interest only at the weekly bond rate plus various facility fees.

(b) Covenant compliance requirements:

The REIT's debt agreements contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. The primary restrictive covenants provide that: (i) the gross real estate assets, as defined, shall produce a ratio of gross real estate assets plus unrestricted cash to total debt of not less than 1.15 to 1 and (ii) the REIT and its subsidiaries maintain a cash and cash equivalent balance of not less than \$3,000. As of March 31, 2013, the REIT was in compliance with all covenants of its debt agreements.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

9. Mortgage notes payable (continued):

(c) Derivative financial instruments:

(i) Interest rate caps:

Pursuant to the provisions of the loan agreements, all variable rate debt is required to be hedged against interest rate exposure. The REIT utilizes interest rate cap agreements to hedge its interest costs on variable rate debt. As the REIT has elected not to use hedge accounting, a fair value adjustment of \$3 was recorded as an unrealized loss in the condensed consolidated interim statement of income and comprehensive income for the period ended March 31, 2013.

Following is a summary of the REIT's interest rate cap agreements as of March 31, 2013:

Description of derivative instrument	Notional amount at March 31, 2013	Maturity date	Cap rate	Carrying value and fair value at March 31 2013
Interest rate cap agreements:				
Bank of America, N.A.	\$ 4,925	11/1/2013	4.90%	\$ -
SMBC Derivative Products Limited	6,215	2/15/2018	5.50%	7
SMBC Derivative Products Limited	12,600	6/15/2013	5.50%	-
The Bank of New York Mellon	7,170	9/1/2014	5.50%	-
Total	\$ 30,910			\$ 7

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

9. Mortgage notes payable (continued):

The following table represents a summary of the changes in fair value for the period ended March 31, 2013 for the interest rate cap agreements carried at fair value as of March 31, 2013:

Balance, January 17, 2013	\$	–
Acquisition		10
Unrealized loss for the period		(3)
<hr/>		
Balance, March 31, 2013	\$	7

(ii) Foreign currency hedges:

At closing the REIT entered into monthly hedging arrangements expiring March 2015 related to forecasted distribution amounts. The hedges are contracted with the Bank of Montreal ("BMO") and were valued at March 31, 2013 at \$329, of which \$289 is classified as current.

10. Class B redeemable units:

On the Closing, the Partnership issued Class B redeemable units with a fair value of \$150,986. The redeemable units are economically equivalent to trust units and are entitled to receive distributions equal to those provided to holders of trust units (subject to certain adjustments). These units have been classified as subordinated debt.

On March 26, 2013, the REIT issued an additional 2.85 million units of the REIT for net proceeds of \$26,302. The issuance was pursuant to the exercise of an over-allotment option in connection with the initial public offering. The net proceeds of the over-allotment option were used by the REIT to indirectly redeem 2.85 million Class B redeemable units held by MileSouth.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

10. Class B redeemable units (continued):

Class B redeemable units outstanding:

	Units	Value
As at January 17, 2013	–	\$ –
Class B redeemable units issued, March 6, 2013	15,714	150,986
Class B redeemable units redeemed, March 26, 2013	(2,850)	(26,302)
Fair value adjustments	–	1,300
As at March 31, 2013	12,864	\$ 125,984

Included in finance costs for the period ended March 31, 2013, is \$569 of distributions declared on Class B redeemable units.

11. Unit options:

The REIT has adopted a unit option plan (the "Plan"). Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant trustees, officers, employees and consultants options to purchase trust units, exercisable for a maximum period of 10 years from the date of grant. The maximum number of units reserved for issuance under the Plan is 10% of the total number of units issued and outstanding from time to time.

On Closing, the REIT granted 1,425,000 options at an exercise price of \$10.50 per unit, expiring March 6, 2023. These options vest 25% on the first anniversary of the grant date, and 25% on each of the second, third, and fourth anniversary.

Liability balance:

Balance, January 17, 2013	\$ –
Unit-based compensation expense	53
Balance, March 31, 2013	\$ 53

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

11. Unit options (continued):

The compensation expense of \$53 for the period ended March 31, 2013 for these options was determined based on the fair value of the options at the grant date using the Black-Scholes option pricing model with the following assumptions:

Expected option life	5.5 years
Risk-free interest rate	8%
Expected volatility	25%
Dividend yield	6.5%

12. Unitholders' equity:

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

REIT units outstanding:

	Units	Value
Units issued, January 17, 2013	–	\$ –
Units issued on Closing, March 6, 2013	34,000,000	330,161
Units issued through the over-allotment, March 26, 2013	2,850,000	27,911
Units issued	36,850,000	358,072
Less issue costs	–	23,143
As at March 31, 2013	36,850,000	\$ 334,929

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

13. Segment disclosure:

All of the REIT's assets and liabilities are in, and its revenue derived from, the United States real estate industry segment. No single tenant accounts for 10% or more of the REIT's rental revenue.

14. Related party transactions:

In addition to those related party transactions identified elsewhere, the condensed consolidated interim financial statements include the following transactions with The Milestone Group and Milesouth:

(a) Management fees:

Pursuant to an agreement establishing management fees at 0.40% of gross book value, asset management fees of \$325 for TMG Partners LP have been accrued for the period ended March 31, 2013.

(b) Class B redeemable units:

Distributions on the Class B redeemable units of \$569 have been accrued for The Milestone Group and Milesouth for the period ending March 31, 2013.

15. Finance cost:

Mortgage interest expense	\$ 1,772
Credit facility interest expense	9
Amortization of deferred financing costs	98
Amortization of mark-to-market adjustment on fixed rate debt	(297)
Foreign currency exchange loss	24
Distributions on Class B redeemable units	569
Fair value adjustment of Class B redeemable units	1,300
Fair value adjustments on derivative instruments	(326)
	<hr/>
	\$ 3,149

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

16. Commitments and contingencies:

- (a) The REIT is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such matters will not have a significant adverse effect on the condensed consolidated interim financial statements.
- (b) The REIT has entered into certain agreements related to a capital improvement program. As of March 31, 2013, \$363 remained committed under these contracts for work expected to be completed by approximately June 30, 2013.

17. Fair value measurement:

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 REIT uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - fair value is based on unadjusted quoted prices trades in active markets for identical instruments;
- Level 2 - fair value is based on models using significant market-observable inputs other than quoted prices for the instruments; and
- Level 3 - fair value is based on models using significant inputs that are not based on observable market data.

The fair value of the REIT's financial assets, which includes tenant and other receivables, restricted cash and cash equivalents, as well as financial liabilities, which include accounts payable and other liabilities and distributions payable, approximate their recorded fair value due to their short-term nature.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

17. Fair value measurement (continued):

The fair value of the REIT's mortgages payable at March 31, 2013 is \$663,202. The fair values have been estimated based on the current market rates for mortgages with similar terms and conditions (Level 2 inputs).

The REIT determined the fair value of each investment property using the direct capitalization income approach. The stabilized net income for the period is divided by an overall capitalization rate. The capitalization rates were derived in part from a combination of third-party appraisals and industry trends. Note 7 outlines the key assumption used by the REIT in determining the fair value of its investment properties.

Derivatives instruments valued using a valuation technique with market-observable inputs (Level 2) include foreign currency exchange contracts. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has recorded the Class B Redeemable Units at their fair value, which has been assessed to equal the closing market price of the Trust Units at each valuation date.

The table below presents the REIT's assets and liabilities recognized at fair value as at March 31, 2013:

	Level 1	Level 2	Level 3
Financial assets:			
Derivative instruments	\$ –	\$ 326	\$ –
Investment properties	–	–	1,104,096
Total financial assets	–	326	1,104,096
Financial liabilities:			
Class B redeemable units		(125,984)	–
Total financial assets (liabilities)	\$ –	\$ (125,984)	\$ 1,104,096

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

17. Fair value measurement (continued):

Note 7 presents a reconciliation of Level 3 fair value measurement for the period from date of formation, January 17, 2013 to March 31, 2013.

18. Capital management:

The REIT's policy is to maintain a strong capital base so as to support ongoing operations, maintain creditor and market confidence and to sustain future development of the business. Capital consists of mortgages payable, Class B redeemable units and Unitholders' capital. The REIT monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also distributing appropriate amounts to the unitholders on a regular basis.

19. Financial risk management:

The REIT's activities expose it to credit risk and liquidity risk. Risk management is carried out by the Chief Financial Officer under policies approved by senior executive management.

(a) Credit risk:

Credit risk is the risk that (i) counterparties to contractual financial obligations will default; and (ii) the possibility that the residents may experience financial difficulty and be unable to meet their rental obligations. The properties mitigate the risk of credit loss with respect to residents by evaluating creditworthiness of new residents, obtaining security deposits wherever permitted by legislation, and geographically diversifying the location of the properties. The REIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. Subsequent recoveries of amounts previously written-off are credited in the consolidated statement of income and comprehensive income.

MILESTONE APARTMENTS REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of U.S. dollars unless otherwise noted)

Period from January 17, 2013 (date of formation) to March 31, 2013
(Unaudited)

19. Financial risk management (continued):

(b) 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 market prices and comprises the following:

Interest rate risk:

The investment properties are subject to the risks associated with debt financing; including the risk that mortgages and credit facilities will not be refinanced on terms as favorable as those of the existing indebtedness. The REIT's objective in managing interest rate risk is to minimize the volatility of the REIT's income. At March 31, 2013, interest rate risk has been minimized as all of the REIT's long term debt is financed at fixed interest rates with maturities scheduled over a number of years, with the exception of two mortgages totaling \$31.5 million that are subject to floating interest rates.

(c) Liquidity risk:

Liquidity risk is the risk that the REIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the Partnership staggers the maturity dates of their mortgage portfolio over a number of years.