



Amalfi Stonebriar Apartments - Frisco (Dallas), TX

# 2016 ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016



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# ACQUISITION STRATEGY

Pure Multi-Family REIT LP owns and operates a high-quality portfolio of multi-family apartments located across the U.S. sunbelt.

Since our IPO in July 2012, we have carefully selected major markets in Texas and Arizona that exhibit strong population and job growth metrics which are key drivers of rental rate growth. The Pure Multi-Family acquisition strategy is also based on the philosophy that high-quality properties will attract high quality tenants. We believe that our focus on select markets with good economic and demographic trends will help deliver above average NOI growth for our investors over time.

One of the strongest growth markets in the U.S. sunbelt has been Dallas-Fort Worth. We have been acquiring, upgrading

and renewing our portfolio in Dallas, with a focus on Plano and Frisco, two of the fastest-growing employment districts in North Dallas.

Part of our strategy also includes acquiring properties in clusters. We have acquired a cluster of nine properties in the Dallas-Fort Worth metroplex and a cluster of four properties in the stable and growing San Antonio area. Acquiring clusters of properties in the same market provides management efficiencies, and a greater market presence in tune with the unique characteristics of each market and sub-market.

To date, we have established small footprints in Houston, Austin and Phoenix – markets we know well and aim to build out in the future.



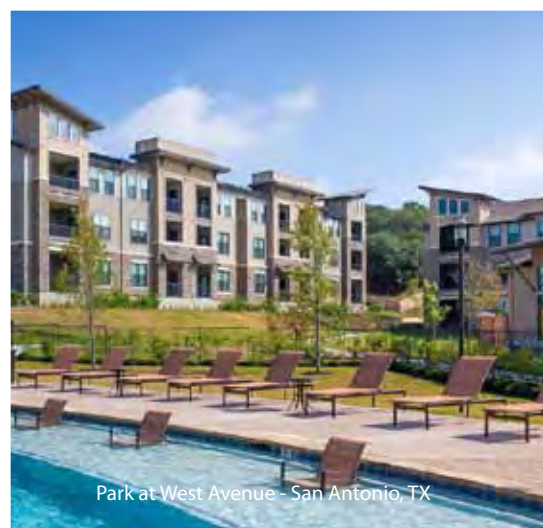
Brackenridge at Midtown - San Antonio, TX

**5.3%**  
2016 SAME PROPERTY  
TOTAL RENTAL REVENUE  
GROWTH



Valley Ranch - Irving (Dallas), TX

**7.0%**  
REPORTED 2016  
SAME PROPERTY NOI  
GROWTH



Park at West Avenue - San Antonio, TX

## PORTFOLIO SUMMARY\*

\*As at December 31, 2016

**15** **5,229**

PROPERTIES

UNITS

**284** **278**

BUILDINGS

ACRES



Prairie Creek Villas - Richardson (Dallas), TX

**2006**  
AVERAGE YEAR OF  
CONSTRUCTION OF  
OUR PORTFOLIO

\*As at December 31, 2016

## SUB-MARKET SELECTION

Within our selected cities, we target high-growth sub-markets that feature strong demand drivers such as employment hubs, restaurants, nightlife, and entertainment districts; all key components to our acquisition strategy. In addition, these sub-markets also feature lifestyle amenities such as outdoor recreational areas, dog parks, nature preserves, and golf courses.

We believe the philosophy of acquiring high quality assets in high demand sub-markets will enhance stability and contribute to achieving above-market occupancy levels and strong rental revenues over the long term.

## ACQUISITIONS AND DISPOSITIONS

Our properties are well positioned in their particular sub-market. We look for newer construction properties with high quality unit interiors and finishes; and luxury common areas and amenities such as resort style pools, 24-hour fitness centres, dog parks and resident club houses.

As part of our diligent and active management, we continue to re-position assets through value-add initiatives. As we complete these value-add programs, we may look to renew our portfolio by divesting select non-core holdings and re-investing the proceeds into newer, higher-quality assets.

To this end, in keeping with our strategy of high-grading our portfolio, 4 out of our last 6 acquisitions have been brand new assets in stabilization mode. One challenge of operating assets that are still stabilizing is that they can have a short-term impact on occupancy levels. Despite this, we firmly believe our strategy of high-grading of the portfolio is the right strategy to enhance long term portfolio value.

Our portfolio of properties has an average age of 11 years, which is the newest vintage of the entire Canadian apartment REIT peers in Canada.

## BENEFITS TO ACQUIRING HIGH QUALITY CLASS A ASSETS

- Lower capital expenditures than older properties
- Superior amenity packages
- Higher rents per square foot
- Long term stability with less lease turnover

## QUALITIES OF PURE MULTI-FAMILY'S PROPERTIES

- **Proximity to Work:** Our properties are selected to be in high-growth sub-markets often within walking distance to high quality employers.
- **Property Amenities:** Our properties feature big, modern kitchens for meal preparations and entertaining, lots of storage space and pet friendly environments.
- **Entertainment:** Our properties are located where tenants are looking to socialize: easy access to coffee houses, concert venues, sport arenas and restaurants.
- **Outdoor Recreation:** Our tenants are often interested in outdoor sports like biking, hiking, running and other fitness activities, and seek outdoor recreation locations such as parks, golf courses and nature preserves. We select properties near these recreational areas.

# DALLAS-FORT WORTH

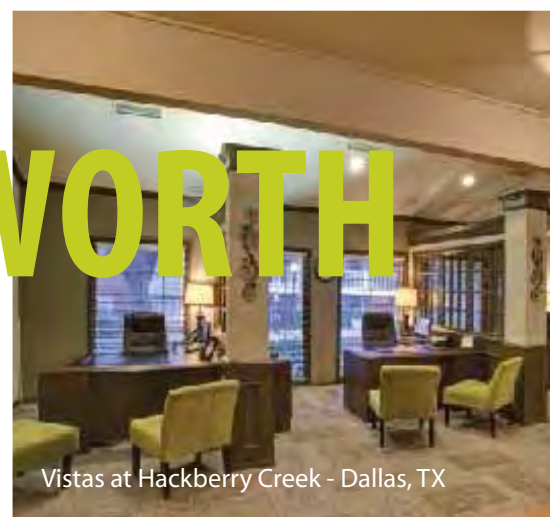
## DALLAS-FORT WORTH METROPLEX - A CASE STUDY

The Dallas-Fort Worth metroplex (DFW) is one of the fastest growing metroplexes in the U.S. in terms of job growth.

We believe our multi-family apartment properties in DFW will continue to perform well over the long term because of its strong population, employment and disposable income growth characteristics.

### PEOPLE ARE MOVING TO DFW COMPANIES ARE MOVING TO DFW

- Affordable real estate costs
- Low cost of living
- Low unemployment rate
- Growing labour force
- Well-educated workforce
- Absence of a state corporate income tax in Texas
- Pro-business environment



Vistas at Hackberry Creek - Dallas, TX

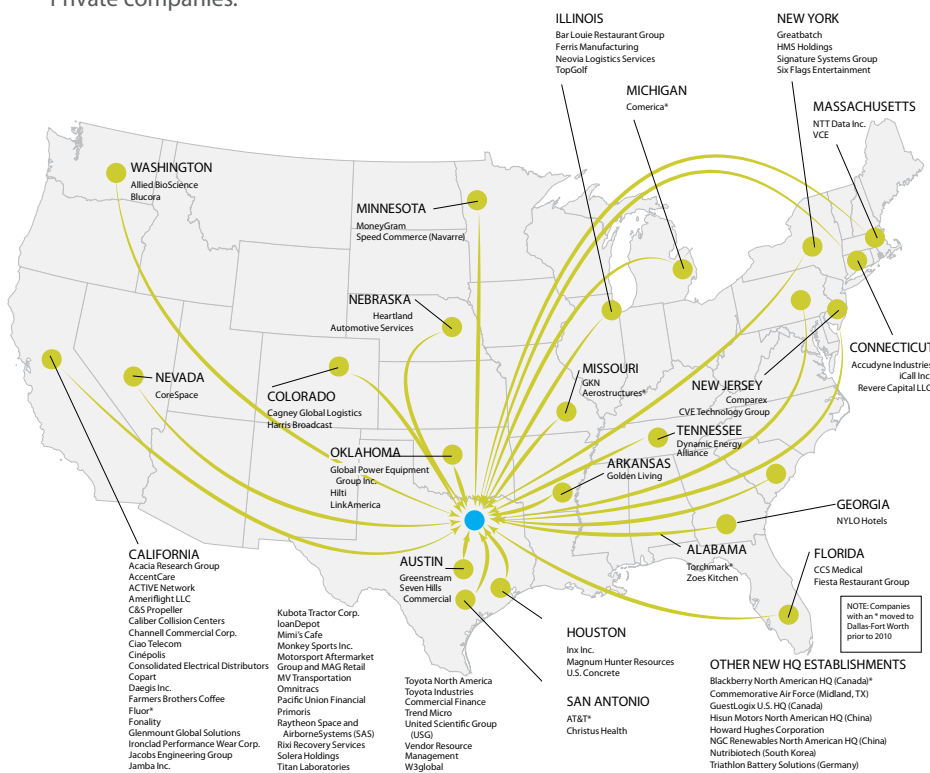
# DFW IS RATED:

## SAMPLE OF HEADQUARTER RELOCATIONS TO DALLAS-FORT WORTH, 2010-2016

DFW is regularly identified as one of the U.S.' top markets for new and expanded corporate facilities. DFW attracts an impressive list of companies that spans diverse industries. Recent relocations to DFW have included many headquarters for Fortune 500 and Forbes Top Private companies.

**#1** IN THE USA FOR PERCENT JOB GROWTH (3% GROWTH)  
DECEMBER 2015- DECEMBER 2016

**#2** IN THE USA FOR ABSOLUTE JOB GROWTH (113,000 JOBS)  
DECEMBER 2015- DECEMBER 2016



Source: <https://cdn.dallaschamber.org/wp-content/uploads/2016/03/The-Business-Community-Major-Expansions-and-Relocations.pdf>

Source: Dallas Chamber of Commerce: <https://cdn.dallaschamber.org/wp-content/uploads/2016/03/The-Economy-Acolades.pdf>

# DFW

## OUR DALLAS-FORT WORTH PORTFOLIO

As at December 31, 2016

Property	Current Value	FMV Cap Rate	Year of Construction	Leased Occupancy	Units	Avg. Rent	Avg. Unit Size (SF)
Valley Ranch	\$ 29,886,453	5.50%	1999	97.1%	210	\$1,287	991
Prairie Creek Villas	\$ 79,257,972	5.65%	1997	98.3%	464	\$1,361	1,000
Bear Creek	\$ 60,573,816	5.50%	2004	99.3%	436	\$1,211	962
Vistas at Hackberry Creek	\$ 59,002,455	6.00%	1984	97.0%	560	\$1,005	777
Fountainwood Apartments	\$ 28,900,000	6.00%	1986	96.9%	288	\$945	795
The Preserve at Arbor Hills	\$ 49,124,254	5.50%	1998	95.5%	330	\$1,214	940
Amalfi Stonebriar Apartments	\$ 65,600,000	4.75%	2014	98.5%	395	\$1,217	811
The Avenue on Fairmount	\$ 71,061,943	5.25%	2015	90.5%	368	\$1,546	829
<b>Summary</b>	<b>\$ 443,406,893</b>	<b>5.47%</b>	<b>2003</b>	<b>96.8%</b>	<b>3,051</b>	<b>\$1,218</b>	<b>882</b>

In 2016, as part of an overall strategy in Dallas, Pure Multi-Family sold 2 older properties totaling \$57.1 million in sale price...



FAIRWAYS AT PRESTONWOOD \$22.8 MILLION PROFITABLY DIVESTED - NOVEMBER 2016



LIVINGSTON APARTMENTS \$34.3 MILLION PROFITABLY DIVESTED - NOVEMBER 2016

...and acquired 2 newer "Class A" properties in Dallas totaling \$111 million in purchase price.



AVENUE ON FAIRMOUNT \$71.0 MILLION PURCHASED - SEPTEMBER 2016



LANSBROOK AT TWIN CREEKS \$40.0 MILLION PURCHASED - JANUARY 2017



# AMALFI STONEBRIAR APARTMENTS

## FUTURE GROWTH OF LEGACY WEST

Pure Multi-Family acquired Amalfi Stonebriar Apartments in August of 2015. The area surrounding this property is known as Legacy West and is home to many regional and national Fortune 500 companies.

The Legacy West urban village development is a successful real estate project in North Texas. Legacy West consists of high-end shops, restaurants and boutique office space. Almost 20,000 people are anticipated to work in the development by 2018.

Toyota is building a new North American corporate headquarters with a 2.1 million-square-foot corporate campus scheduled to open in 2017. The Toyota headquarters is expected to create approximately 6,000 new white collar jobs, within a 10 minute walk of Amalfi Stonebriar Apartments.

FedEx Office built its international headquarters, a 19-acre 265,000-square-foot office campus in 2016 directly across the street from the Amalfi Stonebriar Apartments and is expected to bring 1,200 FedEx Office workers into the area.

J.P. Morgan Chase & Co. completed construction of a multi-building, 800,000-square-foot campus on 50 acres at Legacy West.

Liberty Mutual is also one of the major head offices with a major campus in the area.

Amalfi Stonebriar is located within walking distance from all three of these corporate headquarters, and will benefit from the strong job and population growth.

## AMALFI AT LEGACY WEST

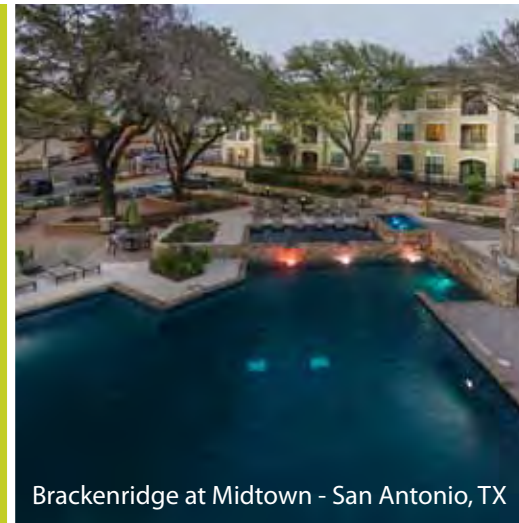




## SAN ANTONIO MARKET COMMENTARY

San Antonio has a strong, steady and diversified economy, led by government, high tech, transportation and utilities, leisure and hospitality, medical, and retail trade industries.

According to HFF, new apartment supply peaked in 2016 but is forecast to decrease from 2017 to 2020, while rental growth is anticipated to remain above its long term average of 2.38% during this period. HFF forecasts a steady increase in average household income from \$120,000 in 2015 to just over \$135,000 in 2020.



Brackenridge at Midtown - San Antonio, TX

## OUR SAN ANTONIO PORTFOLIO

As at December 31, 2016

	Current Value	FMV Cap Rate	Year of Construction	Leased Occupancy	Units	Avg. Rent	Avg. Unit Size (SF)
Park at West Avenue	\$54,969,122	5.00%	2014	94.7%	360	1,217	898
Brackenridge at Midtown	\$51,000,000	4.85%	2014	95.0%	282	1,404	852
PURE View at TPC	\$61,149,480	5.35%	2014	83.2%	416	1,305	943
PURE Estates at TPC	\$56,771,662	5.25%	2007	89.5%	344	1,443	1,135
<b>Summary</b>	<b>\$223,890,264</b>	<b>5.12%</b>	<b>2012</b>	<b>90.1%</b>	<b>1,402</b>	<b>1,336</b>	<b>960</b>



# PHOENIX MARKET COMMENTARY

In Phoenix, Marcus and Millichap reports that apartment demand is rising in key residential areas of the Phoenix metro. Employers are accelerating hiring, with one-third of recent job growth consisting of relatively higher-paying jobs. Local tech sector companies are also expanding. Home ownership in some of these areas is out of reach for many of the startup households thereby driving rental demand.

Apartment demand overshadows recent supply increases as Phoenix metrowide vacancy rates have dropped into the 4 percent range, which is the lowest rate in a decade.

Phoenix is a market that Pure Multi-Family knows extremely well, and we have been monitoring this market for three years looking for an entry point to resume our acquisitions.

## OUR PHOENIX PORTFOLIO

*As at December 31, 2016*

	Current Value	FMV Cap Rate	Year of Construction	Leased Occupancy	Units	Avg. Rent	Avg. Unit Size (SF)
San Brisas Apartment Homes	\$33,349,800	5.25%	1996	97.1%	208	\$1,132	1,006



# PHOENIX

San Brisas Apartment Homes - Phoenix, AZ



## HOUSTON MARKET COMMENTARY

Houston is the fourth most populous city in the nation (trailing only New York, Los Angeles and Chicago), and is the largest in the southern U.S. and Texas. The metro area's population of 5.95 million in 2010 is 6th largest among U.S. metropolitan statistical areas, and a 26% increase since 2000

Houston's economy has a broad industrial base in the energy, aeronautics, medical and technology industries: only New York City is home to more Fortune 500 headquarters. Although still heavily reliant on the energy sector, the greater Houston economy is more diverse than in previous cycles. Our properties have performed well and are located in areas with lower levels of new supply and continued job growth.



The Boulevard at Deer Park - Deer Park (Houston), TX

## OUR HOUSTON PORTFOLIO

As at December 31, 2016

	Current Value	FMV Cap Rate	Year of Construction	Leased Occupancy	Units	Avg. Rent	Avg. Unit Size (SF)
The Boulevard at Deer Park	\$27,333,910	5.75%	2000	96.3%	216	\$1,184	934
Walker Commons	\$50,566,315	6.00%	2008	96.0%	352	\$1,201	928
<b>Summary</b>	<b>\$77,900,225</b>	<b>5.91%</b>	<b>2005</b>	<b>96.1%</b>	<b>568</b>	<b>\$1,195</b>	<b>930</b>

# FINANCIAL HIGHLIGHTS

**5.3%** | 2016 Same Property Total Rental Revenue Growth

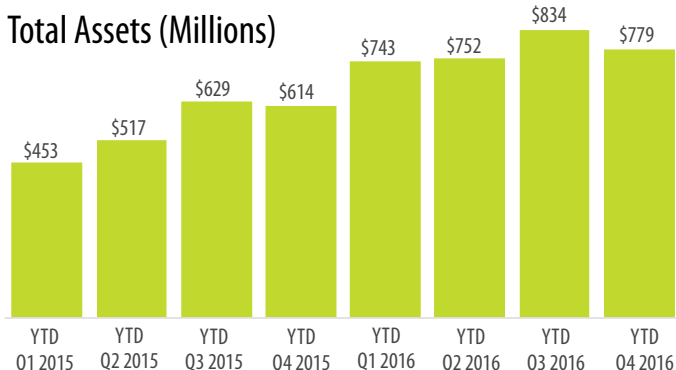
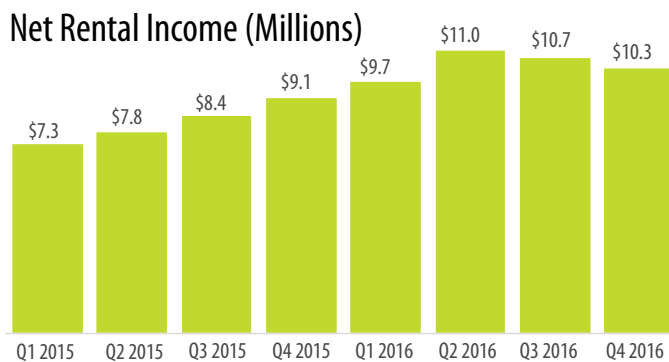
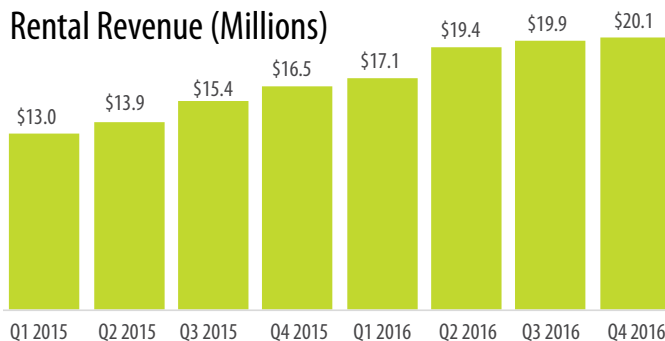
**55.2%** | Total Debt to Gross Book Value

**54.6%** | 2016 NOI Margin

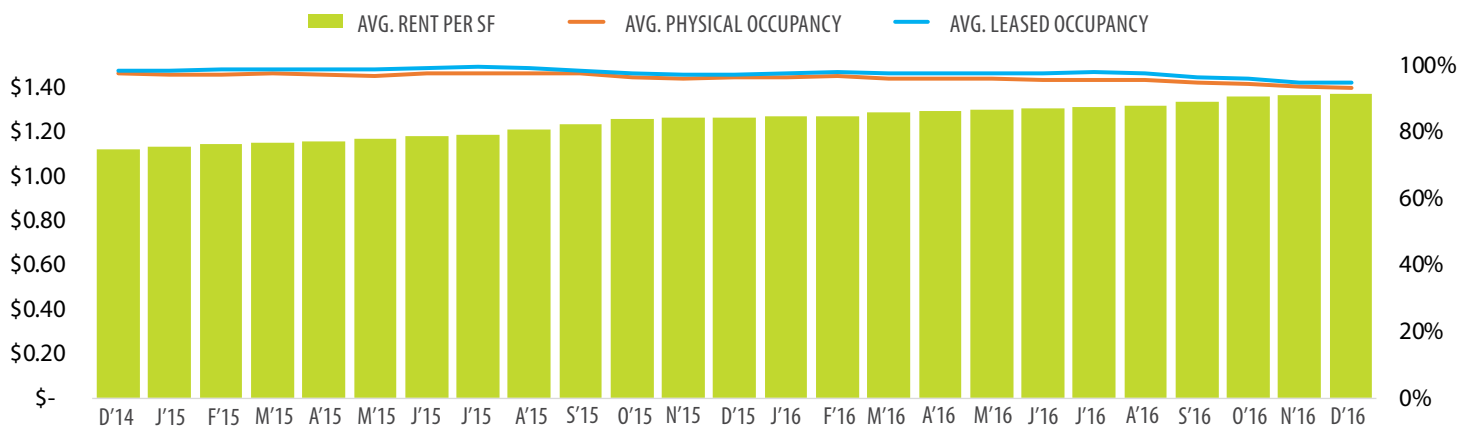
**7.0%** | 2016 Same Property NOI Growth

**\$76.4M** | 2016 Total Revenues

**\$41.7M** | 2016 Net Rental Income



Rent and Occupancy Trends (December 2014 to December 2016)



# LETTER TO UNITHOLDERS

## 2016 HIGHLIGHTS

2016 marked our fourth consecutive year of solid growth for Pure Multi-Family REIT LP.

Our portfolio at year-end consisted of 15 “Class A” investment properties valued at \$779 M USD and 5,229 apartment units located in fast-growing U.S. markets.

We continue to focus our acquisitions on the major markets of the U.S. sunbelt. We believe these markets have strong, diverse and growing economies and thus dynamic rental rate growth.

Our same property NOI grew 7.0% during 2016, well above the Canadian apartment REIT average long-term trend of approximately 2.0%.

Same property total revenue growth was 5.3% year over year.

Rental revenues increased from \$58.9 million to \$76.4 million, an increase of 29.8% year over year.

Total Average Rent Per Occupied Unit increased from \$1,078 per unit in 2015 to \$1,212 per unit in 2016, an increase of 12.4%

We believe Pure Multi-Family will be well positioned to deliver above average same-property NOI growth and NAV per unit growth over the coming years.

## 2016 ACHIEVEMENTS

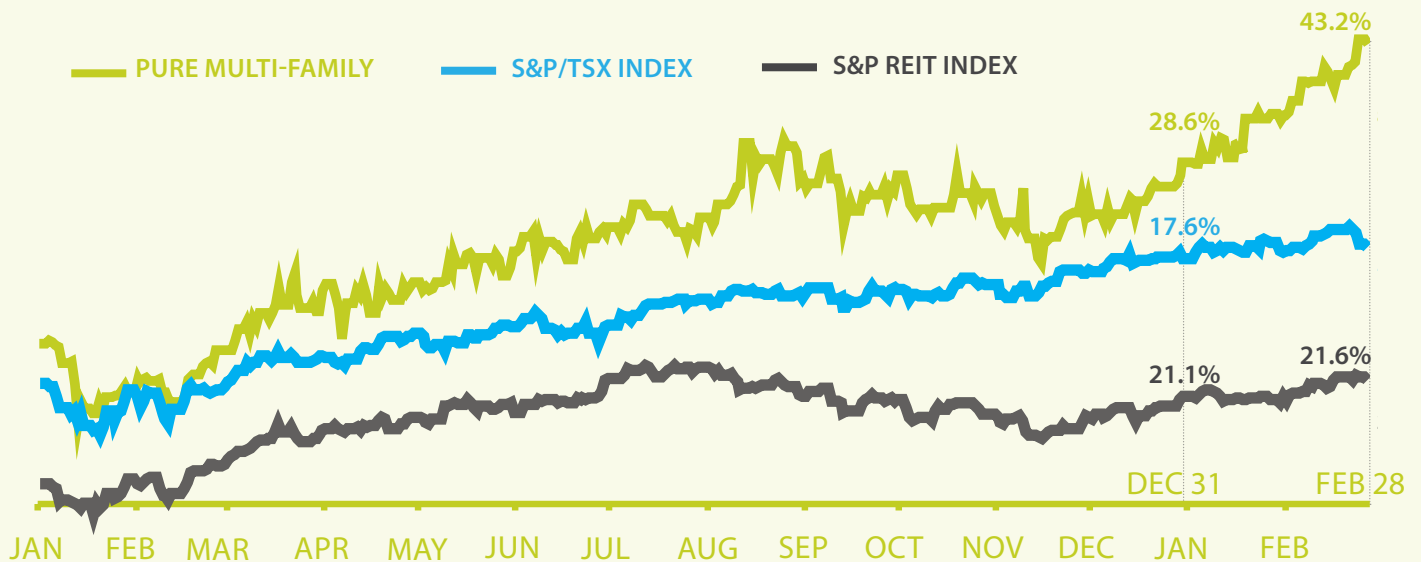
In July, Pure Multi-Family announced the closing of a bought deal public offering of 4.9 million Class A units at a price of CDN\$7.64 per Unit, for gross proceeds to Pure Multi of CDN\$37.3 million.

In September, Pure Multi-Family’s Asset Management was internalized, at no cost to the REIT LP.

We believe that this is important to highlight as it further demonstrates our alignment with Unitholders. As a reminder, since IPO, Pure Multi-Family has not permitted external asset management or transaction fees to be paid to management. We established a structure, through the issuance of Class B Units, that was success driven, and a structure that we believe has been respectful of our Unitholder’s capital. The Pure Multi-Family management team remains committed to fully aligning our interests with those of our Unitholders.

As we grow, we anticipate that Pure Multi-Family will continue to have among the lowest general and administrative expense percentages versus total revenue of our peer group.

## 2016 TOTAL RETURN ON INVESTMENT



Source: Bloomberg, Canadian Ticker

# 2016 REVIEW

## 2016 ACQUISITIONS

On March 1, 2016, Pure Multi-Family acquired a portfolio of two multi-family apartment communities, located in San Antonio, Texas for US\$117.5 million.

PURE Estates at TPC consisted of 344 luxury residential units and PURE View at TPC consisted of 416 brand-new luxury residential units

Pure Multi-Family funded the purchase of the TPC Portfolio with proceeds from its US\$39.2 million bought deal financing which closed in December 2015, and net proceeds from the sale of Windsong Apartments, which closed in December 2015, as well as two new first mortgage financings totaling US\$78,000,000.

The two mortgage financings include a new first mortgage financing on the Pure Estates at TPC property in the amount of US\$39 million, bearing a fixed interest rate of 3.96% per annum for a term of 8 years; and a new first mortgage financing on the Pure View at TPC property, in the amount of US\$39 million, bearing a fixed interest rate of 3.92% per annum for a term of 15 years.

In September 2016, Pure Multi-Family acquired the 368-unit Class "AA" luxury apartment community "The Avenue on Fairmount Apartments," located in the Oak Lawn sub-market of Dallas, Texas, for a purchase price of US\$71.0 million.

The Avenue was constructed in 2015 and consists of 368 luxury apartments averaging 829 square feet. The Avenue offers residents easy access to downtown Dallas, the Dallas Medical District, Uptown Dallas and Love Field Airport, each within a 10 minute drive. Additionally, numerous trendy restaurants and entertainment venues are within walking distance of this asset.

Pure Multi-Family funded the Avenue with proceeds from its CDN\$37.3 million bought deal financing which closed on July 29, 2016, and a new first mortgage financing in the amount of US\$43 million, which is interest-only for the first two years, and bears a fixed interest rate of 3.40% per annum for a term of 12 years.

## 2016 CAPITAL RECYCLING

Over the past few years, Pure Multi-Family has significantly improved the quality of its portfolio through strategic capital recycling, profitably divesting older non-core assets and acquiring newer properties with more attractive growth prospects.

In 2016, we sold two communities with an average age of 22 years for US\$57.1 million, and we replaced them with two new acquisitions in early 2017 with a weighted average age of construction of seven years for US\$80 million.

Investor demand for value add investment properties was a trending investment theme throughout 2016. Pure Multi-Family took advantage of this high demand by selling several of our older Class B assets at historically low cap rates that were very close to Class A cap rates.

In November, we profitably sold Livingston Apartments for US\$34.3 Million. Livingston was a strong performing Class B asset located in Plano, Texas featuring 180 units and was originally constructed in 1998. The Livingston was acquired in August 2013 for a price of US\$25.5 million.

Pure Multi-Family also profitably divested Fairways at Prestonwood located in Dallas, Texas in November, for gross proceeds of US\$22.8 million. One of our few remaining Class B assets, Fairways was comprised of 156 residential units, situated on 11.46 acres of land and was built in 1991. Pure Multi-Family originally acquired Fairways in March 2013 for US\$17.5 million.

As part of Pure Multi-Family's commitment to create value for our Unitholders, Pure Multi-Family used the net proceeds from these older Class B property sales (on a tax-deferred basis) to improve the overall quality of our portfolio by acquiring two well located high-quality Class A properties in early 2017.



# 2017 LOOKING FORWARD

## 2017 ACQUISITIONS

In January 2017, Pure Multi-Family acquired the 276 unit Class "AA" luxury apartment community "PURE Creekside at Onion Creek" located in Austin, Texas, for a purchase price of US\$40.0 million.

PURE Creekside was constructed in 2016 and consists of 276 luxury residential units averaging 828 square feet. PURE Creekside is ideally located less than 10 miles from the largest employment hub in Austin (Downtown Austin), and is conveniently located minutes from Southpark Meadows, one of the largest retail and entertainment centers in Austin. PURE Creekside is situated on over 13 acres of land with best-in-class resort-style amenities.

Pure Multi-Family funded the purchase of PURE Creekside with proceeds from the sale of Livingston Apartments, and new first mortgage financing in the amount of US\$20 million bearing a fixed interest rate of 3.98% per annum for a term of 10 years.

Pure Multi-Family also acquired the 288 unit multi-family apartment community "Lansbrook at Twin Creeks" located in the Allen sub-market of Dallas, Texas, for a purchase price of US\$40.0 million.

Lansbrook was constructed in 2002 and consists of 288 residential units averaging 961 square feet. It has value-add potential and is located in the highly desirable residential area of Allen, Texas, one of the fastest growing cities in Texas.

According to the Allen Economic Development Corporation, Allen, Texas is the 16th fastest growing city in the U.S. and the second fastest growing city in the Dallas Fort Worth Metro Area. The median household income in Allen is \$105,679 well above Dallas Fort Worth's median income.

Pure Multi-Family funded the purchase of Lansbrook with proceeds from the sale of Fairways at Prestonwood, and new first mortgage financing in the amount of US\$16.5 million bearing interest of 3.27% per annum for a term of 5 years.

As a result of these acquisitions, Pure Multi-Family was able to improve our portfolio's average year of construction from 2003 in 2015, to 2006 today. We believe that our focus on newer high quality properties will result in lower capital expenditures permitting a greater focus on NOI enhancing initiatives.

## 2017 LOOKING AHEAD

As we look ahead into 2017, acquisition pricing remains extremely competitive for quality Class A apartment assets, with a large and robust pipeline of investment opportunities and strong demand for real estate investment.

In 2016 we had opportunities to secure longer mortgage terms at low fixed interest rate levels, and lock in these rates over ten, twelve and fifteen years thereby mitigating risk from the potential of rising interest rates in the short term. Pure Multi-Family has no property debt maturities scheduled prior to 2019, a weighted average interest rate across our portfolio of 3.74% (all of which is fixed rate debt) and a weighted average mortgage term remaining of 9.4 years, which is among the longest average mortgage terms of any REIT in Canada. Pure Multi-Family's leverage is currently 55.2%, a level that is considered to be conservative in the multi-family space, however it is our strategy to continue to reduce our debt to gross book value even further.

Looking ahead, our goal is to continue to decrease our leverage over time into the low to mid 40% range, and reducing our payout ratios into the mid-70 percent range. Once we have achieved these levels on what we believe to be a sustainable basis, we will review increasing our monthly distribution.

Fundamentals for our business remain strong, and 2017 should be another solid year for the U.S. multi-family industry. The U.S. economy continues to expand, job growth continues to increase, supply of new apartments are muted and manageable in our targeted markets, and favourable demographics are driving demand for U.S. multi-family apartment communities in the U.S. sunbelt states.

In conclusion, I would like to thank our Unitholders for their support and our employees for their hard work and dedication. We look forward to continuing our growth into 2017 and beyond.

Sincerely,

*"STEVE EVANS"*

Steve Evans, CEO



PURE Creekside at Onion Creek - Austin, TX

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2016  
*DATED: MARCH 8, 2017*

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## SECTION I

### FORWARD-LOOKING DISCLAIMER

The following management's discussion and analysis ("MD&A") of the results of operations and the financial condition of Pure Multi-Family REIT LP ("Pure Multi-Family") for the year ended December 31, 2016 should be read in conjunction with Pure Multi-Family's audited consolidated financial statements for the year ended December 31, 2016, available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Pure Multi-Family's website at [www.puremultifamily.com](http://www.puremultifamily.com). Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Outlook", "Results of Operations", "Financial Condition", "Liquidity and Capital Resources" and "Risks and Uncertainties" relating to Pure Multi-Family's objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions.

In particular, certain statements in this MD&A discuss Pure Multi-Family's anticipated future events. These statements include, but are not limited to:

- (i) Pure Multi-Family's growth strategy, including the accretive acquisition of properties and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in the cost of capital;
- (ii) maintaining occupancy levels and rental revenue, which could be impacted by changes in demand for Pure Multi-Family's properties, financial circumstances of tenants, including tenant defaults, the effects of general economic conditions and supply of competitors' properties in proximity to Pure Multi-Family's properties;
- (iii) overall indebtedness levels, which could be impacted by the level of acquisition activity Pure Multi-Family is able to achieve, fair value of its properties and future financing opportunities;
- (iv) tax status of Pure US Apartments REIT Inc., which can be impacted by regulatory changes enacted by governmental authorities;
- (v) anticipated distributions and payout ratios, which could be impacted by capital expenditures, results of operations and capital resource allocation decisions;
- (vi) obtaining and maintaining adequate insurance for Pure Multi-Family's properties; and
- (vii) anticipated interest rates and exchange rates.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to: unit prices; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; lease rollover risk; competition for real property investments; environmental matters; changes in legislation; and indebtedness of Pure Multi-Family.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available, which include, management's current expectations, estimates and assumptions that: proposed acquisitions will be completed on the terms and basis agreed to by Pure Multi-Family, property acquisition and disposition prospects and opportunities will be consistent with Pure Multi-Family's experience over the past 12 months, the multi-family residential real estate market in the "Sunbelt" region in the United States will remain strong, the global economic environment will remain stable, interest rates will remain low relative to historic norms, and Pure Multi-Family's business strategy, plans, outlook, projections, targets and operating costs will be consistent with Pure Multi-Family's experience over the past 12 months, Pure Multi-Family will be able



to maintain occupancy at current levels, tenants will not default on lease terms, governmental regulations and taxation will not change to adversely affect Pure Multi-Family's business and financial results, and Pure Multi-Family will be able to obtain adequate insurance and financing; however, management can give no assurance that actual results will be consistent with these forward-looking statements.

Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to Pure Multi-Family, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of March 8, 2017 and Pure Multi-Family assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

## **BASIS OF PRESENTATION**

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial information included in this MD&A for the year ended December 31, 2016 includes material information up to March 8, 2017. Except as otherwise stated in this MD&A, all dollar amounts in this MD&A, including per unit amounts, are stated in U.S. dollars.

All references herein to "consolidated" refer to amounts as reported under IFRS. All references to "Pure Multi's interest" refer to a non-IFRS measure and assumes Pure Multi-Family prorates and accrues property tax liability and expense based on the time period of ownership throughout a given reporting year. For a reconciliation of Pure Multi-Family's results of operations, see "Results of Operations Reconciliation".

Certain figures in this MD&A are non-IFRS measures, including, Pure Multi's interest, Funds from Operations or FFO, Adjusted Funds from Operations or AFFO, Distributable Income or DI, same property net rental income, adjusted same property net rental income, same property revenue, same property average monthly rent per occupied unit, rental revenue - same property, rental revenue - properties acquired/sold, net rental income - same property, net rental income - properties acquired/sold and net rental income – property tax expense adjustments. For an IFRS to non-IFRS reconciliation, see "Results of Operations Reconciliation", "Distributable Income" and "Liquidity and Capital Resources – Funds from Operations and Adjusted Funds from Operations".

## **OVERVIEW**

### **About Pure Multi-Family**

Pure Multi-Family is a Canadian-based publically traded vehicle which offers investors exclusive exposure to U.S. multi-family real estate assets. It offers investors the ability to participate in monthly distributions, with potential for capital appreciation, stemming from ownership of quality apartment assets located in core cities within the Southwestern and Southeastern portions of the U.S., including states such as Texas, Arizona, Georgia and Nevada (collectively, the "Sunbelt").

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, 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 and as amended August 21, 2015, as may be amended from time to time. Pure Multi-Family's head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. 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](http://www.sedar.com).

Pure Multi-Family, through Pure US Apartments REIT Inc. (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.

**Operational and Financial Highlights** (all metrics stated at Pure Multi’s interest <sup>(1)</sup>)

	As at		
	December 31, 2016	December 31, 2015	December 31, 2014
Number of properties	15	14	14
Number of residential units	5,229	4,437	4,308
Portfolio average year of construction	2006	2003	1996
Physical occupancy	92.8%	96.2%	97.6%
Leased occupancy	94.9%	97.3%	98.2%
Investment properties (000’s)	\$ 778,547	\$ 613,682	\$ 468,518
Mortgages payable (000’s)	\$ 447,827	\$ 354,202	\$ 256,735
Weighted average effective interest rate on mortgages payable	3.74%	3.72%	3.86%
Loan to gross book value	55.2%	54.6%	57.9%

<i>Pure Multi’s interest</i> ( <i>\$000’s, except per unit basis</i> ) ( <i>all per unit amounts based on basic weighted average</i> <i>number of units outstanding</i> )	For the year ended December 31, 2016	For the year ended December 31, 2015	For the three months ended December 31, 2016	For the three months ended December 31, 2015
Total rental revenue <sup>(2)</sup>	\$ 76,414	\$ 58,876	\$ 20,116	\$ 16,547
Total operating expense <sup>(2)</sup>	34,722	26,180	9,845	7,437
Total net rental income <sup>(2)</sup>	41,692	32,696	10,271	9,110
Net rental income margin	54.6%	55.5%	51.1%	55.1%
Basic weighted average number of units outstanding				
Class A Units	51,553,540	39,761,071	55,418,872	43,429,172
Class B Units	200,000	200,000	200,000	200,000
Distributions	20,504	15,810	5,487	4,362
per Class A Unit	0.38	0.38	0.10	0.10
per Class B Unit	4.95	3.95	1.25	1.09
Funds from operations <sup>(2)</sup>	22,036	18,364	4,778	4,885
per Class A Unit	0.41	0.44	0.08	0.11
per Class B Unit	5.34	4.59	1.10	1.22
Payout ratio	93.0%	86.1%	114.8%	89.3%
Adjusted funds from operations <sup>(2)</sup>	20,810	17,363	4,456	4,607
per Class A Unit	0.38	0.42	0.08	0.10
per Class B Unit	5.04	4.34	1.02	1.15
Payout ratio	98.5%	91.1%	123.1%	94.7%

Notes:

<sup>(1)</sup> The adjustments from the IFRS measure to Pure Multi’s interest (non-IFRS measure) is limited to the prorating and accrual of the property tax liability and expense on all portfolio investments, based on the time period of ownership throughout the given reporting year. As a result, any unrelated balances presented correspond directly to the IFRS financial statements.

<sup>(2)</sup> For an IFRS to non-IFRS reconciliation, see “Results of Operations Reconciliation”, “Distributable Income”, and “Liquidity and Capital Resources – Funds from Operations and Adjusted Funds from Operations”.

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 ten 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, was fixed at 2,665,835 Class A Units. Subsequent to the Determination Event, on September 1, 2016, Pure Multi-Family internalized its asset management and terminated the asset management agreement (the "Asset Management Agreement") between Pure Multi-Family and the Managing GP. No penalties were incurred upon termination of the Asset Management Agreement.

During the year ended December 31, 2016, Pure Multi-Family acquired three investment properties, for a combined purchase price of \$188,500,000. These properties were acquired with proceeds received from the profitable sale of Windsong Apartments sold on December 30, 2015, partial proceeds from the December 2015 Offering (as defined herein) and July 2016 Offering (as defined herein), as described below, and new mortgage financing in the amount of \$121,000,000. During the year ended December 31, 2016, Pure Multi-Family completed the sale of two properties for a combined sales price of \$57,100,000. These acquisitions and sales resulted in Pure Multi-Family improving its portfolio average year of construction to 2006 as at December 31, 2016, compared to 2003 as at December 31, 2015, and 1996 as at December 31, 2014.

Pure Multi-Family continues to maintain a conservative debt profile with a current average interest rate on mortgages payable of 3.74% per annum and an average mortgage term to maturity of 9.4 years.

For the year ended December 31, 2016, rental revenue was \$76,414,359 and net rental income was \$41,691,664, representing increases of \$17,538,560 and \$8,995,880, respectively, compared to the prior year. For the three months ended December 31, 2016, rental revenue was \$20,115,884 and net rental income was \$10,271,192, representing increases of \$3,568,515 and \$1,161,262, respectively, compared to the same period in the prior year.

For the year ended December 31, 2016 the net rental income margin decreased to 54.6% from 55.5% compared to the prior year, and for the three months ended December 31, 2016 the net rental income margin decreased to 51.1% from 55.1% compared to the three months ended December 31, 2015. The decrease in net rental income margin, for the periods noted above, was primarily driven by an increase in property tax expense. The majority of this increase was incurred during the three months ended December 31, 2016, thus causing the decrease in net rental income margin compared to the prior year. As at December 31, 2016, there were a number of property tax appeals which remained outstanding. After the appeals have been resolved, any savings will be recorded during the same period in which the savings, if any, are realized.

Pure Multi-Family earned an average monthly rent per occupied unit of \$1,244, or \$1.356 per square foot, across its entire portfolio for the three months ended December 31, 2016 (three months ended December 31, 2015 - \$1,131 and \$1.257, respectively), representing an increase in the average monthly rent of an occupied unit of 10.1%, or 7.9% per square foot, compared to the same period in the prior year. For the year ended December 31, 2016, Pure Multi-Family earned an average monthly rent per occupied unit of \$1,212, or \$1.310 per square foot, across its entire portfolio (year ended December 31, 2015 - \$1,078 and \$1.194, respectively), representing an increase in the average monthly rent of an occupied unit of 12.4%, or 9.7% per square foot, over the prior year.

For the year ended December 31, 2016, the FFO payout ratio increased to 93.0% from 86.1% and the AFFO payout ratio increased to 98.5% from 91.1% compared to the year ended December 31, 2015. For the three months ended December 31, 2016, compared to the three months ended December 31, 2015, the FFO payout ratio increased to 114.8% from 89.3% and the AFFO payout ratio increased to 123.1% from 94.7%. The increases in the FFO and AFFO payout ratios for the three months and year ended December 31, 2016 compared to the same periods in the prior year were primarily due to:

- i) excess cash on the balance sheet, resulting from the disposal of investment properties and equity financings, which was being held for the acquisition of investment properties,
- ii) delays in the resolution of outstanding property tax appeals at December 31, 2016, which have historically resulted in the reduction of property tax expense on Pure Multi-Family's investment properties, and
- iii) ongoing occupancy stabilization of Pure Multi-Family's more recently acquired investment properties.

## Same Property Analysis (all metrics stated at Pure Multi's interest)

<i>Pure Multi's interest</i> <i>Rental revenue – same property</i> <sup>(3)</sup> (by location) (\$000's)	For the year ended			
	December 31, 2016	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 33,288	\$ 31,438	\$ 1,850	5.9%
Houston, Texas	8,375	8,167	208	2.6%
San Antonio, Texas	-	-	-	-
Phoenix, Arizona	2,855	2,673	182	6.8%
Total – same property <sup>(3)</sup>	44,518	42,278	2,240	5.3%
Total – properties acquired/sold <sup>(4)</sup>	31,896	16,598	15,298	92.2%
Total rental revenue	\$ 76,414	\$ 58,876	\$ 17,538	29.8%

<i>Pure Multi's interest</i> <i>Rental revenue – same property</i> <sup>(3)</sup> (by location) (\$000's)	For the three months ended			
	December 31, 2016	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 9,841	\$ 9,426	\$ 415	4.4%
Houston, Texas	2,087	2,082	5	0.2%
San Antonio, Texas	2,541	2,357	184	7.8%
Phoenix, Arizona	710	675	35	5.2%
Total – same property <sup>(3)</sup>	15,179	14,540	639	4.4%
Total – properties acquired/sold <sup>(4)</sup>	4,937	2,007	2,930	146.0%
Total rental revenue	\$ 20,116	\$ 16,547	\$ 3,569	21.6%

*Notes:*

<sup>(3)</sup> Same property (non-IFRS measure) - represents properties owned throughout the comparative periods, which removes the impact of acquisitions and dispositions.

<sup>(4)</sup> Properties acquired/sold (non-IFRS measure) - represents properties which were acquired or sold, therefore not owned during the entire comparative periods.

<i>Pure Multi's interest</i> <i>Net rental income – same property</i> <sup>(3)</sup> (by location) (\$000's)	For the year ended			
	December 31, 2016	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 19,014	\$ 17,818	\$ 1,196	6.7%
Houston, Texas	4,982	4,589	393	8.6%
San Antonio, Texas	-	-	-	-
Phoenix, Arizona	1,690	1,590	100	6.3%
Total – same property <sup>(3)</sup>	25,686	23,997	1,689	7.0%
Total – properties acquired/sold <sup>(4)</sup>	16,006	8,699	7,307	84.0%
Total net rental income	\$ 41,692	\$ 32,696	\$ 8,996	27.5%

<b>Pure Multi's interest</b> <b>Net rental income – same property</b> <sup>(3)</sup> (by location) (\$000's)	<b>For the three months ended</b>			
	<b>December 31, 2016</b>	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 5,213	\$ 5,417	\$ (204)	(3.8%)
Houston, Texas	1,250	1,089	161	14.9%
San Antonio, Texas	1,316	1,203	113	9.4%
Phoenix, Arizona	412	410	2	0.4%
Total – same property <sup>(3)</sup>	8,191	8,119	72	0.9%
Total – properties acquired/sold <sup>(4)</sup>	2,080	991	1,089	109.9%
Total net rental income	\$ 10,271	\$ 9,110	\$ 1,161	12.7%

**Notes:**

<sup>(3)</sup> Same property (non-IFRS measure) - represents properties owned throughout the comparative periods, which removes the impact of acquisitions and dispositions.

<sup>(4)</sup> Properties acquired/sold (non-IFRS measure) - represents properties which were acquired or sold, therefore not owned during the entire comparative periods.

<b>Pure Multi's interest</b> <b>Average monthly rent per occupied unit -same property</b> <sup>(5)</sup> (by location)	<b>For the year ended</b>			
	<b>December 31, 2016</b>	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 1,135	\$ 1,073	\$ 62	5.8%
Houston, Texas	1,176	1,127	49	4.4%
San Antonio, Texas	-	-	-	-
Phoenix, Arizona	1,102	1,043	59	5.7%
Portfolio weighted average – same property <sup>(5)</sup>	1,140	1,081	59	5.5%

<b>Pure Multi's interest</b> <b>Average monthly rent per occupied unit -same property</b> <sup>(5)</sup> (by location)	<b>For the three months ended</b>			
	<b>December 31, 2016</b>	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 1,168	\$ 1,104	\$ 64	5.8%
Houston, Texas	1,194	1,148	46	4.0%
San Antonio, Texas	1,302	1,298	4	0.3%
Phoenix, Arizona	1,129	1,070	59	5.5%
Portfolio weighted average – same property <sup>(5)</sup>	1,191	1,139	52	4.6%

**Notes:**

<sup>(5)</sup> Average monthly rent per occupied unit – same property (non-IFRS measure) - represents average monthly rental income for occupied units, net of concessions and discounts, for properties owned during the entire comparative periods.

<b>Average physical occupancy – same property</b> <sup>(6)</sup> (by location)	<b>For the year ended</b>		
	<b>December 31, 2016</b>	December 31, 2015	% Change
Dallas - Fort Worth, Texas	97.4%	97.7%	(0.3%)
Houston, Texas	96.7%	98.0%	(1.3%)
San Antonio, Texas	-	-	-
Phoenix, Arizona	96.7%	96.0%	0.7%
Portfolio weighted average – same property <sup>(6)</sup>	97.2%	97.6%	(0.4%)

<i>Average physical occupancy – same property</i> <sup>(6)</sup> (by location)	For the three months ended		
	December 31, 2016	December 31, 2015	% Change
Dallas - Fort Worth, Texas	95.8%	97.1%	(1.3%)
Houston, Texas	95.4%	98.5%	(3.1%)
San Antonio, Texas	95.1%	89.8%	5.3%
Phoenix, Arizona	94.9%	94.9%	0.0%
Portfolio weighted average – same property <sup>(6)</sup>	95.6%	96.0%	(0.5%)

*Notes:*

<sup>(6)</sup> *Average physical occupancy – same property (non-IFRS measure) - represents average physical occupancy, for properties owned during the entire comparative periods.*

For the year ended December 31, 2016, same property rental revenue increased by \$2,239,017, or 5.3%, and same property net rental income increased by \$1,688,851, or 7.0%, compared to the prior year. The increase in same property rental revenue was primarily driven by an increase in the same property average monthly rent per occupied unit, while the increase in same property net rental income was a result of increased revenues combined with increased efficiency managing the operating expenses and was partially offset by an increase in property tax expense.

For the three months ended December 31, 2016, same property rental revenue increased by \$639,528, or 4.4%, and same property net rental income increased by \$71,791, or 0.9%, compared to the same time period in the prior year. The increase in same property rental revenue was primarily driven by an increase in the same property average monthly rent per occupied unit, while the increase in same property net rental income was mostly driven by the increase in revenues and being partially offset by increased property tax expense incurred during the three months ended December 31, 2016. The increase in property tax expense, incurred during the three months ended December 31, 2016, has been fully reflected in the same property net rental income during such period, thus resulting in growth of only 0.9% compared to the same period in the prior year. By allocating this additional incurred property tax expense over the year ended December 31, 2016, prorated based on the number of days of ownership of each investment property (“adjusted same property net rental income”), the adjusted same property net rental income for the three months ended December 31, 2016 would have increased by \$432,837, or 5.4%, when compared to the adjusted same store net rental income for the three months ended December 31, 2015. The table below provides a detailed description of adjusted same property net rental income by location for the periods indicated:

<i>Pure Multi’s interest</i> <i>Adjusted net rental income – same property</i> <sup>(7)</sup> (by location) (\$000’s)	For the three months ended			
	December 31, 2016	December 31, 2015	\$ Change	% Change
Dallas - Fort Worth, Texas	\$ 5,501	\$ 5,322	\$ 179	3.4%
Houston, Texas	1,241	1,068	173	16.2%
San Antonio, Texas	1,255	1,202	53	4.4%
Phoenix, Arizona	414	387	27	6.9%
Total – same property <sup>(3)</sup>	8,411	7,979	432	5.4%
Total – properties acquired/sold <sup>(4)</sup>	2,268	998	1,270	127.3%
Total adjusted net rental income	\$ 10,679	\$ 8,977	\$ 1,702	19.0%
Property tax expense adjustments <sup>(8)</sup>	(408)	133	(541)	-
Total net rental income	\$ 10,271	\$ 9,110	\$ 1,161	12.7%

*Notes:*

<sup>(3)</sup> *Same property (non-IFRS measure) - represents properties owned throughout the comparative periods, which removes the impact of acquisitions and dispositions.*

<sup>(4)</sup> *Properties acquired/sold (non-IFRS measure) - represents properties which were acquired or sold, therefore not owned during the entire comparative periods.*

<sup>(7)</sup> *Adjusted net rental income (non-IFRS measure) - represents net rental income after property tax expense adjustments made to reflect the actual annual property tax expense prorated over the number of days of ownership for each property.*

<sup>(8)</sup> *Property tax expense adjustments (non-IFRS measure) - represents property tax expense adjustments to reflect the actual annual property tax expense prorated over the number of days of ownership for each property.*

### Portfolio Summary

As at December 31, 2016, Pure Multi-Family's portfolio consists of 15 investment properties, comprising an aggregate of 5,229 residential units, with an average size of 913 square feet per residential unit, located within four metropolitan areas: (i) Dallas - Fort Worth ("DFW"), Texas, (ii) Houston, Texas, (iii) San Antonio ("SA"), Texas and (iv) Phoenix, Arizona.

The weighted average physical occupancy rate was 92.8% and weighted average leased occupancy rate was 94.9% for all properties owned as at December 31, 2016 (December 31, 2015 – 96.2% and 97.3%, respectively). Typical residential property leases have terms of between one to 12 months.

Property Name	Location	Year of Acquisition	Year of Construction	Units	As at December 31, 2016					
					Fair Market Value (\$'000's)	Debt to Fair Market Value	Cap Rate	Physical Occupancy	Leased Occupancy	Average Rent per Occupied Unit <sup>(1)</sup>
The Avenue on Fairmount	DFW, TX	2016	2015	368	\$ 71,062	60.5%	5.25%	87.0%	90.5%	\$ 1,546
Amalfi at Stonebriar	DFW, TX	2015	2014	395	65,600	68.6%	4.75%	91.4%	98.5%	1,217
Preserve at Arbor Hills	DFW, TX	2014	1998	330	49,124	49.8%	5.50%	95.2%	95.5%	1,214
Vistas at Hackberry Creek	DFW, TX	2013	1984	560	59,002	50.0%	6.00%	95.4%	97.0%	1,005
Fountainwood Apartments	DFW, TX	2013	1986	288	28,900	43.3%	6.00%	95.5%	96.9%	945
Stoneleigh at Valley Ranch	DFW, TX	2012	1999	210	29,887	45.8%	5.50%	94.8%	97.1%	1,287
Prairie Creek Villas	DFW, TX	2012	1997	464	79,258	57.5%	5.65%	96.8%	98.3%	1,361
Stoneleigh at Bear Creek	DFW, TX	2012	2004	436	60,574	53.0%	5.50%	98.9%	99.3%	1,211
<b>DFW, TX</b>			<b>2003</b>	<b>3,051</b>	<b>443,407</b>	<b>55.4%</b>	<b>5.47%</b>	<b>94.5%</b>	<b>96.8%</b>	<b>1,218</b>
Walker Commons	Houston, TX	2014	2008	352	50,566	56.3%	6.00%	94.0%	96.0%	1,201
The Boulevard at Deer Park	Houston, TX	2013	2000	216	27,334	58.9%	5.75%	93.1%	96.3%	1,184
<b>Houston, TX</b>			<b>2005</b>	<b>568</b>	<b>77,900</b>	<b>57.2%</b>	<b>5.91%</b>	<b>93.7%</b>	<b>96.1%</b>	<b>1,195</b>
Pure View at TPC	SA, TX	2016	2014	416	61,149	63.0%	5.35%	82.2%	83.2%	1,305
Pure Estates at TPC	SA, TX	2016	2007	344	56,772	67.8%	5.25%	87.5%	89.5%	1,443
Brackenridge at Midtown	SA, TX	2015	2014	282	51,000	60.0%	4.85%	93.3%	95.0%	1,404
Park at West Avenue	SA, TX	2015	2014	360	54,969	66.4%	5.00%	93.1%	94.7%	1,217
<b>SA, TX</b>			<b>2012</b>	<b>1,402</b>	<b>223,890</b>	<b>64.4%</b>	<b>5.12%</b>	<b>88.5%</b>	<b>90.1%</b>	<b>1,336</b>
San Brisas Apartments	Phoenix, AZ	2013 & 2014	1996	208	33,350	50.7%	5.25%	95.2%	97.1%	1,132
<b>Portfolio Total/Average</b>			<b>2006</b>	<b>5,229</b>	<b>\$ 778,547</b>	<b>58.0%</b>	<b>5.41%</b>	<b>92.8%</b>	<b>94.9%</b>	<b>\$ 1,244</b>

**Notes:**

<sup>(1)</sup> Average rent per occupied unit (non-IFRS measure) - represents average in-place rent for all occupied units during the month of December 2016.

**Acquisitions and Dispositions****Properties Acquired During 2016**

On March 1, 2016, Pure Multi-Family, through the US REIT, acquired Pure Estates at TPC (“Pure Estates”), a multi-family apartment community, located in San Antonio, Texas, for a purchase price of \$56,500,000, plus standard closing costs and adjustments. This acquisition was financed with cash on hand and a new 8-year mortgage in the amount of \$39,000,000.

On March 1, 2016, Pure Multi-Family, through the US REIT, acquired Pure View at TPC (“Pure View”), a multi-family apartment community, located in San Antonio, Texas, for a purchase price of \$61,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash on hand and a new 15-year mortgage in the amount of \$39,000,000.

On September 14, 2016, Pure Multi-Family, through the US REIT, acquired The Avenue on Fairmount Apartments (“The Avenue”), a multi-family apartment community, located in Dallas, Texas, for a purchase price of \$71,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash on hand and a new 12-year mortgage in the amount of \$43,000,000.

**Properties Sold During 2016**

On November 4, 2016, Pure Multi-Family, through the US REIT, sold Livingston Apartments (“Livingston”), located in Plano, Texas, for gross proceeds of \$34,300,000, less standard closing costs and adjustments. The mortgage payable, secured by Livingston, was paid in full as of the same date.

On November 17, 2016, Pure Multi-Family, through the US REIT, sold Fairways at Prestonwood (“Prestonwood”), located in Dallas, Texas, for gross proceeds of \$22,800,000, less standard closing costs and adjustments.

**Financings****May 2015 Class A Unit Offering**

On May 8, 2015, Pure Multi-Family completed a public offering (the “May 2015 Offering”) of 6,900,000 Class A Units, at a price of \$5.10 per Class A Unit, for gross proceeds of \$35,190,000, less offering costs.

The May 2015 Offering was completed on a “blind-pool” basis, meaning there were no properties identified for acquisition at the time of the offering. On August 10, 2015, Pure Multi-Family acquired Amalfi Stonebriar (“Amalfi”) and on September 30, 2015, Pure Multi-Family acquired Brackenridge at Midtown (“Brackenridge”):

<b>Use of Proceeds</b> <i>(\$000s)</i>	<b>Purchase Price</b> <b>(Before Closing</b> <b>Adjustments)</b>	<b>Mortgage</b> <b>Proceeds</b>	<b>Gross proceeds</b> <b>used from May</b> <b>2015 Offering</b>	<b>Working</b> <b>Capital</b>	<b>Total</b>
Amalfi	\$ 67,500	\$ 45,000	\$ 22,500	\$ -	\$ 67,500
Brackenridge	51,000	30,600	11,871	8,529	51,000
Totals	118,500	75,600	34,371	8,529	118,500

**December 2015 Class A Unit Offering**

On December 11, 2015, Pure Multi-Family completed a public offering (the “December 2015 Offering”) of 7,250,000 Class A Units, at a price of \$5.40 per Class A Unit, for gross proceeds of \$39,150,000, less offering costs.



The December 2015 Offering was completed on a “blind-pool” basis, meaning there were no properties identified for acquisition at the time of the offering. On March 1, 2016, Pure Multi-Family acquired Pure Estates at TPC (“Pure Estates”) and Pure View at TPC (“Pure View”):

<b>Use of Proceeds</b> <i>(\$000s)</i>	<b>Purchase Price</b> <b>(Before Closing</b> <b>Adjustments)</b>	<b>Mortgage</b> <b>Proceeds</b>	<b>Gross proceeds</b> <b>used from</b> <b>December 2015</b> <b>Offering</b>	<b>Working</b> <b>Capital</b>	<b>Total</b>
Pure Estates	\$ 56,500	\$ 39,000	\$ 17,500	\$ -	\$ 56,500
Pure View	61,000	39,000	294	21,706	61,000
<b>Totals</b>	<b>117,500</b>	<b>78,000</b>	<b>17,794</b>	<b>21,706</b>	<b>117,500</b>

### July 2016 Class A Unit Offering

On July 29, 2016, Pure Multi-Family completed a public offering (the “July 2016 Offering”) of 4,884,000 Class A Units, at a price of \$5.857 (CDN\$7.64) per Class A Unit, for gross proceeds of \$28,603,483 (CDN\$37,313,760), less offering costs.

On September 14, 2016, Pure Multi-Family acquired The Avenue on Fairmount (“The Avenue”):

<b>Use of</b> <b>Proceeds</b> <i>(\$000s)</i>	<b>Purchase Price</b> <b>(Before Closing</b> <b>Adjustments)</b>	<b>Mortgage</b> <b>Proceeds</b>	<b>Gross proceeds</b> <b>used from</b> <b>December 2015</b> <b>Offering</b>	<b>Gross proceeds</b> <b>used from July</b> <b>2016 Offering</b>	<b>Working</b> <b>Capital</b>	<b>Total</b>
The Avenue	\$ 71,000	\$ 43,000	\$ 16,000	\$ 12,000	\$ -	\$71,000

### OUTLOOK

Pure Multi-Family’s strategy is to acquire a high-quality apartment portfolio located in the strongest growth markets within the U.S. Sunbelt region. A conservative approach to balance sheet management has resulted in one of the longest average mortgage terms in the sector at 9.4 years, with an average mortgage interest rate of 3.74% per annum, at the end of 2016.

Job and population growth are fundamental drivers of apartment demand and our core and target markets continue to project robust growth rates in both categories for the coming years. Pure Multi-Family has a particular focus on asset selection that involves choosing assets that include unique features that inherently create a barrier-to-entry from competition, either in their unique in-fill locations, or through other locational attributes such as golf course frontages, large water features, or expansive views of neighbouring nature preserves. Such attention to detail on asset selection pays dividends in terms of top-line revenue growth and reduced tenant turnover. Results for the year ended December 31, 2016 show an impressive same property revenue growth of 5.3% and same property net rental income growth of 7.0%, compared to the prior year, demonstrating the benefits of owning high quality and well-located assets, combined with very solid demand drivers.

Our diligent and active management style includes re-positioning some assets through value-add initiatives and ultimately renewing our portfolio over time to harvest the profits of such value-add programs through the profitable divesting of non-core holdings in order to re-invest such capital into newer, higher-quality, assets thus affecting our urban-renewal approach to our overall portfolio asset management.

As noted under “*Operational and Financial Highlights*”, on September 1, 2016, Pure Multi-Family internalized its asset management function. Upon termination of the Asset Management Agreement and the internalization of asset management, no fee was payable by Pure Multi-Family to the Managing GP. Going forward we intend to continue our active management of Pure Multi-Family through executing more value-add initiatives and improving the quality of our portfolio to enhance unitholder value. Our intention is to increase our portfolio holdings in our current existing strong growth markets, as well as to expand our platform operations to include additional markets, such as Austin, Denver, Atlanta and Tampa Bay, that offer similar compelling demand drivers. With the robust pipeline of high-quality apartment properties available for sale in these markets, coupled with stable capitalization rates and continuing favourable interest rates, we believe Pure Multi-Family is well positioned to continue its strong growth over the coming years, thus enhancing unitholder value even further.

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## **SECTION II**

### **RESULTS OF OPERATIONS RECONCILIATION**

“Pure Multi’s interest” is a non-IFRS measure representing the accrual of property tax liability and expense, on all portfolio investments, based on time period of ownership throughout the given reporting year. Pure Multi’s interest does not have any standardized meaning prescribed by IFRS.

The following tables provide reconciliations from Pure Multi-Family’s consolidated financial statements prepared in accordance with IFRS to Pure Multi’s interest, as described above, for the affected current and comparative periods.

**Reconciliation of Consolidated Statement of Income and Comprehensive Income to Statement of Income and Comprehensive Income at Pure Multi's Interest:**

Year ended December 31, 2016 (\$000's)	Consolidated <sup>(1)</sup>	IFRIC 21 Property Tax Adjustment <sup>(2)</sup>	Pure Multi's Interest <sup>(3)</sup>
<b>REVENUES</b>			
Rental	\$ 76,414	\$ -	\$ 76,414
<b>OPERATING EXPENSES</b>			
Insurance	1,588	-	1,588
Property management	2,301	-	2,301
Property taxes	11,185	2,943	14,128
Property operating expenses	16,705	-	16,705
	31,779	2,943	34,722
<b>NET RENTAL INCOME</b>	44,635	(2,943)	41,692
<b>NET FINANCE INCOME (EXPENSES)</b>			
Interest income	38	-	38
Interest expense	(19,799)	-	(19,799)
Distributions to subsidiary's preferred unitholders	(16)	-	(16)
	(19,777)	-	(19,777)
<b>NET OTHER INCOME (EXPENSES)</b>			
Other income	18	-	18
General and administrative	(1,438)	-	(1,438)
Fair value adjustments to investment properties	26,498	2,943	29,441
Loss on disposal of investment properties	(1,485)	-	(1,485)
Franchise taxes	(287)	-	(287)
	23,306	2,943	26,249
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ 48,164	\$ -	\$ 48,164

**Notes:**

<sup>(1)</sup> Represents Pure Multi-Family's consolidated statement of income and comprehensive income prepared in accordance with IFRS.

<sup>(2)</sup> Represents Pure Multi-Family's annual pro-rated portion of property tax expense, on its entire portfolio, that is accounted for under IFRIC 21.

<sup>(3)</sup> Represents Pure Multi's interest, as described herein.

**Reconciliation of Consolidated Statement of Income and Comprehensive Income to Statement of Income and Comprehensive Income at Pure Multi's Interest:**

Three months ended December 31, 2016 (\$000's)	Consolidated <sup>(1)</sup>	IFRIC 21 Property Tax Adjustment <sup>(2)</sup>	Pure Multi's Interest <sup>(3)</sup>
<b>REVENUES</b>			
Rental	\$ 20,116	\$ -	\$ 20,116
<b>OPERATING EXPENSES</b>			
Insurance	417	-	417
Property management	622	-	622
Property taxes	220	3,984	4,204
Property operating expenses	4,602	-	4,602
	5,861	3,984	9,845
<b>NET RENTAL INCOME</b>	14,255	(3,984)	10,271
<b>NET FINANCE INCOME (EXPENSES)</b>			
Interest income	11	-	11
Interest expense	(4,952)	-	(4,952)
Distributions to subsidiary's preferred unitholders	(4)	-	(4)
	(4,945)	-	(4,945)
<b>NET OTHER INCOME (EXPENSES)</b>			
Other income	(72)	-	(72)
General and administrative	(568)	-	(568)
Fair value adjustments to investment properties	(1,042)	1,202	160
IFRIC 21 fair value adjustment to investment properties	(2,782)	2,782	-
Loss on disposal of investment properties	(1,485)	-	(1,485)
Franchise taxes	(102)	-	(102)
	(6,051)	3,984	(2,067)
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ 3,259	\$ -	\$ 3,259

**Notes:**

<sup>(1)</sup> Represents Pure Multi-Family's consolidated statement of income and comprehensive income prepared in accordance with IFRS.

<sup>(2)</sup> Represents Pure Multi-Family's annual pro-rated portion of property tax expense, on its entire portfolio, that is accounted for under IFRIC 21.

<sup>(3)</sup> Represents Pure Multi's interest, as described herein.

**Reconciliation of Consolidated Statement of Income and Comprehensive Income to Statement of Income and Comprehensive Income at Pure Multi's Interest:**

Year ended December 31, 2015 (\$000's)	Consolidated <sup>(1)</sup>	IFRIC 21 Property Tax Adjustment <sup>(2)</sup>	Pure Multi's Interest <sup>(3)</sup>
<b>REVENUES</b>			
Rental	\$ 58,876	\$ -	\$ 58,876
<b>OPERATING EXPENSES</b>			
Insurance	1,543	-	1,543
Property management	1,764	-	1,764
Property taxes	8,500	718	9,218
Property operating expenses	13,655	-	13,655
	25,462	718	26,180
<b>NET RENTAL INCOME</b>	33,414	(718)	32,696
<b>NET FINANCE INCOME (EXPENSES)</b>			
Interest income	14	-	14
Interest expense	(15,998)	-	(15,998)
Distributions to subsidiary's preferred unitholders	(16)	-	(16)
	(16,000)	-	(16,000)
<b>NET OTHER INCOME (EXPENSES)</b>			
Other income	13	-	13
General and administrative	(914)	-	(914)
Fair value adjustments to investment properties	34,519	718	35,237
Gain on disposal of investment properties	525	-	525
Franchise taxes	(378)	-	(378)
	33,765	718	34,483
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ 51,179	\$ -	51,179

**Notes:**

<sup>(1)</sup> Represents Pure Multi-Family's consolidated statement of income and comprehensive income prepared in accordance with IFRS.

<sup>(2)</sup> Represents Pure Multi-Family's annual pro-rated portion of property tax expense, on its entire portfolio, that is accounted for under IFRIC 21.

<sup>(3)</sup> Represents Pure Multi's interest, as described herein.

**Reconciliation of Consolidated Statement of Income and Comprehensive Income to Statement of Income and Comprehensive Income at Pure Multi's Interest:**

Three months ended December 31, 2015 (\$000's)	Consolidated <sup>(1)</sup>	IFRIC 21 Property Tax Adjustment <sup>(2)</sup>	Pure Multi's Interest <sup>(3)</sup>
<b>REVENUES</b>			
Rental	\$ 16,547	\$ -	\$ 16,547
<b>OPERATING EXPENSES (RECOVERIES)</b>			
Insurance	507	-	507
Property management	499	-	499
Property taxes	(66)	2,596	2,530
Property operating expenses	3,901	-	3,901
	4,841	2,596	7,437
<b>NET RENTAL INCOME</b>	11,706	(2,596)	9,110
<b>NET FINANCE INCOME (EXPENSES)</b>			
Interest income	4	-	4
Interest expense	(3,981)	-	(3,981)
Distributions to subsidiary's preferred unitholders	(4)	-	(4)
	(3,981)	-	(3,981)
<b>NET OTHER INCOME (EXPENSES)</b>			
Other income	1	-	1
General and administrative	(278)	-	(278)
Fair value adjustments to investment properties	3,679	684	4,363
IFRIC 21 fair value adjustment to investment properties	(1,912)	1,912	-
Gain on disposal of investment properties	1,321	-	1,321
Franchise taxes	(121)	-	(121)
	2,690	2,596	5,286
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	\$ 10,415	\$ -	\$ 10,415

**Notes:**

<sup>(1)</sup> Represents Pure Multi-Family's consolidated statement of income and comprehensive income prepared in accordance with IFRS.

<sup>(2)</sup> Represents Pure Multi-Family's annual pro-rated portion of property tax expense, on its entire portfolio, that is accounted for under IFRIC 21.

<sup>(3)</sup> Represents Pure Multi's interest, as described herein.

## RESULTS OF OPERATIONS

<i>(\$000's, except per unit basis)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
<b>Revenues</b>				
Rental	\$ 76,414	\$ 58,876	\$ 20,116	\$ 16,547
<b>Operating Expenses</b>				
Insurance	1,588	1,543	417	507
Property management	2,301	1,764	622	499
Property taxes <sup>(1)</sup>	14,128	9,218	4,204	2,530
Property operating expenses	16,705	13,655	4,602	3,901
	<b>34,722</b>	26,180	<b>9,845</b>	7,437
<b>Net Rental Income <sup>(1)</sup></b>	<b>41,692</b>	32,696	<b>10,271</b>	9,110
<b>Net Finance Income (Expenses)</b>				
Interest income	38	14	11	4
Interest expense	(19,799)	(15,998)	(4,952)	(3,981)
Distributions to subsidiary's preferred unitholders	(16)	(16)	(4)	(4)
	<b>(19,777)</b>	(16,000)	<b>(4,945)</b>	(3,981)
<b>Other Income (Expenses) <sup>(1)</sup></b>				
Other income	18	13	(72)	1
General and administrative	(1,438)	(914)	(568)	(278)
Fair value adjustments to investment properties <sup>(1)</sup>	29,441	35,237	160	4,363
Gain (loss) on disposal of investment properties	(1,485)	525	(1,485)	1,321
Franchise taxes	(287)	(378)	(102)	(121)
	<b>26,249</b>	34,483	<b>(2,067)</b>	5,286
<b>Net Income and Comprehensive Income</b>	<b>\$ 48,164</b>	\$ 51,179	<b>\$ 3,259</b>	\$ 10,415
Earnings per Class A Unit – basic	\$ 0.89	\$ 1.22	\$ 0.06	\$ 0.23
Weighted average number of Class A Units – basic	51,553,540	39,761,071	55,418,872	43,429,172
Earnings per Class A Unit – diluted	\$ 0.86	\$ 1.15	\$ 0.06	\$ 0.22
Weighted average number of Class A Units – diluted	55,739,002	43,831,867	55,497,401	47,979,552
Earnings per Class B Unit – basic and diluted	\$ 11.67	\$ 12.79	\$ 0.75	\$ 2.60
Weighted average number of Class B Units – basic and diluted	200,000	200,000	200,000	200,000

**Notes:**

<sup>(1)</sup> Represents Pure Multi's interest, see "Results of Operations Reconciliation" for adjustments from IFRS to Pure Multi's interest.

During the year ended December 31, 2016, based on Pure Multi's interest, Pure Multi-Family recorded rental revenue of \$76,414,359, net rental income of \$41,691,664, fair value adjustments to investment properties of \$29,440,739 and net income of \$48,163,729 (year ended December 31, 2015 - \$58,875,799, \$32,695,784, \$35,237,335 and \$51,179,380, respectively). During the year ended December 31, 2016, Pure Multi-Family incurred \$1,438,416 of general and administrative expenses (year ended December 31, 2015 - \$913,588), recorded a loss on disposal of investment properties of \$1,484,345 (year ended December 31, 2015 – gain of \$525,088), and incurred franchise tax expense of \$287,241 (year ended December 31, 2015 - \$378,175). The increase in revenues and expenses are primarily attributable to Pure Multi-Family operating additional investment properties, coupled with rental revenue growth during the year ended December 31, 2016, compared to the prior year. The decrease in net income during the year ended December 31, 2016, is primarily due to an increase in property tax expense, coupled with a smaller gain on fair value adjustments to investments properties, compared to the prior year.

### Rental Revenue

Rental revenue from investment properties includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. The increase in rental revenue was primarily attributable to Pure Multi-Family operating additional investment properties and residential units during the three months and year ended December 31, 2016, compared to the same periods in the prior year, in addition to organic rental revenue growth experienced from the investment properties operated during such periods.

### Operating Expenses

Operating expenses include costs relating to such items as cleaning, repairs and maintenance, turnover costs, HVAC, property payroll, insurance, property taxes, utilities and property management fees among other items. In aggregate, operating expenses totaled \$34,722,695 for the year ended December 31, 2016 (year ended December 31, 2015 - \$26,180,015) and \$9,844,692 for the three months ended December 31, 2016 (three months ended December 31, 2015 - \$7,437,439). The increase in operating expenses was partially due to Pure Multi-Family operating additional investment properties and residential units during the noted periods. In addition, increases in property tax assessments for several properties increased the current period's property tax expense amounts, with many of these under appeal and remaining outstanding as at December 31, 2016. This increase to property tax expense impacted operating margins whereby Pure Multi-Family's operating margin during the year ended December 31, 2016 decreased to 54.6% compared to 55.5% for the year ended December 31, 2015, and during the three months ended December 31, 2016 operating margins decreased to 51.1% from 55.1% for the three months ended December 31, 2015.

The following table illustrates certain operating expenses as a percentage of total operating expenses:

<i>Pure Multi's interest</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Insurance	<b>4.6%</b>	5.9%	<b>4.2%</b>	6.8%
Property management	<b>6.6%</b>	6.7%	<b>6.3%</b>	6.7%
Property taxes	<b>40.7%</b>	35.2%	<b>42.7%</b>	34.0%
Property operating expenses	<b>48.1%</b>	52.2%	<b>46.8%</b>	52.5%
	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
Net rental income margin	<b>54.6%</b>	55.5%	<b>51.1%</b>	55.1%

### Finance Income

Finance income consists of interest income which was earned from bank deposits at Pure Multi-Family and the property level.



## Finance Expenses

Finance expenses consist of interest expense and distributions to subsidiary's preferred unitholders (see "Financial Condition – Preferred Units of Subsidiary"). Pure Multi-Family declared distributions in the amount of \$15,625 to the subsidiary's preferred unitholders during the year ended December 31, 2016 (year ended December 31, 2015 - \$15,625).

## Interest Expense

Interest expense consists of mortgage interest, mortgage prepayment expense, convertible debenture interest, credit facility interest, amortization of transaction costs, amortization of mark-to-market mortgage adjustment and accretion of convertible debentures.

The weighted average interest rate on the mortgages is 3.74% per annum as at December 31, 2016 (December 31, 2015 - 3.72%) and the mortgages mature between 2019 and 2031 with a weighted average mortgage term of 9.4 years remaining (December 31, 2015 - 9.4 years remaining). Pure Multi-Family intends to refinance any mortgages which mature within six months of the maturity date.

## General and Administrative Expenses

General and administrative expenses are primarily comprised of directors' fees, directors' and officers' liability insurance, professional fees, legal fees, filing fees, and administrative expenses. Professional fees include auditing and tax fees. Administrative expenses include US REIT compliance expenditures, investor relations expenses, bank charges, and beginning September 1, 2016, office overhead, rent and corporate salaries. Subsequent to the Determination Event, on September 1, 2016, Pure Multi-Family internalized its asset management and terminated the Asset Management Agreement with the Managing GP. No penalties were incurred upon termination of the agreement. Prior to September 1, 2016, pursuant to the Asset Management Agreement, the Managing GP provided Pure Multi-Family with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities, at no cost. Subsequent to September 1, 2016, Pure Multi-Family recorded these additional administrative expenses, which were not present in the prior year comparatives, resulting in the increases noted in the table below. It should also be noted the directors' fees, of \$83,771, for the three months ended December 31, 2016, were significantly lower than the prior year comparative period, of \$123,457, due to a portion of the directors' fees, in the comparative period, being related to an annual fee increase, which were recorded during this period alone.

The following table illustrates corporate expenses as a percentage of overall general and administrative expenses:

	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Insurance	3.5%	4.8%	2.2%	4.8%
Professional fees	25.4%	32.6%	19.1%	22.2%
Legal and filing fees	20.8%	15.6%	12.4%	12.5%
Directors' fees	21.0%	23.0%	14.8%	44.5%
Administrative expenses	29.3%	24.0%	51.5%	16.0%
	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
G&A expense as a percentage of rental revenue	1.9%	1.6%	2.8%	1.7%

## Other Income (Expenses)

Other income (expenses) includes proceeds resulting from a land easement transaction, property investigation expenses and foreign currency exchange gains and losses.

**Fair Value Adjustments to Investment Properties**

Pure Multi-Family revalues its investment properties at fair value on each reporting date and records the fair value adjustments as an income or expense item. For the year ended December 31, 2016, based on Pure Multi's interest, Pure Multi-Family recorded an increase of \$29,440,739 in the fair value of its investment properties (year ended December 31, 2015 - \$35,237,335). The weighted average capitalization rate of the investment properties at December 31, 2016, based on Pure Multi's interest, was 5.41% (December 31, 2015 – 5.50%).

**Gain (Loss) on Disposal of Investment Properties**

During the year ended December 31, 2016, Pure Multi-Family sold Livingston Apartments and Fairways at Prestonwood for a combined sale price of \$57,100,000. Pure Multi-Family recorded a loss on disposal of the investment properties in the amount of \$1,484,345 (year ended December 31, 2015 – gain on disposal of \$525,088). The gain or loss on disposal is calculated by taking the difference between the fair value of each investment property and its selling price, less any disposition costs associated with the sale of the properties.

**Income Taxes**

Pure Multi-Family is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner (or "unitholder") 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.

**Franchise Taxes**

Texas Franchise Tax applicable to Pure Multi-Family, for its investment properties operated in Texas during the year ended December 31, 2016, 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 recorded a provision for Texas Franchise Tax of \$287,241 for the year ended December 31, 2016 (year ended December 31, 2015 - \$378,175).

**Offering Costs**

Offering costs are the costs incurred by Pure Multi-Family that relate to the issuance of securities, which are included in the statement of partners' capital. Pure Multi-Family incurred \$1,420,147 of offering costs, during the year ended December 31, 2016 (year ended December 31, 2015 - \$3,515,918).

**DISTRIBUTABLE INCOME**

Pure Multi-Family uses Distributable Income ("DI") to measure its ability to earn and distribute cash to unitholders. DI is a non-IFRS measurement, as described herein, and should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of Pure Multi-Family's performance. DI, as computed by Pure Multi-Family, may differ from similar computations as reported by other similar business entities and, accordingly, may not be comparable to DI as reported by such business entities. DI does not have any standardized meaning prescribed by IFRS. Management calculates DI by adding to or deducting the following items from net cash from operating activities: non-cash working capital items, IFRIC 21 adjustments, interest income, interest expense, mortgage prepayment expense and distributions to preferred unitholders.

<i>(\$000's, except per unit basis)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Net cash provided from operating activities	\$ 40,238	\$ 29,155	\$ 1,218	\$ 6,159
Adjustment:				
Changes in non-cash operating working capital	(253)	2,262	11,093	4,465
IFRIC 21 property tax liability adjustment, net	-	-	(2,782)	(1,912)
Interest income	38	14	11	4
Interest expense	(18,831)	(17,952)	(4,677)	(3,753)
Mortgage prepayment expense	1,174	5,189	-	-
Distributions to subsidiary's preferred unitholders	(16)	(16)	(4)	(4)
<b>Distributable Income</b>	<b>\$ 22,350</b>	<b>\$ 18,652</b>	<b>\$ 4,859</b>	<b>\$ 4,959</b>
Class A Units	21,271	17,719	4,638	4,711
Class B Units	1,079	933	221	248
<b>Distributions to Unitholders</b>				
Class A Units	\$ 19,515	\$ 15,020	\$ 5,237	\$ 4,144
Class B Units	989	790	250	218
Total distributions paid	\$ 20,504	\$ 15,810	\$ 5,487	\$ 4,362
<b>Total distributions paid as a % of Distributable Income</b>	<b>91.7%</b>	<b>84.8%</b>	<b>112.9%</b>	<b>88.0%</b>
Weighted average number of units (000's)				
Class A Units	51,554	39,761	55,419	43,429
Class B Units	200	200	200	200
Diluted weighted average number of units (000's)				
Class A Units	55,739	43,832	55,497	47,980
Class B Units	200	200	200	200
Basic DI per unit				
Class A Units	\$ 0.41	\$ 0.45	\$ 0.08	\$ 0.11
Class B Units	5.39	4.66	1.11	1.24
Diluted DI per unit				
Class A Units	0.41	0.44	0.08	0.11
Class B Units	5.39	4.66	1.11	1.24
Distributions paid per weighted average unit				
Class A Units	0.38	0.38	0.10	0.10
Class B Units	4.95	3.95	1.25	1.09

Pure Multi-Family may distribute to unitholders on each distribution date such percentage of the DI of Pure Multi-Family for the month immediately preceding the month in which the distribution date falls, as the board of directors of the Governing GP may determine at their discretion. At the rate of current monthly distributions, on an annualized basis, unitholders receive \$0.375 per Class A Unit. Monthly distributions will be paid on the distribution date to unitholders of record on the last business day of such month. See "Financial Condition – Partners' Capital".

The board of directors of the Governing GP looks beyond quarter-to-quarter fluctuations in working capital when making decisions regarding monthly distributions. As a result, management believes that the measure of DI, which excludes the impact of changes in non-cash working capital, is a better measure for determining operating performance. Management believes that the calculation of Net Cash from Operating Activities, defined as cash flow from operations, distorts Pure Multi-Family's quarter-to-quarter distributable cash and payout ratios, as non-cash operating working capital fluctuates.

For the purpose of this MD&A, management defines "Diluted DI per unit" as Distributable Income divided by the diluted weighted average number of units outstanding.

#### NET CASH FROM OPERATING ACTIVITIES

The following is a reconciliation of Pure Multi-Family's DI to net cash from operating activities.

<i>(\$000's)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Distributable income	\$ 22,350	\$ 18,652	\$ 4,859	\$ 4,959
IFRIC 21 property tax liability adjustment, net	-	-	2,782	1,912
Interest income	(38)	(14)	(11)	(4)
Interest expense	18,831	17,952	4,677	3,753
Mortgage prepayment expense	(1,174)	(5,189)	-	-
Distributions to subsidiary's preferred unitholders	16	16	4	4
(Increase) decrease in amounts receivable	(1,168)	(325)	(542)	315
Increase in prepaid expenses	(413)	(369)	(1,284)	(451)
Increase (decrease) in rental deposits	163	202	(146)	(90)
Increase (decrease) in unearned revenue	168	(94)	(90)	233
Increase (decrease) in accounts payable and accrued liabilities	1,503	(1,676)	(9,031)	(4,472)
<b>Net Cash from Operating Activities</b>	<b>\$ 40,238</b>	<b>\$ 29,155</b>	<b>\$ 1,218</b>	<b>\$ 6,159</b>

#### SEGMENTED INFORMATION

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, indirectly owning and operating multifamily apartment properties in the Sunbelt region in the United States.

#### FINANCIAL CONDITION

##### Assets

##### **Investment Properties**

Investment properties are stated at fair value. Fair value adjustments to investment properties arising from changes in fair value are included in the consolidated statement of income and comprehensive income in the period which they arise. As at December 31, 2016, investment properties were valued at \$778,547,182 (December 31, 2015 - \$613,681,875). The increase in investment properties is primarily due to the acquisition of three investment properties for a combined purchase price of \$188,500,000 and a \$26,498,121 increase to the fair values of the investment properties, which were partially offset by the sale of two investment properties for a combined sales price of \$57,100,000. The increase in the fair value adjustment to investment properties was primarily driven by net rental income increases.

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

### Prepaid Expenses

Prepaid expenses primarily consist of insurance and utility deposits.

### 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 once certain conditions are met, such as completion of repairs. As at December 31, 2016, the term for the current mortgage reserve fund is less than 12 months. The mortgage reserve fund is \$5,193,406, as at December 31, 2016 (December 31, 2015 - \$6,570,597).

### Liabilities

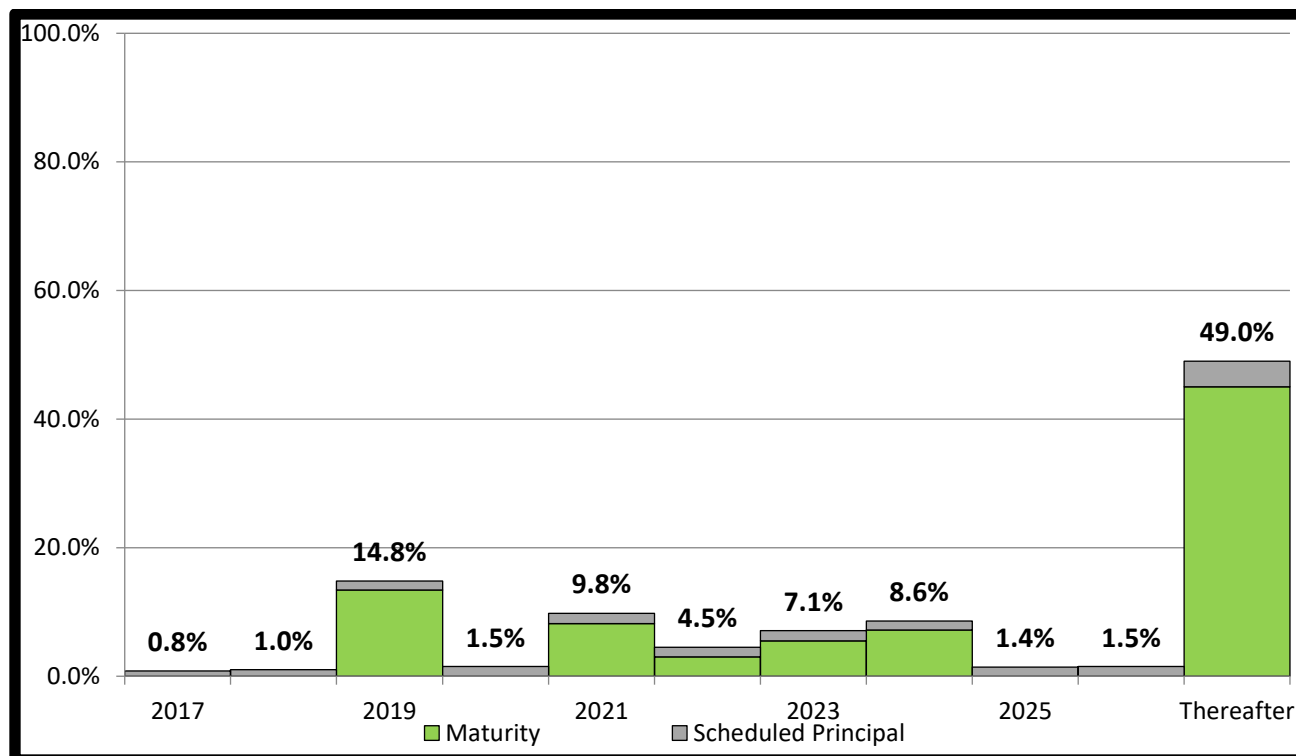
The LP Agreement limits the indebtedness of Pure Multi-Family to a maximum of 70% of the gross book value. The gross book value is defined as the total book value of the assets plus accumulated depreciation and amortization in respect of such assets. The indebtedness is 55.2% of the gross book value as at December 31, 2016 (December 31, 2015 – 54.6%).

### Mortgages Payable

The mortgages bear interest at a weighted average effective rate of 3.74% per annum, as at December 31, 2016 (December 31, 2015 – 3.72%) and mature between 2019 and 2031. The scheduled principal payments, principal maturities and weighted average effective rate are as follows:

December 31, 2016 <i>(\$000's, except percentage amounts)</i>	Weighted Average Effective Rate (on expiry)	Scheduled Principal Repayments	Principal Maturities	Total Repayments
2017	-	3,606	-	3,606
2018	-	4,465	-	4,465
2019	3.29%	6,135	60,550	66,685
2020	-	6,982	-	6,982
2021	3.26%	7,193	37,060	44,253
2022	3.51%	7,128	13,680	20,808
2023	4.32%	7,180	24,679	31,859
2024	3.96%	6,366	32,543	38,909
2025	-	6,299	-	6,299
2026	-	6,546	-	6,546
Thereafter	3.77%	17,860	203,155	221,015
	3.74%	\$ 79,760	\$ 371,667	451,427
Unamortized mortgage transaction costs				(3,600)
				\$ 447,827

The following chart shows the remaining scheduled principal payments and principal maturities of the mortgages due within the next 10 years and thereafter:



**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 of directors of the Governing GP does not expect to redeem any preferred units within the next year. Thus, the preferred units are classified as non-current liabilities.

### 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. On or after September 30, 2016, but prior to September 30, 2018, the 6.5% convertible debentures may be redeemed by Pure Multi-Family, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest thereon, provided the weighted average trading price of the Class A Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is at least 125% of the conversion price. 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, 2016, ten of the originally issued 23,000 6.5% convertible debentures had been converted into Class A Units.

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

	<b>Convertible Debentures</b>	<b>Liability Component</b>	<b>Equity Component</b>
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2014	\$ 23,000,000	\$ 19,876,109	\$ 1,985,429
Amortization of transaction costs	-	155,350	-
Accretion of liability component	-	288,431	-
Balance as at December 31, 2015	\$ 23,000,000	\$ 20,319,890	\$ 1,985,429
Conversion of convertible debenture	(10,000)	(9,081)	(919)
Amortization of transaction costs	-	168,316	-
Accretion of liability component	-	313,777	-
<b>Balance as at December 31, 2016</b>	<b>\$ 22,990,000</b>	<b>\$ 20,792,902</b>	<b>\$ 1,984,510</b>

### Partners’ Capital

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. 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, at a price of \$5.00 per Class B Unit, for gross proceeds to Pure Multi-Family of \$1,000,000, which initially entitled the Class B Unitholders to a 5% interest in Pure Multi-Family. As of the date hereof, Pure Multi-Family has 200,000 Class B Units outstanding.

From the date of formation on May 8, 2012, to December 31, 2015, Pure Multi-Family had issued 49,039,824 Class A Units for gross proceeds of \$245,366,767, less offering costs. During the year ended December 31, 2016, the following transactions occurred:

- iv) On July 29, 2016, Pure Multi-Family completed the July 2016 Offering consisting of 4,884,000 Class A Units on a bought deal basis, at a price of \$5.857 (or CDN\$7.64) per Class A Unit for gross proceeds of \$28,603,483 (or CDN\$37,313,760). Pure Multi-Family issued the Class A Units from treasury.
- v) On August 12, 2016, a Determination Event occurred as a result of Pure Multi-Family’s market capitalization exceeding \$300,000,000 for a period of ten 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 Class A Units.

- vi) During the year ended December 31, 2016, Pure Multi-Family issued 2,142,913 Class A Units upon exercise of 2,142,913 Class A Unit purchase warrants (each a “Warrant”), at an exercise price of \$5.15 per Class A Unit, for gross proceeds of \$11,036,002 (year ended December 31, 2015 – \$283,250). Pure Multi-Family issued the Class A Units from treasury. At December 31, 2016, all outstanding Warrants had been exercised.
- vii) During the year ended December 31, 2016, Pure Multi-Family issued 1,769 Class A Units upon conversion of ten 6.5% convertible debentures, at a conversion price of \$5.65 per Class A Units (year ended December 31, 2015 - \$nil)). Pure Multi-Family issued the Class A Units from treasury.

	2016	2015
Class A Units outstanding, beginning of year	49,039,824	34,834,824
Class A Units issued, public offering	4,884,000	14,150,000
Class A Units issued, warrants exercised	2,142,913	55,000
Class A Units issued, debentures converted	1,769	-
Class A Units outstanding, end of year	56,068,506	49,039,824

As at December 31, 2016, Pure Multi-Family had 56,068,506 Class A Units and 200,000 Class B Units outstanding.

The capital of Pure Multi-Family is divided into Class A Units and Class B Units. The Class A Units are the subject of the public offerings described in Pure Multi-Family’s prospectuses dated July 3, 2012, October 12, 2012, May 1, 2013, July 22, 2014, May 4, 2015, December 7, 2015 and July 22, 2016, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). The Class B Units were subscribed for by the Managing GP on May 30, 2012. Except as set out in the LP Agreement, no Class A Unit or Class B Unit has any preference or priority over another.

All distributions will be made to the holders of the Class A Units and the Class B Units in accordance with the Class A Unit Percentage Interest and Class B Unit Percentage Interest, respectively. As described in the LP Agreement, prior to the Determination Event, distributions from Pure Multi-Family were made 95% to the Class A Units and 5% to the Class B Units. Commencing upon the occurrence of a Determination Event, the Class B Unitholders’ proportion of the total distribution fluctuate depending on the number of Class A Units outstanding.

Subject to the terms of the LP Agreement, the Class B Unitholders as a class are entitled to convert some or all of their Class B Units into Class A Units based on the Specified Ratio (as defined in the LP Agreement). Upon the Class B Unitholders exercising their Conversion Rights, they will own that number of Class A Units which is equal to the Class B Unit Percentage Interest (initially 5%) of all Class A Units outstanding after such conversion. Following the occurrence of the Determination Event, the number of Class A Units to which the Class B Unitholder is entitled upon exercising Conversion Rights becomes fixed, and future issuances of Class A Units will result in a decline in the Class B Unit Percentage Interest. Upon the Determination Event, which occurred on August 12, 2016, the number of Class A Units into which the Class B Units may be converted was fixed at 2,665,835 Class A Units.

The Conversion Rights may be exercised by the Managing GP at any time provided that:

- (a) Pure Multi-Family is legally entitled to comply with its obligations in connection with the exercise of the Conversion Rights; and
- (b) the Class B Unitholder who exercises the Conversion Rights complies with all applicable securities laws.

Upon the exercise of the Conversion Rights, the Class B Unitholders will receive 2,665,835 Class A Units. As such, pursuant to the terms of the LP Agreement, the Class B Unitholders will receive such number of Class A Units representing the same Class B Unit Percentage Interest in the net assets of Pure Multi-Family as was previously designated in the form of Class B Units. Subject to applicable laws, Pure Multi-Family will redesignate all the interests of Class B Unitholders into 2,665,835 Class A Units, effective as of the date that Pure Multi-Family receives a notice of exercise of the Conversion Rights. Upon such occurrence and the exercise of the Conversion Rights (as defined in



the LP Agreement) by the Class B Unitholders, the interests of Class B Unitholders will be redesignated as Class A Units. The Class B Units will not be required to be redeemed or cancelled.

Pursuant to the LP Agreement, the Managing GP or any affiliate or associate of the Managing GP, which is then the Class B Unitholder, has agreed that it will not dispose of more than one-third of the Class A Units received by it upon the conversion of the Class B Units in each consecutive twelve month period ending after the first anniversary of the earlier of: (i) the date a Determination Event occurs; and (ii) the date upon which the conversion is completed. This limitation will not apply where the Conversion Rights have been exercised in connection with a take-over bid or a sale of substantially all of Pure Multi-Family's assets.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Funds from Operations and Adjusted Funds from Operations**

Funds from operations ("FFO") is a non-IFRS measure, as described herein, and should not be construed as an alternative to net earnings or cash flows, as applicable, determined in accordance with IFRS. However, FFO is an operating performance measure which is widely used by the real estate industry. Pure Multi-Family's method of calculating FFO may differ from other companies and accordingly may not be comparable to similar measures presented by other companies.

The use of FFO, combined with the required IFRS presentations, has been presented for the purpose of improving the understanding of operating results in the real estate industry by the investing public and in making comparisons of the companies operating results more meaningful.

As FFO excludes fair value adjustments, amortization, IFRIC 21 adjustments, mortgage prepayment expenses, and gains or losses from property dispositions, it provides a performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes; acquisition activities; and interest costs, and provides a perspective of financial performance that is not immediately apparent from net earnings determined in accordance with IFRS.

FFO is a widely accepted supplemental measure of financial performance for real estate entities; however, it does not represent amounts available for capital programs, debt service obligations, commitments or uncertainties. FFO should not be interpreted as an indicator of cash generated from operating activities and is not indicative of cash available to fund operating expenditures, or for the payment of cash distributions. FFO is simply one of several measures of operating performance.

Adjusted funds from operations ("AFFO") is also a non-IFRS measure, as described herein, and should not be construed as an alternative to net earnings or cash flows, as applicable, determined in accordance with IFRS. However, AFFO is widely accepted as a performance measurement tool in the real estate industry. AFFO is calculated by adjusting the FFO for non-cash compensation items, accretion of debentures, and maintenance capital expenditures. Pure Multi-Family's method of calculating AFFO may differ from other companies and accordingly may not be comparable to similar measures presented by other companies.

The following table provides the analysis of Pure Multi-Family's FFO and AFFO performance:

<i>(\$000's, except percent and per unit basis)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Net income and comprehensive income	\$ 48,164	\$ 51,179	\$ 3,259	\$ 10,415
Adjustment:				
Amortization of transaction costs	654	967	194	154
Amortization of mark to market mortgage adjustments	-	(3,209)	-	-
Fair value adjustment to investment properties	(26,498)	(34,519)	1,042	(3,679)
(Gain) loss on disposal of investment property	1,485	(525)	1,485	(1,321)
Property tax adjustments on acquisition or sale	(2,943)	(718)	(1,202)	(684)
Mortgage prepayment expense	1,174	5,189	-	-
IFRIC 21 fair value adjustment to investment properties	-	-	2,782	1,912
IFRIC 21 property tax liability adjustment, net	-	-	(2,782)	(1,912)
<b>Funds from operations</b>	<b>\$ 22,036</b>	<b>\$ 18,364</b>	<b>\$ 4,778</b>	<b>\$ 4,885</b>
Maintenance capital provision <sup>(1)</sup>	(1,540)	(1,289)	(403)	(352)
Accretion of convertible debentures	314	288	81	74
<b>Adjusted funds from operations</b>	<b>\$ 20,810</b>	<b>\$ 17,363</b>	<b>\$ 4,456</b>	<b>\$ 4,607</b>
Weighted average number of units <i>(000's)</i>				
Class A Units	51,554	39,761	55,419	43,429
Class B Units	200	200	200	200
Diluted weighted average number of units <i>(000's)</i>				
Class A Units	55,739	43,832	55,497	47,980
Class B Units	200	200	200	200
FFO per unit - Basic				
Class A Units	\$ 0.41	\$ 0.44	\$ 0.08	\$ 0.11
Class B Units	5.34	4.59	1.10	1.22
FFO per unit - Diluted				
Class A Units	0.41	0.44	0.08	0.11
Class B Units	5.34	4.59	1.10	1.22
Payout Ratio on FFO	93.0%	86.1%	114.8%	89.3%
AFFO per unit - Basic				
Class A Units	\$ 0.38	\$ 0.42	\$ 0.08	\$ 0.10
Class B Units	5.04	4.34	1.02	1.15
AFFO per unit – Diluted				
Class A Units	0.38	0.41	0.08	0.10
Class B Units	5.04	4.34	1.02	1.15
Payout Ratio on AFFO	98.5%	91.1%	123.1%	94.7%

**Notes:**

<sup>(1)</sup> Based on an industry estimate of \$300 per residential unit per year. This maintenance capital provision is estimated to be incurred on the property portfolio as to sustain its current revenue rental income-generating potential into future periods.

The following is a reconciliation of the Pure Multi-Family's AFFO and FFO to cash provided by operations:

<i>(\$000's)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Adjusted funds from operations	<b>\$ 20,810</b>	\$ 17,363	<b>\$ 4,456</b>	\$ 4,607
Maintenance capital provision	<b>1,540</b>	1,289	<b>403</b>	352
Accretion of convertible debentures	<b>(314)</b>	(288)	<b>(81)</b>	(74)
Funds from operations	<b>22,036</b>	18,364	<b>4,778</b>	4,885
(Increase) decrease in accounts receivable	<b>(1,168)</b>	(325)	<b>(542)</b>	315
Increase in prepaid expenses	<b>(413)</b>	(369)	<b>(1,284)</b>	(451)
Increase (decrease) in rental deposits	<b>163</b>	202	<b>(146)</b>	(90)
Increase (decrease) in accounts payable and accrued liabilities	<b>1,503</b>	(1,676)	<b>(9,031)</b>	(4,472)
Increase (decrease) in unearned revenue	<b>168</b>	(94)	<b>(90)</b>	233
IFRIC 21 property tax liability adjustment, net	-	-	<b>2,782</b>	1,912
Accretion of convertible debentures	<b>314</b>	288	<b>81</b>	74
Interest income	<b>(38)</b>	(14)	<b>(11)</b>	(4)
Interest expense	<b>18,831</b>	17,952	<b>4,677</b>	3,753
Mortgage prepayment expense	<b>(1,174)</b>	(5,189)	-	-
Distributions to subsidiary's preferred unitholders	<b>16</b>	16	<b>4</b>	4
Net cash provided from operating activities	<b>\$ 40,238</b>	\$ 29,155	<b>\$ 1,218</b>	\$ 6,159

### Capital Resources

Cash generated by investment properties represents the primary source of funds to fund total distributions to unitholders of \$20,504,317 for the year ended December 31, 2016 (year ended December 31, 2015 - \$15,810,293).

There are no significant working capital requirements that currently exist and there are no pending items that may affect liquidity. There are no legal or practical restrictions on the ability of Pure Multi-Family's properties to transfer funds to Pure Multi-Family.

Proceeds from the issuance of Class A Units, Warrants, Convertible Debentures and conventional mortgage financing have been used mainly to fund property acquisitions. Pure Multi-Family intends to refinance any mortgages which mature within six months of maturity.

Management expects to be able to meet all of Pure Multi-Family's ongoing obligations and to finance future growth through cash generated by operations, the issuance of securities and by using conventional mortgages. Pure Multi-Family is not in default or arrears on any of its obligations including distribution payments, interest or principal payments on debt.

**Distributed Cash**

In accordance with National Instrument 41-201, Pure Multi-Family is required to provide additional disclosure relating to cash distributions.

For the year ended December 31, 2016, cash provided from operating activities, less interest paid (“adjusted cash provided from (used by) operating activities”), was more than cash distributions declared and for the three months ended December 31, 2016, adjusted cash provided from (used by) operating activities, was less than cash distributions declared, which was primarily due to the decrease in non-cash working capital items. For the three months and year ended December 31, 2015, adjusted cash provided from (used by) operating activities, was less than cash distributions declared due to a non-recurring expense in the amount of \$5,188,836, incurred by Pure Multi-Family on the mortgage refinancing of Prairie Creek Villas. Management expects that adjusted cash provided from (used by) operating activities, on an annual basis, will exceed cash distributions declared.

<i>(\$000's)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Cash provided from operating activities	\$ 40,238	\$ 29,155	\$ 1,218	\$ 6,159
Less interest paid	<b>(18,651)</b>	(17,674)	<b>(4,329)</b>	(3,118)
Adjusted cash provided from (used by) operating activities	<b>21,587</b>	11,481	<b>(3,111)</b>	3,041
Actual cash distributions declared	<b>20,504</b>	15,810	<b>5,487</b>	4,362
Surplus (shortfall) of cash from operating activities over cash distributions declared	<b>\$ 1,083</b>	\$ (4,329)	<b>\$ (8,598)</b>	\$ (1,321)

For the years ended December 31, 2016 and 2015 and three months ended December 31, 2015, net income was greater than cash distributions declared. For the three months ended December 31, 2016, net income was less than cash distributions declared primarily due to the combination of the timing and use of excess cash on the balance sheet held during the current period resulting from the disposal of investment properties and equity financings, the outstanding property tax appeals at December 31, 2016 and the acquisition of investment properties which were going through their stabilization period during the current period. Management expects annual net income to continue to exceed cash distributions declared.

<i>(\$000's)</i>	<b>For the year ended December 31, 2016</b>	For the year ended December 31, 2015	<b>For the three months ended December 31, 2016</b>	For the three months ended December 31, 2015
Net income	\$ 48,164	\$ 51,179	\$ 3,259	\$ 10,415
Actual cash distributions declared	<b>20,504</b>	15,810	<b>5,487</b>	4,362
Surplus (shortfall) of net income over cash distributions declared	<b>\$ 27,660</b>	\$ 35,369	<b>\$ (2,228)</b>	\$ 6,053

**CAPITAL STRUCTURE**

Pure Multi-Family defines capital as the aggregate of partners’ capital, preferred units of subsidiary and long term debt. Pure Multi-Family’s objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the initial offering prospectus; complies with existing debt covenants, if any; funds its business strategies; and builds long-term unitholders’ value. Pure Multi-Family’s capital structure is approved by the board of directors of the Governing GP through its periodic reviews.

The LP Agreement provides for a maximum indebtedness (or “loan”) 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 55.2% as at December 31, 2016 (December 31, 2015 – 54.6%).

Maintaining a relatively low indebtedness ratio is important in current economic conditions because it allows Pure Multi-Family to access additional financing, if necessary.

The LP Agreement allows the board of directors of the Governing GP, at their discretion, to allocate to the unitholders in each year all or a portion of Pure Multi-Family’s income for the year, as calculated in accordance with the Tax Act, after all permitted deductions under the Tax Act have been taken. The board of directors of the Governing GP also reviews the cash distributions paid to the unitholders on a regular basis. The total distributions declared to Class A unitholders during the year ended December 31, 2016 was \$19,514,630 (year ended December 31, 2015 – \$15,019,778). The total distributions declared to Class B unitholders during the year ended December 31, 2016 was \$989,687 (year ended December 31, 2015 – \$790,515).

The capital structure consisted of the following components at December 31, 2016 and December 31, 2015:

<i>(\$000's)</i>	<b>December 31, 2016</b>	December 31, 2015	Change
Capital			
Mortgages payable	\$ 447,827	\$ 354,202	\$ 93,625
Convertible debentures	20,793	20,320	473
Preferred units of subsidiary	125	125	-
Partners’ capital	370,162	304,274	65,888
<b>Total Capital</b>	<b>\$ 838,907</b>	<b>\$ 678,921</b>	<b>\$ 159,986</b>

The total capital of Pure Multi-Family increased from December 31, 2015 to December 31, 2016 primarily due to the new mortgages obtained on the three investment property acquisitions, the July 2016 Offering, the exercise of the Warrants and net income earned from operations. This was partially offset by the repayment of mortgages payable and distributions declared to the unitholders.

## FINANCIAL INSTRUMENTS

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 values due to the short-term nature of the instruments.

The fair values of the mortgages payable and preferred units of subsidiary 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 has been calculated using quoted prices in active markets.

<i>(\$000's)</i>	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable	\$ 447,827	\$ 440,116	\$ 354,202	\$ 366,040
Preferred units of subsidiary	125	125	125	125
Convertible debentures	20,793	25,151	20,320	23,000

**OFF-BALANCE SHEET ITEMS**

Pure Multi-Family does not have any off-balance sheet items.

**SECTION III****SUMMARY OF SELECTED ANNUAL INFORMATION**

<i>Pure Multi's interest</i> <i>(\$000's, except per unit basis)</i>	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014
Rental revenue	\$ 76,414	\$ 58,876	\$ 48,475
Net rental income	41,692	32,696	26,112
Net income and comprehensive income	48,164	51,179	41,949
Total assets	853,372	691,153	492,791
Total non-current assets	778,547	613,682	468,518
Total liabilities	483,210	386,879	294,993
Total non-current liabilities	465,138	372,776	275,128
Distributions	20,504	15,810	11,919
Per Class A Unit	\$ 0.38	\$ 0.38	\$ 0.38
Per Class B Unit	\$ 4.95	\$ 3.95	\$ 2.98
Basic net income per Class A Unit	\$ 0.89	\$ 1.22	\$ 1.35
Basic net income per Class B Unit	\$ 11.67	\$ 12.79	\$ 10.49

Pure Multi-Family's total assets and liabilities have increased significantly during the year ended December 31, 2016 due to investment property acquisitions and their related mortgages, the issuance of equity, and fair value increases of its investment properties. As at December 31, 2016, Pure Multi held 15 investment properties comprising 5,229 residential units and 4,774,758 gross rentable square feet, compared to 14 investment properties with 4,437 residential units and 4,052,934 gross rentable square feet as at December 31, 2015.

Total rental revenue from the investment properties totaled \$76.4 million for the year ended December 31, 2016 compared to \$58.9 million for the year ended December 31, 2015. This increase is reflective of the increase in the number of days the investment properties were operating during 2016 compared to 2015, due to the timing of acquisitions and dispositions, coupled with the organic growth in rental revenue achieved at the investment properties operated during both periods.

#### SUMMARY OF QUARTERLY RESULTS

During the three months ended December 31, 2016, based on Pure Multi's interest:

- Total assets decreased to \$853,371,629 from \$868,683,074 as at September 30, 2016. This decrease was primarily due to the sale of the investment properties during the current quarter, as proceeds from these sales were used to fund the repayment of the Livingston mortgage obligation and other related selling costs of the properties. As at December 31, 2016, Pure Multi-Family had cash and cash equivalents of \$20,603,046 and investment properties of \$778,547,182, compared to \$24,984,620 and \$834,464,951, respectively, as at September 30, 2016.
- Total liabilities decreased to \$483,209,572 from \$505,917,300 as at September 30, 2016. This decrease was primarily due to a decrease in mortgages payable, including the repayment of the Livingston mortgage, and property taxes payable.
- Partners' capital increased to \$370,162,057 from \$362,765,774 as at September 30, 2016. This increase was a result of receipts from the exercise of Warrants and net income earned by Pure Multi-Family during the period, partially being offset by the distributions declared to unitholders.
- Pure Multi-Family earned rental revenue of \$20,115,884 from investment properties (three months ended December 31, 2015 - \$16,547,369). These properties incurred operating expenses of \$9,844,692, resulting in net rental income of \$10,271,192 during the three months ended December 31, 2016 (three months ended December 31, 2015 - \$7,437,439 and \$9,109,930, respectively). The increase in rental revenue, operating expenses and net rental income, compared to the prior year, are primarily attributable to Pure Multi-Family operating additional investment properties coupled with organic rental revenue growth, which was partially offset by an increase in property tax expense.
- Pure Multi-Family incurred interest expense of \$4,952,174 and distributions to subsidiary's preferred unitholders of \$3,906 (three months ended December 31, 2015 - \$3,980,708 and \$3,906, respectively). This resulted in net finance expenses of \$4,954,383 during the three months ended December 31, 2016 (three months ended December 31, 2015 - \$3,980,477). The increase in net finance expense was primarily due to the additional mortgage interest costs during the period.
- Pure Multi-Family incurred general and administrative expenses of \$567,793, fair value adjustment gain to investment properties of \$159,519 and franchise tax expense of \$101,969 (three months ended December 31, 2015 - \$277,740, \$4,362,671 and \$121,654, respectively). General and administrative expenses increased primarily due to the internalization of management on September 1, 2016.
- Pure Multi had net income of \$3,259,020 (three months ended December 31, 2015 - \$10,414,868), as a result of the above transactions.

<i>Pure Multi's interest</i> Quarter ended (\$000's, except per unit amounts)	<b>December 31, 2016</b>	September 30, 2016	June 30, 2016	March 31, 2016
Rental revenue	\$ 20,116	\$ 19,864	\$ 19,369	\$ 17,066
Operating expenses	9,845	9,158	8,400	7,320
Net rental income	10,271	10,706	10,969	9,746
Interest expense	(4,952)	(5,996)	(4,705)	(4,146)
General and administrative expenses	(568)	(322)	(282)	(268)
Fair value adjustments to investment properties	160	9,754	8,264	11,262
Net income and comprehensive income	3,259	14,163	14,248	16,494
Basic net income per unit				
Class A Units	0.06	0.26	0.28	0.32
Class B Units	0.75	3.42	3.56	4.12

<i>Pure Multi's interest</i> Quarter ended (\$000's, except per unit amounts)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Rental revenue	\$ 16,547	\$ 15,378	\$ 13,902	\$ 13,049
Operating expenses	7,437	6,950	6,087	5,706
Net rental income	9,110	8,428	7,815	7,343
Interest expense	(3,981)	(6,117)	(2,980)	(2,921)
General and administrative expenses	(278)	(183)	(261)	(192)
Fair value adjustments to investment properties	4,363	10,340	9,401	11,134
Net income and comprehensive income	10,415	11,583	13,896	15,285
Basic net income per unit				
Class A Units	0.23	0.26	0.34	0.42
Class B Units	2.60	2.90	3.47	3.82

As at (\$000's)	<b>December 31, 2016</b>	September 30, 2016	June 30, 2016	March 31, 2016
Total assets	\$ 853,372	\$ 868,683	\$ 793,016	\$ 777,579
Total liabilities	483,210	505,917	467,476	461,650
Partners' capital	370,162	362,766	325,540	315,929
Investment properties	778,547	834,465	752,412	743,132
Mortgages payable	447,827	463,837	430,518	431,106

As at (\$000's)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total assets	\$ 691,153	\$ 654,499	\$ 565,553	\$ 482,813
Total liabilities	386,879	393,863	312,382	273,168
Partners' capital	304,274	260,636	253,171	209,645
Investment properties	613,682	629,035	517,148	452,568
Mortgages payable	354,202	354,455	276,338	240,577



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## SECTION IV

### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions during the reporting period that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Pure Multi-Family's significant accounting policies are described in note 3 to the December 31, 2016 audited consolidated financial statements, available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Pure Multi-Family's website at [www.puremultifamily.com](http://www.puremultifamily.com).

The policies that are most subject to estimation and judgment are outlined below.

#### 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 to estimate the fair value of the investment properties.

### ACCOUNTING STANDARDS NOT YET ADOPTED

Pure Multi-Family's significant accounting policies are described in note 3 to the December 31, 2016 audited consolidated financial statements, available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Pure Multi-Family's website at [www.puremultifamily.com](http://www.puremultifamily.com).

#### Standards issued but not yet effective

(a) IFRS 9 - Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9, Financial Instruments ("IFRS 9 (2014)").

The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

Pure Multi-Family intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. Pure Multi-Family does not expect the standard to have a material impact on the consolidated financial statements.

(b) IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers, and SIC 31, Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts that fall in the scope of other IFRSs.

Pure Multi-Family intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. Pure Multi-Family does not expect the standard to have a material impact on the consolidated financial statements.

(c) IFRS 16 – 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 intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. Pure Multi-Family does not expect the standard to have a material impact on the consolidated financial statements.

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## SECTION V

### RISKS AND UNCERTAINTIES

All income producing property investments are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. An example of general market conditions would be the availability of long-term financing whereas local conditions would relate to factors affecting specific properties in a particular geographic location, such as changes in market lease rates as a result of an over-supply of space or a reduction in demand for real estate. Management attempts to manage these risks by acquiring investment properties in various cities with strong economic and growth indicators, and engaging property management groups with local knowledge and experience.

The board of directors of the Governing GP 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 is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

#### Interest Rate and Financial 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 financial 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. Pure Multi-Family minimizes interest rate risk by obtaining long-term, fixed rate mortgages whenever possible. It targets a conservative ratio of debt to gross book value within the range of 55% to 65% and is restricted under the LP Agreement to a maximum of 70%. As Pure Multi-Family does not have any mortgages payable maturing prior to 2019 and all of the mortgages payable bear interest at fixed rates, Pure Multi-Family does not face significant interest rate risk in the context of its outstanding mortgages payable.

The profile of Pure Multi-Family's interest-bearing financial instruments was:

	Face Value	
	December 31, 2016	December 31, 2015
<b>Fixed rate instruments</b>		
Mortgages payable	\$ 451,426,743	\$ 357,075,437
Convertible debentures	22,990,000	23,000,000
Preferred units of subsidiary	125,000	125,000
	<b>\$ 474,541,743</b>	<b>\$ 380,200,437</b>

**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, through the US REIT, minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process. In addition, there is no concentration of credit risk due to the large number of individual tenants.

**Currency Risk**

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

**Lease Rollover Risk**

Lease rollover risk arises from the possibility that Pure Multi-Family may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. All leases of Pure Multi-Family's investment properties have lease terms of one year or less. Typically, Pure Multi-Family instructs its property managers to initiate the renewal process before the existing leases expire. For any vacant spaces, Pure Multi-Family uses qualified leasing agents to actively market the spaces.

**Class A Unit Prices**

It is not possible to predict the price at which Class A Units will trade and there can be no assurance that an active trading market for the Class A Units will be sustained. The Class A Units will not necessarily trade at values determined solely by reference to the value of the investment properties of Pure Multi-Family. Accordingly, the Class A Units may trade at a premium or discount to the value implied by the value of Pure Multi-Family's investment properties. The market price for the Class A Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond Pure Multi-Family's control.

**Environmental Risk**

As an owner of real property, Pure Multi-Family is subject to various federal, state and municipal laws relating to environmental matters.

Management carries out environmental inspections, by qualified environmental consultants, before a property is purchased. Management is not aware of any material non-compliance with environmental laws with respect to the current portfolio and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with the current portfolio.

**Liquidity Risk**

Real 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 a real property investment, the proceeds to Pure Multi-Family might be significantly less than the aggregate carrying value of such property.

Liquidity risk is the risk that Pure Multi-Family will not be able to meet its financial obligations as they fall due. 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:

	2017	2018	2019	2020	2021 and thereafter
Mortgages payable (principal and interest)	\$ 20,488,618	\$ 21,197,592	\$ 82,565,479	\$ 21,235,763	\$ 452,579,823
Convertible debentures payable (principal and interest)	1,494,350	1,494,350	1,494,350	24,110,763	
Preferred units of subsidiary (principal and interest)	15,625	15,625	15,625	15,625	140,625
Accounts payable and accrued liabilities	12,287,387	-	-	-	-
<b>Total</b>	<b>\$ 34,285,980</b>	<b>\$ 22,707,567</b>	<b>\$ 84,075,454</b>	<b>\$ 45,362,151</b>	<b>\$ 452,720,448</b>

### Tax Risk

The US REIT currently qualifies as a real estate investment trust for U.S. federal income tax purposes. Thus, the US REIT is not subject to U.S. federal income tax. If the US REIT does not qualify or ceases to qualify as a REIT under the REIT exception, adverse consequences could arise including a material reduction of distributions to unitholders and Pure Multi-Family.

There can be no assurance that Canadian or U.S. federal income tax laws regarding the treatment of REITs will not be changed, or that administrative and assessment practices of the Canada Revenue Agency or IRS will not develop in a manner which adversely affects Pure Multi-Family or its unitholders.

### Regulatory Administration Risk

The new administration in the United States may bring about uncertainty in regulatory, tax and economic conditions or in laws and policies governing foreign trade, development and investment that could potentially cause significant volatility in global financial markets, including in global currency and debt markets. Such volatility could cause a change in economic activities in the United States, Canada or globally, which could affect Pure Multi-Family's operating results and growth prospects, the extent of which may not be identifiable as of the date hereof.

### 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 \$989,687 during the year ended December 31, 2016 (\$790,515 during the year ended December 31, 2015). Included in accounts payable and accrued liabilities at December 31, 2016 was \$nil (December 31, 2015 - \$nil) payable to the Managing GP.

#### *Tipton Asset Group, Inc.*

Sunstone Multi-Family Management Inc. provides property management services to the US REIT pursuant to a Property Management Agreement, dated May 9, 2012, as amended July 9, 2012. Sunstone Multi-Family Management Inc. subcontracted Tipton Asset Group, Inc. ("Tipton") as the property manager for Pure Multi-Family. Pure Multi-Family is related to Tipton by virtue of having an officer and director in common with a subsidiary of Pure Multi-Family (Bryan Kerns). Tipton charged property management fees in the amount of \$2,301,288 during the year ended December 31, 2016 (\$1,764,027 during the year ended December 31, 2015). Included in accounts payable and accrued liabilities at December 31, 2016 was \$nil (December 31, 2015 - \$nil) payable to Tipton.

### *Asset Management Agreement*

Effective September 1, 2016, Pure Multi-Family terminated its Asset Management Agreement with the Managing GP, as permitted upon the triggering of the Determination Event. No penalties were incurred upon termination of the Asset Management Agreement. As part of the internalization of asset management, Pure Multi-Family is responsible for rent, salary, office costs and other general management costs.

Prior to this time, the Managing GP, pursuant to the Asset Management Agreement, provided asset management, administrative and reporting services to Pure Multi-Family as its managing general partner at no cost. The Asset Management Agreement also required the Managing GP to provide Pure Multi-Family, at no cost, with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities. In lieu of the fees typically associated with a third party asset management agreement, the Managing GP was entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs, but excluding personnel costs) that it incurred providing asset management services to Pure Multi-Family.

### *Compensation*

The directors of the Governing GP who are not affiliated with or employees of the Managing GP receive annual compensation, in addition to fees for attending meetings of the directors or any committee, and acting as committee chairs and members. As well, the Governing GP indirectly reimburses such directors for any out of pocket expenses, including out of pocket expenses for attending meetings. Pure Multi-Family reimburses the Governing GP for such amounts. In addition, Pure Multi-Family has obtained insurance coverage for such directors. Compensation is reviewed on an annual basis, giving consideration to Pure Multi-Family's growth and the extent of its portfolio. The amount incurred during the year ended December 31, 2016 was \$301,403 (year ended December 31, 2015 - \$210,293).

As part of the internalization of asset management, as described under "*Related Party Transactions - Asset Management Agreement*", certain key personnel of the Managing GP became employees of a subsidiary of Pure Multi-Family effective September 1, 2016. For the year ended December 31, 2016, corporate compensation, including salaries, bonuses, and other short term employee benefits, incurred by Pure Multi-Family and recorded in general and administrative expense was \$251,810 (December 31, 2015 - \$nil).

### **OUTSTANDING UNIT DATA**

Except as set out in the LP Agreement, no Class A Unit or Class B Unit has any preference or priority over another. The Class A Units and the Class B Units have voting rights as set out in the LP Agreement.

As at March 8, 2017, the following of Pure Multi-Family's securities were outstanding:

- (a) 200,000 Class B Units. Pursuant to the LP Agreement, the Class B Unitholders as a class are entitled to convert some or all of their Class B Units into a maximum of 2,665,835 Class A Units;
- (b) 56,068,506 Class A Units; and
- (c) 22,990 Convertible Debentures. The Convertible Debentures are convertible at the option of the holder and redeemable by Pure Multi-Family in accordance with the terms of the trust indenture dated August 7, 2013. See "Financial Condition – Convertible Debentures".

**SECTION VI****SUBSEQUENT EVENTS**

- a) On January 25, 2017, Pure Multi-Family, through the US REIT, acquired a multi-family apartment community, known as Pure Creekside at Onion Creek, located in Austin, Texas, for a purchase price of \$40,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash on hand from the sale of Livingston and proceeds from a new mortgage financing.
- b) On January 27, 2017, Pure Multi-Family, through the US REIT, acquired a multi-family apartment community, known as Lansbrook at Twin Creeks, located in Dallas, Texas, for a purchase price of \$40,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash on hand from the sale of Fairways at Prestonwood and proceeds from a new mortgage financing.

**ADDITIONAL INFORMATION**

Additional information relating to Pure Multi-Family is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Pure Multi-Family's website at [www.puremultifamily.com](http://www.puremultifamily.com).

**TRADING SYMBOLS**

TSX Venture Exchange: RUF.U, RUF.UN, RUF.DB.U

OTCQX: PMULF

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The Preserve at Arbor Hills - Dallas, TX



**CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2016  
*EXPRESSED IN UNITED STATES DOLLARS*



*KPMG LLP  
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Canada  
Telephone (604) 691-3000  
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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Pure Multi-Family REIT LP, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of partners' capital, income and comprehensive income and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pure Multi-Family REIT LP as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Professional Accountants

March 8, 2017  
Vancouver, Canada

**Pure Multi-Family REIT LP**  
**Consolidated Statement of Financial Position**  
**Expressed in United States dollars**

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment properties (note 4)	\$ 778,547,182	\$ 613,681,875
<b>Current assets</b>		
Prepaid expenses	1,869,048	1,456,482
Mortgage reserve fund (note 5)	5,193,406	6,570,597
Amounts receivable	1,979,517	811,420
Cash held in trust (note 6)	45,179,430	22,705,731
Cash and cash equivalents	20,603,046	45,926,661
	<b>74,824,447</b>	<b>77,470,891</b>
<b>TOTAL ASSETS</b>	<b>\$ 853,371,629</b>	<b>\$ 691,152,766</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Mortgages payable (note 7)	\$ 444,220,585	\$ 352,331,209
Convertible debentures (note 8)	20,792,902	20,319,890
Preferred units of subsidiary (note 9)	125,000	125,000
	<b>465,138,487</b>	<b>372,776,099</b>
<b>Current liabilities</b>		
Mortgages payable – current portion (note 7)	3,605,966	1,870,858
Rental deposits	1,167,897	1,004,731
Unearned revenue	984,835	816,880
Accounts payable and accrued liabilities	12,312,387	10,409,972
	<b>18,071,085</b>	<b>14,102,441</b>
<b>TOTAL LIABILITIES</b>	<b>483,209,572</b>	<b>386,878,540</b>
<b>PARTNERS' CAPITAL</b> (note 10)	<b>370,162,057</b>	<b>304,274,226</b>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ 853,371,629</b>	<b>\$ 691,152,766</b>

Nature of business and basis of presentation (notes 1 and 2)  
Subsequent events (note 19)

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

**Pure Multi-Family REIT LP**  
**Consolidated Statement of Partners' Capital**  
**Expressed in United States dollars**

	Limited Partners Class A	Limited Partners Class B	General Partner	Other Equity Items (note 10)	Accumulated Earnings	Total
Balance, December 31, 2015	\$ 230,277,915	\$ 1,000,000	\$ 20	\$ 2,665,568	\$ 70,330,723	\$ 304,274,226
Issuance of units	39,639,485	-	-	-	-	39,639,485
Conversion of warrants, net of costs	680,139	-	-	(680,139)	-	-
Offering costs	(1,420,147)	-	-	-	-	(1,420,147)
Debenture conversion	10,000	-	-	(919)	-	9,081
Distributions to limited partners	-	-	-	-	(20,504,317)	(20,504,317)
Net income for the period	-	-	-	-	48,163,729	48,163,729
<b>Balance, December 31, 2016</b>	<b>\$ 269,187,392</b>	<b>\$ 1,000,000</b>	<b>\$ 20</b>	<b>\$ 1,984,510</b>	<b>\$ 97,990,135</b>	<b>\$ 370,162,057</b>

	Limited Partners Class A	Limited Partners Class B	General Partner	Other Equity Items (note 10)	Accumulated Earnings	Total
Balance, December 31, 2014	\$ 159,153,127	\$ 1,000,000	\$ 20	\$ 2,683,024	\$ 34,961,636	\$ 197,797,807
Issuance of units	74,623,250	-	-	-	-	74,623,250
Conversion of warrants, net of costs	17,456	-	-	(17,456)	-	-
Offering costs	(3,515,918)	-	-	-	-	(3,515,918)
Distributions to limited partners	-	-	-	-	(15,810,293)	(15,810,293)
Net income for the period	-	-	-	-	51,179,380	51,179,380
<b>Balance, December 31, 2015</b>	<b>\$ 230,277,915</b>	<b>\$ 1,000,000</b>	<b>\$ 20</b>	<b>\$ 2,665,568</b>	<b>\$ 70,330,723</b>	<b>\$ 304,274,226</b>

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

**Pure Multi-Family REIT LP**  
**Consolidated Statement of Income and Comprehensive Income**  
Expressed in United States dollars

Year ended	December 31, 2016	December 31, 2015
<b>REVENUES</b>		
Rental	\$ 76,414,359	\$ 58,875,799
<b>OPERATING EXPENSES</b>		
Insurance	1,587,983	1,542,422
Property management	2,301,288	1,764,027
Property taxes	11,185,461	8,500,250
Property operating expenses	16,705,345	13,655,094
	<b>31,780,077</b>	<b>25,461,793</b>
<b>NET RENTAL INCOME</b>	<b>44,634,282</b>	<b>33,414,006</b>
<b>NET FINANCE INCOME (EXPENSES)</b>		
Interest income	37,980	14,202
Interest expense (note 11)	(19,799,027)	(15,998,065)
Distributions to subsidiary's preferred unitholders	(15,625)	(15,625)
	<b>(19,776,672)</b>	<b>(15,999,488)</b>
<b>NET OTHER INCOME (EXPENSES)</b>		
Other income	18,000	12,424
General and administrative	(1,438,416)	(913,588)
Fair value adjustments to investment properties (note 4)	26,498,121	34,519,113
Gain (loss) on disposal of investment properties (note 4)	(1,484,345)	525,088
Franchise taxes	(287,241)	(378,175)
	<b>23,306,119</b>	<b>33,764,862</b>
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>\$ 48,163,729</b>	<b>\$ 51,179,380</b>
<b>Earnings per Class A unit</b>		
Basic	\$ 0.89	\$ 1.22
Diluted (note 18)	\$ 0.86	\$ 1.15
<b>Weighted average number of Class A units</b>		
Basic	51,553,540	39,761,071
Diluted (note 18)	55,739,002	43,831,867
<b>Earnings per Class B unit</b>		
Basic and diluted	\$ 11.67	\$ 12.79
<b>Weighted average number of Class B units</b>		
Basic and diluted	200,000	200,000

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

**Pure Multi-Family REIT LP**  
**Consolidated Statement of Cash Flows**  
**Expressed in United States dollars**

Year ended	December 31, 2016	December 31, 2015
<b>Cash provided by (used in)</b>		
<b>OPERATIONS</b>		
Net income	\$ 48,163,729	\$ 51,179,380
Items not involving cash:		
Amortization of transaction costs and accretion of convertible debentures	968,404	1,255,192
Amortization of mark to market mortgage adjustment	-	(3,209,439)
Fair value adjustments to investment properties (note 4)	(26,498,121)	(34,519,113)
Property tax adjustments on acquisitions	(3,067,594)	(1,479,908)
Property tax adjustments on sale	124,976	761,686
(Gain) loss on disposal of investment properties (note 4)	1,484,345	(525,088)
Interest income	(37,980)	(14,202)
Interest expense	18,830,623	17,952,312
Distributions to subsidiary's preferred unitholders	15,625	15,625
Net change in non-cash working capital items (note 12)	253,441	(2,261,582)
	<b>40,237,448</b>	<b>29,154,863</b>
<b>INVESTING</b>		
Acquisitions of investment properties	(188,591,771)	(172,850,553)
Capital additions to investment properties	(3,932,797)	(2,920,095)
Proceeds received on disposal of investment properties	57,100,000	51,901,950
Cash held in trust (note 6)	(22,473,699)	(22,705,731)
Disposition costs on disposal of investment properties	(1,484,345)	(1,430,727)
Interest received	37,980	14,202
	<b>(159,344,632)</b>	<b>(147,990,954)</b>
<b>FINANCING</b>		
Distribution paid to subsidiary's preferred unitholders	(15,625)	(15,625)
Distributions paid to limited partners	(20,284,669)	(15,071,502)
Interest paid	(18,650,840)	(17,674,432)
Mortgage proceeds received	121,000,000	158,600,000
Funds from mortgage reserve fund	1,377,191	(361,956)
Payment of finance transaction costs	(1,213,132)	(1,564,383)
Repayment of mortgages payable	(26,648,694)	(41,200,282)
Proceeds from the issuance of limited partner units	39,639,485	74,623,250
Unit offering costs	(1,420,147)	(3,515,918)
Repayment of bank credit facility	-	(5,546,485)
	<b>93,783,569</b>	<b>148,272,667</b>
<b>Net change in cash and cash equivalents</b>	<b>(25,323,615)</b>	<b>29,436,576</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>45,926,661</b>	<b>16,490,085</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 20,603,046</b>	<b>\$ 45,926,661</b>

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

**Pure Multi-Family REIT LP**  
**Consolidated Statement of Cash Flows (continued)**  
**Expressed in United States dollars**

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**Supplemental cash flow information:**

Non-cash financing and investing activity:

Distributions to the limited partners included in accounts payable and accrued liabilities	\$	1,752,143	\$	1,532,495
Mortgages assumed by purchaser		-		15,898,050

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



**1) PURE MULTI-FAMILY REIT LP INFORMATION**

Pure Multi-Family REIT LP (“Pure Multi-Family”) is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in multi-family real estate properties in the United States. Pure Multi-Family was established by Pure Multifamily Management Limited Partnership (the “Managing GP”), its managing general partner, and Pure Multi-Family REIT (GP) Inc. (the “Governing GP”), its governing general partner, pursuant to the terms of the Limited Partnership Agreement (“LP Agreement”). Pure Multi-Family’s head office and address for service is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2. A copy of the Limited Partnership Agreement can be obtained from Pure Multi-Family or on SEDAR at [www.sedar.com](http://www.sedar.com).

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

- a) acquiring Common Shares and a Series A Preferred Share of Pure US Apartments REIT Inc. (the “US REIT”);
- b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of Pure Multi-Family and making distributions to Unitholders;
- c) 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, 2016 were authorized for issue by the Board of Directors of the Governing GP (the “Board”) on March 8, 2017.

**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(R).

***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.

**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(R).

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***

At each reporting date, Pure Multi-Family assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense.

***G. Financial instruments***

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. 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.

Pure Multi-Family classifies its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Amounts receivable	Loans and receivables
Mortgage reserve fund	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Convertible debentures	Other financial liabilities
Preferred units of subsidiary	Other financial liabilities
Mortgages payable	Other financial liabilities

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost using the effective interest rate method.

***H. Cash and cash equivalents***

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

***I. Cash held in trust***

Cash held in trust consists of funds held in trust and refundable deposits, held pursuant to agreements of purchase and sale, which are to be used for the acquisition of investment properties.

***J. 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.

***K. 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.

***L. 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.

***M. 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.

***N. Finance income (expenses)***

Finance income (expenses) consists of interest income, mortgage interest, credit facility interest, convertible debenture interest, distributions to preferred unitholders and preferred unit offering costs. 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.

***O. Taxes***

***a. 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, including any applicable alternative minimum tax. 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.

*b. Texas Franchise Tax*

Texas Franchise Tax applicable to Pure Multi-Family, for its investment properties operated in Texas during the year ended December 31, 2016, 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 of \$287,241 for the year ended December 31, 2016 (year ended December 31, 2015 - \$378,175), which is included within other expenses in the consolidated statement of income and comprehensive income.

**P. 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.

**Q. 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.

**R. Significant accounting judgments and estimates**

Judgments, 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.

*a. Judgments*

In the process of applying Pure Multi-Family's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements:

*(i) Asset acquisitions*

Pure Multi-Family, through the US REIT, acquires individual real estate properties. At the time of acquisition, Pure Multi-Family considers whether or not the acquisition represents the acquisition of a business. Pure Multi-Family accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

All acquisitions to date by Pure Multi-Family have been determined to be asset acquisitions.

*b. Estimates*

The significant areas of estimation include the following:

*(i) 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.

***S. Accounting standards not yet adopted***

*a. Financial instruments: classification and measurement*

On July 24, 2014 the IASB issued the complete IFRS 9, *Financial Instruments* (“IFRS 9 (2014)”).

The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

Pure Multi-Family intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. Pure Multi-Family does not expect the standard to have a material impact on the consolidated financial statements.

*b. Revenue recognition*

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts that fall in the scope of other IFRSs.

Pure Multi-Family intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. Pure Multi-Family does not expect the standard to have a material impact on the consolidated financial statements.

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



**4. INVESTMENT PROPERTIES**

	2016
Balance, at December 31, 2015	\$ 613,681,875
Acquisitions	188,591,771
Dispositions	(57,100,000)
Property tax adjustments on acquisitions and dispositions	2,942,618
Capital additions	3,932,797
Fair value adjustments to investment properties	26,498,121
<b>Balance, December 31, 2016</b>	<b>\$ 778,547,182</b>
	2015
Balance, at December 31, 2014	\$ 468,518,077
Acquisitions	172,850,553
Dispositions	(65,844,185)
Property tax adjustments on acquisitions and dispositions	718,222
Capital additions	2,920,095
Fair value adjustments to investment properties	34,519,113
<b>Balance, December 31, 2015</b>	<b>\$ 613,681,875</b>

On March 1, 2016, Pure Multi-Family, through the US REIT, acquired Pure View at TPC (“Pure View”), a multi-family apartment community, located in San Antonio, Texas, for a purchase price of \$61,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash and a new 15-year mortgage in the amount of \$39,000,000.

On March 1, 2016, Pure Multi-Family, through the US REIT, acquired Pure Estates at TPC (“Pure Estates”), a multi-family apartment community, located in San Antonio, Texas, for a purchase price of \$56,500,000, plus standard closing costs and adjustments. This acquisition was financed with cash and a new 8-year mortgage in the amount of \$39,000,000.

On September 14, 2016, Pure Multi-Family, through the US REIT, acquired The Avenue on Fairmount Apartments (“Avenue”), a multi-family apartment community, located in Dallas, Texas, for a purchase price of \$71,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash and a new 12-year mortgage in the amount of \$43,000,000.

On November 4, 2016, Pure Multi-Family, through the US REIT, sold Livingston Apartments (“Livingston”), a multi-family apartment community, located in Dallas, Texas, for a sale price of \$34,300,000, less standard closing costs and adjustments. The mortgage payable, that was secured by Livingston, was paid in full as of the same date.

On November 17, 2016, Pure Multi-Family, through the US REIT, sold Fairways at Prestonwood (“Prestonwood”), a multi-family apartment community, located in Dallas, Texas, for a sale price of 22,800,000, less standard closing costs and adjustments.

**Pure Multi-Family REIT LP**  
**Notes to Consolidated Financial Statements**  
**Expressed in United States dollars**

The gain (loss on disposal of investment properties is calculated as follows:

For the year ended December 31,	<b>2016</b>		2015	
Sales price	\$	<b>57,100,000</b>	\$	67,800,000
Disposition costs		<b>(1,484,345)</b>		(1,430,727)
Net proceeds		<b>55,615,655</b>		66,369,273
Fair value of investment properties		<b>(57,100,000)</b>		(65,844,185)
<b>Gain / (loss) on disposal of investment properties</b>	<b>\$</b>	<b>(1,484,345)</b>	<b>\$</b>	<b>525,088</b>

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

Investment properties are carried at fair value. As set out in note 3(R), 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 years ended December 31, 2016 and 2015, Pure Multi-Family obtained independent appraisals on all of the investment properties it held at December 31, 2016 and at December 31, 2015, respectively. As disclosed in note 3(R), 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, 2016		December 31, 2015	
	Weighted average	Range	Weighted average	Range
Capitalization rate	5.41%	4.75% - 6.00%	5.50%	5.00% - 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.

**6. CASH HELD IN TRUST**

Included in cash held in trust at December 31, 2016 is \$40,389,430, which represents the net proceeds received from the sale of the Livingston and Prestonwood investment properties (year ended December 31, 2015 - \$21,705,731). This cash will be released in less than 12 months, therefore it is classified as a current asset.

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**7. MORTGAGES PAYABLE**

	Nominal interest rate	Year of maturity	December 31, 2016 Face value	December 31, 2015 Face value
Valley Ranch	3.51%	2022	\$ 13,680,000	\$ 13,680,000
Prairie Creek	4.07%	2030	45,590,295	46,372,718
Bear Creek	3.45%	2019	32,080,000	32,080,000
Hackberry Creek	3.90%	2028	29,500,000	29,500,000
Deer Park	4.21%	2023	16,097,831	16,370,676
Fountainwood	4.46%	2023	12,511,209	12,734,504
Walker Commons	3.11%	2019	28,470,000	28,470,000
Preserve	3.26%	2021	24,478,573	24,600,000
San Brisas	3.26%	2021	16,896,184	16,980,000
Park West	4.02%	2030	36,500,000	36,500,000
Amalfi	3.83%	2027	45,000,000	45,000,000
Brackenridge	3.72%	2027	30,600,000	30,600,000
Pure View	3.92%	2031	38,538,770	-
Pure Estates	3.96%	2024	38,483,881	-
The Avenue	3.40%	2028	43,000,000	-
Prestonwood	3.46%	-	-	8,670,000
Livingston	3.51%	-	-	15,517,539
Total mortgages principal payable			451,426,743	357,075,437
Unamortized mortgage transaction costs			(3,600,192)	(2,873,370)
<b>Total carrying value of mortgages payable</b>			<b>\$ 447,826,551</b>	<b>\$ 354,202,067</b>

The mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 3.74% as at December 31, 2016 (December 31, 2015 – 3.72%).

The mortgages payable are secured by charges on Pure Multi-Family's investment properties.

Principal repayments, as of December 31, 2016, based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

2017	\$ 3,605,966
2018	4,465,280
2019	66,684,626
2020	6,982,188
2021	44,253,040
Thereafter	325,435,643
	<b>\$ 451,426,743</b>

**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. On or after September 30, 2016, but prior to September 30, 2018, the 6.5% convertible debentures may be redeemed by Pure Multi-Family, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest thereon, provided the weighted average trading price of the Class A Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is at least 125% of the conversion price. 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, 2016, ten of the originally issued 23,000 6.5% convertible debentures had been converted into Class A Units.

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

	<b>Convertible Debentures</b>	<b>Liability Component</b>	<b>Equity Component</b>
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2014	\$ 23,000,000	\$ 19,876,109	\$ 1,985,429
Amortization of transaction costs	-	155,350	-
Accretion of liability component	-	288,431	-
Balance as at December 31, 2015	\$ 23,000,000	\$ 20,319,890	\$ 1,985,429
Conversion of convertible debenture	(10,000)	(9,081)	(919)
Amortization of transaction costs	-	168,316	-
Accretion of liability component	-	313,777	-
<b>Balance as at December 31, 2016</b>	<b>\$ 22,990,000</b>	<b>\$ 20,792,902</b>	<b>\$ 1,984,510</b>

**9. 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 expect 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, 2016 to the preferred unitholders (year ended December 31, 2015 - \$15,625).

**10. PARTNERS' CAPITAL**

*a. Limited Partners and General Partner*

The capital of Pure Multi-Family consists of an unlimited number of units of Pure Multi-Family and the interest held by the Governing GP. 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 (each a "Class B Unit") of Pure Multi-Family, at a price of \$5.00 per Class B Unit, for gross proceeds to Pure Multi-Family of \$1,000,000, which initially entitled the Class B Unitholders to a 5% interest in Pure Multi-Family. Pure Multi-Family did not issue any additional Class B Units subsequent to this.

From the date of formation on May 8, 2012, to December 31, 2015, Pure Multi-Family had issued 49,039,824 Class A Units for gross proceeds of \$245,366,767, less offering costs. During the years ended December 31, 2016 and 2015, the following transactions occurred:

- (i) On July 29, 2016, Pure Multi-Family completed the closing of a public offering of 4,884,000 Class A Units on a bought deal basis, at a price of \$5.857 (or CDN\$7.64) per Class A Unit for gross proceeds of \$28,603,483 (or CDN\$37,313,760). Pure Multi-Family issued the Class A Units from treasury.
- (ii) 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.
- (iii) During the year ended December 31, 2016, the remaining 2,142,913 Class A Unit purchase warrants (each a "Warrant") were exercised for 2,142,913 Class A Units at an exercise price of \$5.15 for gross proceeds of \$11,036,002 (year ended December 31, 2015 – \$283,250). Pure Multi-Family issued the Class A Units from treasury.
- (iv) During the year ended December 31, 2016, ten 6.5% convertible debentures were converted at a conversion price of \$5.65 into 1,769 Class A Units (year ended December 31, 2015 – \$nil). Pure Multi-Family issued the Class A Units from treasury.
- (v) On May 8, 2015, Pure Multi completed a public offering of 6,900,000 Class A Units, on a bought deal basis, at a price of \$5.10 per Class A Unit for gross proceeds of \$35,190,000, less offering costs. Pure Multi-Family issued the Class A Units from treasury.
- (vi) On October 27, 2015, 55,000 Class A Unit purchase warrants (each a "Warrant") were exercised for 55,000 Class A Units, at an exercise price of \$5.15, for gross proceeds of \$283,250. Pure Multi issued the 55,000 Class A Units from treasury.
- (vii) On December 11, 2015, Pure Multi completed a public offering of 7,250,000 Class A Units, on a bought deal basis, at a price of \$5.40 per Class A Unit for gross proceeds of \$39,150,000, less offering costs. Pure Multi-Family issued the Class A Units from treasury.

	2016	2015
Class A Units outstanding, beginning of year	49,039,824	34,834,824
Class A Units issued, public offering	4,884,000	14,150,000
Class A Units issued, warrants exercised	2,142,913	55,000
Class A Units issued, debentures converted	1,769	-
<b>Class A Units outstanding, end of year</b>	<b>56,068,506</b>	<b>49,039,824</b>

**b. Other Equity Items**

	<b>Convertible Debentures Equity Component (note 8)</b>	<b>Warrants</b>	<b>Total</b>
Balance as at December 31, 2014	\$ 1,985,429	\$ 697,595	\$ 2,683,024
Warrants exercised, net of offering costs	-	(17,456)	(17,456)
Balance as at December 31, 2015	\$ 1,985,429	\$ 680,139	\$ 2,665,568
Warrants exercised, net of offering costs	-	(680,139)	(680,139)
Convertible Debentures converted, equity portion	(919)	-	(919)
<b>Balance as at December 31, 2016</b>	<b>\$ 1,984,510</b>	<b>\$ -</b>	<b>\$ 1,984,510</b>

During the year ended December 31, 2014, Pure Multi-Family issued 2,197,913 Warrants. Each Warrant entitled the holder to acquire one additional Class A Unit from Pure Multi-Family at a price of \$5.15 per Class A Unit until November 20, 2016. All outstanding Warrants were exercised before November 20, 2016. As at December 31, 2015, there were 2,142,913 Warrants outstanding.

**11. INTEREST EXPENSE**

Interest expense consists of the following:

	Year ended	
	December 31, 2016	December 31, 2015
Mortgage interest	\$ 16,158,464	\$ 11,156,074
Convertible debenture interest	1,498,203	1,495,000
Amortization of transaction costs and accretion of convertible debentures	968,404	1,255,192
Mortgage prepayment expense <sup>(1) (2)</sup>	1,173,956	5,188,836
Amortization of mark to market mortgage adjustment <sup>(2)</sup>	-	(3,209,439)
Credit facility interest	-	112,402
	<b>\$ 19,799,027</b>	<b>\$ 15,998,065</b>

Notes:

- <sup>(1)</sup> On September 12, 2016, Pure Multi-Family incurred a prepayment expense of \$1,173,956 related to the early pay off of the mortgage secured by Prestonwood.
- <sup>(2)</sup> On September 9, 2015, Pure Multi-Family obtained new mortgage financing on Prairie Creek Villas and incurred a mortgage prepayment expense of \$5,188,836 related to paying off its prior mortgage. This prepayment expense was partially offset by the write-off of the unamortized portion of the market to market mortgage adjustment in the amount of \$2,737,202 on the same date.

**12. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

<b>Cash provided by (used in)</b>	Year ended	
	December 31, 2016	December 31, 2015
Amounts receivable	\$ (1,168,097)	\$ (325,302)
Prepaid expenses	(412,566)	(368,851)
Accounts payable and accrued liabilities	1,502,983	(1,676,070)
Unearned revenue	167,955	(93,794)
Rental deposits	163,166	202,435
	<b>\$ 253,441</b>	<b>\$ (2,261,582)</b>

**13. CAPITAL MANAGEMENT**

Pure Multi-Family defines capital as the aggregate of partners' capital, preferred units of subsidiary and long term debt. Pure Multi-Family's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the initial offering prospectus; complies with existing debt covenants, if any; funds its business strategies; and builds long-term partners' value. Pure Multi-Family's capital structure is approved by the board of directors of the Governing GP through its periodic reviews.

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 55.2% as at December 31, 2016 (December 31, 2015 – 54.6%). Pure Multi-Family was in compliance with all of its investment and debt restrictions during the years ended December 31, 2016 and 2015.

There were no changes in Pure Multi-Family's approach to capital management during the year ended December 31, 2016.

The capital structure consisted of the following components at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Capital		
Mortgages payable	\$ 447,826,551	\$ 354,202,067
Convertible debentures	20,792,902	20,319,890
Preferred units of subsidiary	125,000	125,000
Partners' capital	370,162,057	304,274,226
<b>Total capital</b>	<b>\$ 838,906,510</b>	<b>\$ 678,921,183</b>

**14. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

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.

The fair value of the mortgages payable 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 has been calculated using quoted prices in active markets.

The following table presents the carrying amount and fair value of Pure Multi-Family’s non-current financial instruments:

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgages payable	\$ 447,826,551	\$ 440,115,993	\$ 354,202,067	\$ 366,039,986
Preferred units of subsidiary	125,000	125,000	125,000	125,000
Convertible debentures	20,792,902	25,151,060	20,319,890	23,000,000

**Financial risk management**

The board of directors of the Governing GP 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.

**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. As Pure Multi-Family does not have any mortgages



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maturing prior to 2019 and all of the mortgages payable bear interest at fixed rates, Pure Multi-Family does not face significant interest rate risk in the context of its outstanding mortgages payable.

**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:

<b>Year ended December 31,</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021 and thereafter</b>
Mortgages payable (principal and interest)	\$ 20,488,618	\$ 21,197,592	\$ 82,565,479	\$ 21,235,763	\$ 452,579,823
Convertible debentures payable (principal and interest)	1,494,350	1,494,350	1,494,350	24,110,763	-
Preferred units of subsidiary (principal and interest)	15,625	15,625	15,625	15,625	140,625
Accounts payable and accrued liabilities	12,287,387	-	-	-	-
<b>Total</b>	<b>\$ 34,285,980</b>	<b>\$ 22,707,567</b>	<b>\$ 84,075,454</b>	<b>\$ 45,362,151</b>	<b>\$ 452,720,448</b>

**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.

**15. RELATED PARTY TRANSACTIONS AND COMMITMENTS**

**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 \$989,687 during the year ended December 31, 2016 (year ended December 31, 2015 - \$790,515). Included in accounts payable and accrued liabilities at December 31, 2016 was \$nil (December 31, 2015 - \$nil) payable to the Managing GP.

#### **Asset Management Agreement**

Effective September 1, 2016, Pure Multi-Family terminated its Asset Management Agreement with the Managing GP, as permitted upon the triggering of the Determination Event. No penalties were incurred upon termination of the Asset Management Agreement. As part of the internalization of asset management, Pure Multi-Family is responsible for rent, salary, office costs and other general management costs.

Prior to this time, the Managing GP, pursuant to the Asset Management Agreement, provided asset management, administrative and reporting services to Pure Multi-Family as its managing general partner at no cost. The Asset Management Agreement also required the Managing GP to provide Pure Multi-Family, at no cost, with support services consisting of office space and equipment and the necessary clerical and secretarial personnel for the administration of its day-to-day activities. In lieu of the fees typically associated with a third party asset management agreement, the Managing GP was entitled to a reimbursement of any reasonable costs and expenses (including legal and audit costs, but excluding personnel costs) that it incurred providing asset management services to Pure Multi-Family.

Tipton Asset Group, Inc. (“Tipton”) is the property manager for Pure Multi-Family. Pure Multi-Family is related to Tipton by virtue of having an officer and director in common (Bryan Kerns) with a subsidiary of Pure Multi-Family. Tipton charged property management fees in the amount of \$2,301,288 during the year ended December 31, 2016 (year ended December 31, 2015 \$1,764,027). Included in accounts payable and accrued liabilities at December 31, 2016 was \$nil (December 31, 2015 - \$nil) payable to Tipton.

#### **Compensation**

The directors of the Governing GP who are not affiliated with or employees of the Managing GP receive annual compensation, in addition to fees for attending meetings of the directors or any committee, and acting as committee chairs and members. As well, the Governing GP indirectly reimburses such directors for any out of pocket expenses, including out of pocket expenses for attending meetings. Pure Multi-Family reimburses the Governing GP for such amounts. In addition, Pure Multi-Family has obtained insurance coverage for such directors. Compensation is reviewed on an annual basis, giving consideration to Pure Multi-Family’s growth and the extent of its portfolio. The amount incurred during the year ended December 31, 2016 was \$301,403 (year ended December 31, 2015 - \$210,293).

As part of the internalization of asset management, as described in *Asset Management Agreement*, certain key personnel of the Managing GP became corporate employees of a subsidiary of Pure Multi-Family effective September 1, 2016. For the year ended December 31, 2016, corporate compensation, including salaries, bonuses, and other short term employee benefits, incurred by Pure Multi-Family and recorded in general and administrative expense was \$251,810 (December 31, 2015 - \$nil).

### **16. LEASES**

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 \$33,231,374 as at December 31, 2016 (December 31, 2015 - \$27,215,236).

### **17. FAIR VALUE MEASUREMENT**

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, acting at arms-length, at the measurement date under current market conditions. In certain

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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.

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:

<i>(000's)</i>	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investment properties	\$ -	\$ -	\$ 778,547	\$ -	\$ -	\$ 613,682
Mortgages payable	-	440,116	-	-	366,040	-
Preferred units of subsidiary	-	125	-	-	125	-
Convertible debentures	25,151	-	-	23,000	-	-

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 4 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, 2016 and December 31, 2015 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, 2016:

Rate sensitivity	OCR Sensitivity	
	Fair value	Change in fair value
+ 75 basis points	\$ 683,357,663	\$ (95,189,519)
+ 50 basis points	712,379,678	(66,167,504)
+ 25 basis points	743,988,254	(34,558,928)
Base rate (5.41%)	778,547,182	-
- 25 basis points	816,492,235	37,945,053
- 50 basis points	858,350,023	79,802,841
- 75 basis points	904,763,131	126,215,949

**18. DILUTED EARNINGS PER CLASS A UNIT**

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

	Year ended	
	December 31, 2016	December 31, 2015
Basic net income and comprehensive income	\$ 48,163,729	\$ 51,179,380
Dilutive interest expense <sup>(1)</sup>	1,980,297	1,938,780
Diluted net income and comprehensive income	50,144,026	53,118,160
Diluted net income and comprehensive income allocated to Class A unitholders	<b>\$ 47,714,257</b>	<b>\$ 50,462,252</b>

Notes:

<sup>(3)</sup> Dilutive interest expense includes the removal of the interest expense related to the dilutive 6.5% convertible debentures.

	Year ended	
	December 31, 2016	December 31, 2015
Weighted average number of Class A units - basic	51,553,540	39,761,071
Dilutive effect of the conversion of convertible debentures using the treasury stock method <sup>(1)</sup>	4,069,027	4,070,796
Dilutive effect of the conversion of warrants <sup>(2)</sup>	116,435	-
Weighted average number of Class A units - dilutive	<b>55,739,002</b>	<b>43,831,867</b>

Notes:

<sup>(1)</sup> Conversion of 6.5% convertible debentures based on exercise price of \$5.65 per Class A Unit.

<sup>(2)</sup> Conversion of warrants based on exercise price of \$5.15 per Class A Unit.

**19. SUBSEQUENT EVENTS**

- a. On January 25, 2017, Pure Multi-Family, through the US REIT, acquired a multi-family apartment community, known as the Pure Creekside at Onion Creek, located in Austin, Texas, for a purchase price of \$40,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash and proceeds from a new mortgage financing.
- b. On January 27, 2017, Pure Multi-Family, through the US REIT, acquired a multi-family apartment community, known as Lansbrook at Twin Creeks, located in Dallas, Texas, for a purchase price of \$40,000,000, plus standard closing costs and adjustments. This acquisition was financed with cash and proceeds from a new mortgage financing.

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# CORPORATE INFORMATION

## MANAGEMENT

**STEPHEN EVANS**  
Director and  
Chief Executive Officer

**SAMANTHA ADAMS**  
Vice President

**SCOTT SHILLINGTON, CPA, CA**  
Chief Financial Officer

**ANDREW GREIG**  
Director of  
Investor Relations

## DIRECTORS

**ROBERT KING**  
Lead Independent Director

**FRASER BERRILL**  
Independent Director

**JOHN O'NEILL**  
Independent Director

**JAMES REDEKOP**  
Independent Director

**DOUGLAS SCOTT, CPA, CA**  
Independent Director

**JAMES SPEAKMAN**  
Director  
Corporate Legal Counsel

**SHERRY TRYSSENAAR**  
Independent Director



**HEAD OFFICE**

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E: agreig@puremultifamily.com

**STOCK EXCHANGE LISTING**

TSX Venture  
OTCQX

**LISTING SYMBOL**

TSX-V: RUF.U, RUF.UN, RUF.DB.U  
OTCQX: PMULF

**ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

11:00 AM Pacific Standard Time  
Thursday May 25, 2017  
KPMG LLP  
777 Dunsmuir Street ,  
11th Floor,  
Vancouver BC



[WWW.PUREMULTIFAMILY.COM](http://WWW.PUREMULTIFAMILY.COM)