Consolidated Financial Statements
(In thousands of U.S. dollars)

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

For the period from January 8, 2021 (date of formation) to December 31, 2021

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Independent Auditor's Report

To the Unitholders of Starlight U.S. Multi-Family (No. 2) Core Plus Fund

Opinion

We have audited the consolidated financial statements of Starlight U.S. Multi-Family (No. 2) Core Plus Fund and its subsidiaries (the "Fund"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of net income and comprehensive income, changes in net liabilities attributable to unitholders and cash flows for the period from January 8, 2021 (date of formation) to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the period from January 8, 2021 (date of formation) to December 31, 2021 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information, included in the Management's Discussion and Analysis of Results of Operations and Financial Condition filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis of Results of Operations and Financial Condition prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jennifer Agro, CPA, CA.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2022

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

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

	Note		December 31, 2021
ASSETS			
Non-current assets:			
Investment properties	6	$	255,200
Derivative financial instruments	7		329
Utility deposits			27
Total non-current assets			255,556
Current assets:			
Tenant receivables	8		295
Prepaid expenses and other assets	9		26
Restricted cash	10		844
Cash			6,445
Total current assets			7,610
TOTAL ASSETS		**$**	**263,166**
LIABILITIES			
Non-current liabilities:			
Loans payable	11	$	91,411
Preferred shares – U.S. REIT series A	12		125
Provision for carried interest	13(b)		11,211
Deferred income tax	3(h)		14,046
Total non-current liabilities excluding net liabilities attributable to Unitholders			116,793
Current liabilities:			
Loans payable	11		39,008
Tenant rental deposits			217
Accounts payable and accrued liabilities	14		1,541
Finance costs payable			256
Distributions payable			282
Total current liabilities excluding net liabilities attributable to Unitholders			41,304
TOTAL LIABILITIES		**$**	**158,097**
Net liabilities attributable to Unitholders	13(a)		105,069
TOTAL LIABILITIES, NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		**$**	**263,166**

Commitments and contingencies (note 20).

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors of Starlight U.S. Multi-Family (No. 2) Core Plus GP, Inc., as general partner of Starlight U.S. Multi-Family (No. 2) Core Plus Fund, on March 8, 2022, and signed on its behalf:

Kelly Smith Director *Harry Rosenbaum* Director

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Consolidated Statement of Net Income and Comprehensive Income
For the period from January 8, 2021 (date of formation) to December 31, 2021
(In thousands of U.S. dollars)

	Note		January 8, 2021 to December 31, 2021
Revenue from property operations		$	10,104
Expenses:			
Property operating costs			2,464
Property taxes	14		—
Income from rental operations			7,640
Finance costs	18		3,533
Distributions to Unitholders	13(a)		2,570
Dividends to preferred shareholders – U.S. REIT series A	12		8
Fund and trust expenses	15		859
Unrealized foreign exchange gain			(12)
Realized foreign exchange gain			(3)
Fair value gain on investment properties	6		(49,444)
Fair value adjustment IFRIC 21	14		1,102
Provision for carried interest	13(b)		11,211
Income before income taxes			37,816
Income taxes – deferred	3(h)		14,046
Net income and comprehensive income		**$**	**23,770**

See accompanying notes to the consolidated financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Consolidated Statement of Changes in Net Liabilities Attributable to Unitholders
For the period from January 8, 2021 (date of formation) to December 31, 2021
(In thousands of U.S. dollars)

	Class A	Class C	Class D	Class E	Class F	Class G	Class U	Total
Balance, January 8, 2021	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Changes during the period:								
Units issued on Offering (March 31, 2021), net of issuance costs	21,360	19,145	15,636	2,282	15,084	4,999	2,793	81,299
Re-allocation due to unit conversions	1,475	—	(308)	(461)	(1,167)	(47)	508	—
Net income and comprehensive income	6,673	5,607	4,479	532	4,067	1,447	965	23,770
Balance, December 31, 2021	**$29,508**	**$24,752**	**$19,807**	**$ 2,353**	**$17,984**	**$ 6,399**	**$ 4,266**	**$ 105,069**

See accompanying notes to the consolidated financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Consolidated Statement of Cash Flows
For the period from January 8, 2021 (date of formation) to December 31, 2021
(In thousands of U.S. dollars)

	Note		January 8, 2021 to December 31, 2021
Operating activities:			
Net income and comprehensive income		$	23,770
Adjustments for financing activities included in net income and comprehensive income:			
Finance costs	18		3,533
Distributions to Unitholders	13(a)		2,570
Dividends to preferred shareholders – U.S. REIT series A	12		8
Adjustments for items not involving cash:			
Fair value gain on investment properties	6		(49,444)
Unrealized foreign exchange gain			(12)
Deferred income tax			14,046
Provision for carried interest	13(b)		11,211
Change in non-cash operating working capital	19(a)		978
Change in restricted cash			(384)
Cash provided by operating activities			**6,276**
Financing activities:			
Proceeds from the issuance of units, net of issuance costs	13(a)		81,299
Loans payable:			
Proceeds from new financing	11		88,371
Proceeds from assumed financing	11		39,063
Repayment of existing loans	11		(88,371)
Proceeds from refinancing	11		92,000
Proceeds from issuance of preferred shares – U.S REIT series A	12		125
Finance costs paid	19(b)		(4,313)
Distributions paid to Unitholders	13(a)		(2,570)
Dividends to preferred shareholders – U.S. REIT series A	12		(8)
Cash provided by financing activities			**205,596**
Investing activities:			
Acquisition of investment properties	5		(204,635)
Capital additions to investment properties	6		(804)
Cash used in investing activities			**(205,439)**
Increase in cash			**6,433**
Cash, beginning of period			—
Change in cash due to foreign exchange			12
Cash, end of period		**$**	**6,445**

See accompanying notes to the consolidated financial statements.

1. Nature of business:

Starlight U.S. Multi-Family (No. 2) Core Plus Fund (the “Fund”) is a limited partnership formed under and governed by the laws of the Province of Ontario. The term of the Fund is targeted to be three years with two one-year extensions available subject to approval by Starlight U.S. Multi-Family (No. 2) Core Plus GP, Inc. (the “General Partner”). The Fund was established for the purpose of indirectly investing in income-producing multi-family properties in the United States (“U.S.”) multi-family real estate market that can achieve significant increases in rental rates as a result of undertaking high return, light value-add capital expenditures and active asset management, that are located primarily in the States of Arizona, California, Colorado, Florida, Georgia, Idaho, Nevada, North Carolina, Oregon, South Carolina, Tennessee, Texas, Utah and Washington.

The Fund completed its initial public offering (the “Offering”) on March 31, 2021 and raised gross proceeds of $85,408 and issued the following limited partnership units (“Units”): 2,862,819 class A Units, 2,436,500 class C Units, 2,095,700 class D Units and 1,959,606 class F Units at a price of $10.00 Canadian dollars (“C$”) and 236,840 class E Units, 535,300 class G Units and 299,120 class U Units, at a price of $10.00. The class A and class U Units distributed under the Offering are listed on the TSX Venture Exchange under the symbol SCPT.A and SCPT.U, respectively. Class A, C, D and F are Canadian dollar denominated Units and class E, G and U are U.S. dollar denominated Units. Conversions can be made between certain classes of Units based on conversion ratios calculated consistent with the Fund’s amended and restated limited partnership agreement (the “Conversion Ratios”). The weighted average class A equivalent Units outstanding as at December 31, 2021 was 10,901,930 (assumes all outstanding Units were converted to class A equivalent Units based on the Conversion Ratios).

Following completion of the Offering, the Fund acquired two class “A” institutional quality properties comprising a total of 675 suites located in the States of Colorado and Florida, in the Denver and Orlando metropolitan areas, respectively (the “Properties”).

The Fund is managed by Starlight Investments US AM Group LP (the “Manager”) which is a wholly owned subsidiary of Starlight Group Property Holdings Inc. and a related party. As at December 31, 2021, the Fund’s property portfolio consisted of interests in the Properties.

The registered office of the Fund is located at 3280 Bloor Street West, Centre Tower, Suite 1400, Toronto Ontario M8X 2X3.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the Fund have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and using the accounting policies described herein.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis except for investment properties of the Fund as described below and derivative financial instruments of the Fund as described below, which have been measured at fair value. All inter-company transactions and balances between the Fund and the subsidiary entities have been eliminated upon consolidation.

(c) Functional and presentation currency:

These consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Fund and its subsidiaries and all amounts have been rounded to the nearest thousand except when otherwise indicated.

Transactions in currencies other than U.S. dollars are translated at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into U.S. dollars at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into U.S. dollars at the exchange rate at the date that the fair value was determined.

Foreign currency gains or losses arising from settlement of transactions or translations are included in the consolidated statement of net income and comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency (C$) are translated using the exchange rate at the date of the transaction.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Fund and its subsidiaries. All inter-company transactions and account balances have been eliminated upon consolidation.

When the Fund is exposed to or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over such investee, the investee is considered a subsidiary. The existence and effect of potential substantive voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and are de-consolidated from the date control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the Fund using consistent accounting policies.

The following significant entities operate as wholly owned subsidiaries of the Fund:

- Starlight U.S. Multi-Family (No. 2) Core Plus Investment L.P. ("Investment L.P.");
- Starlight U.S. Multi-Family (No. 2) Core Plus Holding L.P. ("Holding L.P."); and
- Starlight U.S. Multi-Family (No. 2) Core Plus REIT Inc. ("U.S. REIT").

(b) Critical judgments and estimates:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

3. Significant accounting policies (continued):

(b) Critical judgments and estimates (continued):

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that it believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

(i) Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill is recognized. The Fund’s acquisitions are generally determined to be asset purchases as the Fund does not acquire an integrated set of activities that together significantly contribute to the ability to create outputs as part of the acquisition transaction.

(ii) Financial instruments:

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

(iii) Investment properties:

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

(iv) Income taxes:

The Fund applies judgment in determining the tax rates applicable to its subsidiaries and identifying the temporary differences in each such legal subsidiary in respect of which deferred income taxes are recognized. Deferred taxes relate to temporary differences arising from its subsidiaries and are measured based on tax rates that are expected to apply in the year when the asset is realized, or the liability is settled.

Temporary differences are differences that are expected to reverse in the future and arise from differences between accounting and tax asset values.

The Fund’s estimate of deferred taxes is based on the assumption that the Fund’s liquidating event occurs either through a direct sale of the investment properties or through a disposition of its ownership interests in its U.S. subsidiaries.

3. Significant accounting policies (continued):

(b) Critical judgments and estimates (continued):

(v) Carried interest:

The determination by the Fund as at the Statement of Financial Position date as to whether a provision for carried interest should be recognized to the partners of Starlight Investments (No. 2) Core Plus Partnership ("SICPP") is based, among other criteria, on the Fund's analysis of the net liabilities attributable to unitholders of the Fund ("Unitholders"), distributions paid to Unitholders since the formation of the Fund and the Fund's ability to meet the requirement to return the initial investment amount contributed by Unitholders. The terms of the carried interest are outlined in note 13.

(c) Investment properties:

The Fund selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment properties include land and building structures, as well as residential suites situated on the properties. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of net income and comprehensive income in the period in which they arise.

Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Fund determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. Gains and losses arising from changes in the fair value or disposal of investment properties are included in the consolidated statement of net income and comprehensive income in the period in which they arise. Subsequent capital expenditures are added to the carrying value of investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

(d) Cash and restricted cash:

Cash includes unrestricted cash and balances held in the Fund's bank accounts. Restricted cash includes cash on hand which can only be used for specified purposes including tenant security deposits, amounts held by lenders for insurance, property taxes, repairs and replacements as well as other cash held by third parties on behalf of the Fund. The Fund may also internally restrict cash, if necessary.

(e) Revenue recognition:

The Fund has retained substantially all the risks and benefits of ownership of its investment properties and as a result accounts for its leases with tenants as operating leases.

Revenue from investment properties includes all rental income earned from the property, including residential tenant rental income, parking income, waste removal income and all other incidental income paid by the tenants and other vendors under the terms of their existing leases and contracts. Revenue recognition under a lease commences when a tenant has a right to use the leased asset and collection is reasonably assured. Revenue is recognized pursuant to the terms of the lease agreements.

3. Significant accounting policies (continued):

(e) Revenue recognition (continued):

Amounts collected from residents are recognized as income when due, which, due to the short-term nature of the leases, approximates straight-line revenue recognition. Lease incentives granted are recognized as an integral part of the total rental revenue over the term of the leases. All other incidental income is recognized as revenue upon provision of goods and services when collectability is reasonably assured.

The Fund uses the direct write-off method to recognize the inability of tenants to meet the contractual obligations under their lease agreements. Under this method, any amounts receivable are written off directly against revenues as bad debt once the Fund has determined such amounts to be uncollectible. As a result, the Fund does not maintain an allowance for doubtful accounts for estimated losses.

(f) Finance costs:

Finance costs consist of interest on loans payable, amortization of financing costs related to loans payable, amortization of loan premiums and discounts, distributions to Unitholders and fair value changes in derivative financial instruments. Distributions to Unitholders are separately presented on the consolidated statement of net income and comprehensive income.

(g) Financial instruments:

Financial assets are classified and measured based on one of the following three categories: (i) amortized cost; (ii) fair value through profit and loss ("FVTPL"); or (iii) fair value through other comprehensive income. Financial liabilities are classified and measured based on one of the following two categories: (i) amortized cost; or (ii) FVTPL. Financial instruments are recognized initially at fair value. The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

	Classification/Measurement
Financial assets:	
Utility deposits	Amortized cost
Tenant and other receivables	Amortized cost
Derivative financial instruments	FVTPL
Restricted cash	Amortized cost
Cash	Amortized cost
Financial liabilities:	
Loans payable	Amortized cost
Preferred shares - U.S. REIT series A	Amortized cost
Provision for carried interest	FVTPL
Tenant rental deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Finance costs payable	Amortized cost
Distributions payable	Amortized cost
Net liabilities attributable to Unitholders	Amortized cost

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate ("EIR") over the anticipated life of the related instrument. Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Fund recognizes an impairment loss for financial assets carried at amortized cost as: the loss is 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 EIR. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

The Fund's net liabilities attributable to Unitholders have been classified as financial liabilities under International Accounting Standards ("IAS") 32, Financial Instruments - Presentation.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities are discharged when the contractual obligations are discharged, canceled or expired.

(h) Income taxes:

(i) Canadian status:

The Fund is not subject to tax under Part I of the *Income Tax Act* (Canada) (the "Tax Act"). Each Unitholder is required to include in computing the Unitholder's income for a particular taxation year the Unitholder's share of the income or loss of the Fund allocated to the Unitholder for its year ended in or on the Unitholder's taxation year-end, whether or not any of that income or loss is distributed to the Unitholder 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 specified investment flow-through ("SIFT") rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "SIFT Measures"). 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 tax rate applicable to Canadian corporations.

The "taxable non-portfolio earnings" less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership.

The Fund believes that it does not hold any "non-portfolio property" and is not a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. The Fund intends to continue to operate the Fund in such a manner so as to remain exempt from the SIFT Measures on a continuous basis in the future. However, the Fund's continued exemption will depend upon meeting, through actual operating results, various conditions imposed by the SIFT Measures. If the Fund becomes a SIFT partnership, it will be generally subject to income taxes at regular Canadian corporate rates on its taxable non-portfolio earnings, if any.

(ii) U.S. status:

Current taxes

The Fund is treated as a partnership for U.S. federal income tax purposes. As such, it is generally not subject to U.S. federal income tax under the U.S. Internal Revenue Code (the "Code").

3. Significant accounting policies (continued):

(h) Income taxes (continued):

(ii) U.S. status (continued):

Furthermore, the U.S. REIT intends to make and maintain an election as a real estate investment trust under the Code. In order for the U.S. REIT to qualify, it must meet a number of organizational and operational requirements, including a requirement to make annual distributions to its stockholders equal to a minimum of 90% of its taxable income, computed without regards to dividends paid deductions and net capital gains.

The U.S. 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 its stockholders annually. The U.S. REIT intends to elect to be treated as a real estate investment trust and believes the U.S. REIT's organization, ownership, method of operations, future assets and future income will enable the U.S. REIT to qualify as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income and excise taxes has been made with respect to the income of the U.S. REIT.

The Fund intends to operate the U.S. REIT in such a manner for it to qualify as real estate investment trust on a continuous basis in the future. However, actual qualification as a real estate investment trust will depend upon meeting, through actual annual operating results, the various conditions imposed by the Code.

If the U.S. REIT fails to qualify as a real estate investment trust in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates. In addition, the U.S. REIT may not be able to requalify as a real estate investment trust for the four subsequent taxable years. Even if the U.S. REIT qualifies as a real estate investment trust, the U.S. REIT may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

The Investment L.P. is treated as a partnership for Canadian tax purposes but has elected to be treated as a corporation for U.S. federal income tax purposes. As such, the Investment L.P. is generally subject to U.S. tax in respect of its allocable share of (i) capital gain distributions made by the U.S. REIT, (ii) gain upon a sale of the shares of the U.S. REIT and (iii) distributions made by the U.S. REIT in excess of both its (a) current and/or accumulated earnings and profits (as determined under U.S. tax principles) and (b) the adjusted tax basis in the U.S. REIT shares held by the Holding L.P. The Investment L.P. is also liable for U.S. withholding taxes with respect to its allocable share of the above specified gains and/or distributions from the Holding LP and/or the U.S. REIT.

Taxes paid or considered to have been paid by Investment L.P. will be allocated pursuant to its limited partnership agreement and the Fund's allocated share will be allocated to Unitholders pursuant to the Fund's amended and restated limited partnership agreement.

The availability of a foreign tax credit or foreign tax deduction in respect of foreign source income allocated to Unitholders by the Fund will be subject to the detailed rules contained in the Tax Act and each Unitholder's particular circumstances. Although the foreign tax credit provisions of the Tax Act are designed to avoid double taxation, the maximum credit is limited. Because of this, and because of timing differences in recognition of expenses and income and other factors, double taxation may arise.

Deferred taxes

As at December 31, 2021 a deferred tax liability of $14,046 for the Fund was accrued based on a blended state and federal tax rate of 25.9%. The deferred tax liability relates to the difference between the fair value of the investment properties and their tax basis as of December 31, 2021. The Investment L.P. will bear this tax liability on the disposition of the real estate directly or the Fund's interest in its U.S. subsidiaries, avoiding any tax filing obligations or payment of taxes directly by the Unitholders.

3. Significant accounting policies (continued):

(i) Levies:

Levies are outflows from the investment properties imposed by a government in accordance with legislation. The Fund has assessed property taxes as being in the scope of International Financial Reporting Interpretations Committee Interpretation 21, Levies ("IFRIC 21"), given that property taxes are non-reciprocal charges imposed by a government, in accordance with the legislation, and based on property value. IFRIC 21 confirms that an entity shall recognize an asset if it has a prepaid levy but does not yet have a present obligation to pay that levy. The Fund has determined that the liability to pay property taxes is an obligating event to pay a levy at a point in time and therefore recognizes the liability and the expense at the time the obligation is crystallized, which is at the beginning of the fiscal year, in most cases.

(j) Provisions:

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value for the expenditures expected to settle the obligation using a discount rate that reflects current market assessment considering the time value of money and the risks specific to the obligation. Provisions are re-measured at each statement of financial position date using the current discount rate. The increase in the provision due to the passage of time is recognized as a finance cost.

4. Adoption of accounting standards:

(a) Accounting standards implemented:

Interest rate benchmark reform – interbank offered rates 'phase 2' (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases) ("IBOR Phase 2"):

The Fund adopted these amendments to various IFRS standards on January 1, 2021. The amendments provide relief to the Fund in respect of loans whose contractual terms are affected by interest benchmark reform (note 11). These amendments had no impact on the consolidated financial statements of the Fund. The Fund intends to use the practical expedients in these amendments in future periods if they become applicable.

(b) Future accounting policy changes:

(i) Amendment to IAS 37 Onerous Contracts ("IAS 37"):

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Fund is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the Fund as a result of the amendments to IAS 37.

(ii) Amendment to IFRS 3 Business Combinations ("IFRS 3"):

The amendments update references in IFRS 3 to refer to the 2018 conceptual framework instead of the 1989 framework and otherwise do not significantly change the requirements of the standard. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Fund is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the Fund as a result of the amendments to IFRS 3.

(In thousands of U.S. dollars, unless otherwise noted)

5. Acquisitions:

The following acquisitions were completed by the Fund during the period from January 8, 2021 to December 31, 2021. The Properties were acquired by directly purchasing the legal entities which owned such Properties. All of the acquisitions were treated as asset acquisitions, and as a result, the fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition as follows:

		Hudson at East		Montane		Total
Acquisition date		31-Mar		31-Mar		
Suites		275		400		675
City, State		Orlando, FL		Parker, CO		
Investment properties(i)	$	64,416	$	140,536	$	204,952
Add:						
Utility deposits		7		22		29
Tenant and other receivables		25		225		250
Prepaid expenses and other assets		86		197		283
Restricted cash		373		86		459
Deduct:						
Accounts payable and accrued liabilities		(308)		(793)		(1,101)
Tenant rental deposits		(92)		(82)		(174)
Finance cost payable		(57)		(6)		(63)
Net assets acquired	**$**	**64,450**	**$**	**140,185**	**$**	**204,635**
Consideration funded by:						
New loans payable(ii)		—		87,649		87,649
Assumed loans payable(ii)		38,789		—		38,789
Cash paid, net of cash acquired(iii)		25,661		52,536		78,197
Total consideration	**$**	**64,450**	**$**	**140,185**	**$**	**204,635**

(i) Investment properties includes acquisition costs capitalized to investment properties amounting to $675 and $1,462 for Hudson at East ("Hudson"), and Montane, respectively.

(ii) New loans payable and assumed loans payable are net of finance costs incurred amounting to $274 and $722 for Hudson and Montane, respectively.

(iii) Cash residing within entities acquired by the Fund on the date of acquisition amounted to $84 and $222 for Hudson and Montane, respectively.

(In thousands of U.S. dollars, unless otherwise noted)

6. Investment properties:

The following table summarizes the change in the investment properties for the period from January 8, 2021 to December 31, 2021:

Balance, January 8, 2021	**$**	**—**
Acquisition of investment properties (note 5)		204,952
Capital additions		804
Fair value adjustment		49,444
Balance, December 31, 2021	**$**	**255,200**

The following table reconciles the cost base of the investment properties to their fair value as at December 31, 2021:

		December 31, 2021
Cost	$	205,756
Cumulative fair value adjustment		49,444
Fair Value	**$**	**255,200**

The key valuation assumptions for the investment properties are set out in the following table:

	December 31, 2021
Capitalization rate - range	3.50% - 3.75%
Capitalization rate - weighted average	3.58 %

The Fund determined the fair value of each Property using the direct income capitalization approach. The capitalized earnings reflect rental income from current leases and assumptions about rental income from future leases and occupancy reflecting market conditions at the reporting date, less future cash outflows in respect of such leases (note 22).

The fair values of the Properties are sensitive to changes in the key valuation assumptions. Changes in the capitalization rates would result in a change to the estimated fair value of the Properties as at December 31, 2021 as set out in the following table:

Weighted average	Change		December 31, 2021
Capitalization rate	10 basis-point increase	$	(6,928)
Capitalization rate	10 basis-point decrease	$	7,326

The impact of a one percent change in the net operating income used to value the investment properties as at December 31, 2021 would affect the fair value by approximately $3,042.

The Properties are considered as Level 3 assets under IFRS 13 - Fair Value Measurement due to the extent of assumptions required beyond observable market data to derive the fair values (note 22(b)).

7. Derivative financial instruments:

The following table represents derivative financial instruments presented as assets of the Fund:

		December 31, 2021
Interest rate cap (a)	$	326
Variable rate collar (b)		3
	$	329

(In thousands of U.S. dollars, unless otherwise noted)

7. Derivative financial instruments (continued):

(a) Interest rate cap:

The Fund utilizes interest rate cap agreements to protect its interest costs on its variable rate loans as required by applicable lenders. The interest rate caps typically carry a notional amount equal to the amount of the loan outstanding at inception and a maturity date which generally coincides with the term of the loan (note 11).

As the Fund has elected not to use hedge accounting, unrealized fair value losses of $144 were recorded in finance costs in the consolidated statement of net income and comprehensive income for the period from January 8, 2021 to December 31, 2021. As at December 31, 2021, the fair value of the interest rate cap purchased as part of the refinancing of Montane was $326.

(b) Variable rate collar:

The Fund entered into a variable rate collar contract on December 16, 2021, which allows the Fund to establish a guaranteed monthly exchange rate between C$1.2575 and C$1.3200 for the conversion of U.S. dollar funds to Canadian dollar funds amounting to C$312 per month from February 2022 to July 2022 and C$156 per month from August 2022 to November 2022. The contract was entered into to protect against the potential impact of any weakening of the U.S. dollar on the amount required to pay the Fund's monthly Canadian dollar distributions and ensure a more favorable exchange rate for conversion of these funds when compared to the rate used to convert the proceeds from the Offering into U.S. dollars of C$1.2517.

Under the terms of the contract, the first monthly settlement is to occur on February 10, 2022, with each successive month settling on or about the tenth day of each month until November 14, 2022. The monthly exchange rate is determined based on the Canadian to U.S. dollar spot exchange rate on the date of settlement but provides for a minimum exchange rate of C$1.2575 and a maximum exchange rate of C$1.3200.

The following table summarizes the material terms for the variable rate collar of the Fund as well as the balance presented in the consolidated financial statements as at December 31, 2021:

Contract Start Date	Contract Maturity	Collar Floor	Collar Ceiling		December 31, 2021
February 10, 2022	November 10, 2022	1.2575	1.3200	$	3

The fair value of the variable rate collar contract as at December 31, 2021 was $3. The fair value of the variable rate contract at each reporting date reflects the impact of the prevailing Canadian and U.S. dollar exchange rate on the non-cash mark-to-market adjustment of the underlying contract. The actual gain or loss recognized, if any, will be determined on each of the dates the monthly settlements under the contract occur.

8. Tenant receivables:

The following table presents details of the tenant receivables balance:

		December 31, 2021
Tenant receivables, net [(i)]	$	256
Other receivables [(i)]		39
	$	295

(i) The Fund holds no collateral in respect of tenant and other receivables.

(In thousands of U.S. dollars, unless otherwise noted)

9. Prepaid expenses and other assets:

The following table presents details of the prepaid expenses balance:

		December 31, 2021
Prepaid insurance	$	7
Prepaid expenses		19
	$	26

10. Restricted cash:

The following table presents details of the restricted cash balance:

		December 31, 2021
Escrowed funds:		
Property taxes (i)	$	575
Replacement and repairs (i)		67
Restricted cash:		
Security deposits (ii)		202
	$	844

(i) Escrowed funds include cumulative amounts that are funded on a monthly basis into escrow with the Fund's lenders. These amounts are used to pay property taxes and property repairs coming due within a 12-month period.

(ii) Security deposits relate to funds paid by tenants that are specifically restricted until a tenant exits a lease and are either refunded or applied to amounts due under their lease, as applicable.

11. Loans payable:

Loans payable are secured against the applicable investment properties to which the loan relates and typically require interest only ("IO") payments until a specified date. The loans bear interest at variable index rates based on U.S. 30-day London Interbank Offered Rate ("LIBOR") or U.S. 30-day Secured Overnight Financing Rate ("SOFR") plus an interest rate spread. A summary of the Fund's loans payable is presented below:

Property Name	Payment Terms	Maturity Date	Extension Options	Interest Rate (iii)		December 31, 2021 Principal Outstanding
Montane (i)(iii)(iv)	3 years IO	November 2028	N/A	SOFR + 2.43%	$	92,000
Hudson (ii)	IO	March 2022	One 1-year	LIBOR + 2.35%		39,063
Face value					$	131,063
Unamortized financing costs						(644)
Carrying value					$	130,419

(i) On October 25, 2021, the Fund refinanced the loan payable on Montane, entering into a new loan payable with principal outstanding of $92,000, requiring interest-only payments for the first 36 months, and payments of principal and interest thereafter until maturity in November 2028. The proceeds of the new loan payable were used to repay the previously outstanding loan payable of $88,371 and any costs associated with entering into the new financing. In addition, unamortized financing costs of $617 were expensed to finance costs as part of the extinguishment and repayment of the previously outstanding loan payable.

(ii) The interest rate on the Hudson loan payable is subject to a LIBOR floor of 0.15%. The Fund is also in the process of extending the loan payable until such time as the refinancing of the loan payable is completed.

(iii) The Fund utilizes interest rate cap agreements to protect its interest costs on variable rate loans as required by certain lenders for the Fund's loans payable (note 7(a)). Interest rate caps carry a notional amount and maturity date equivalent to that of each associated loan payable and an index strike rate (i.e. SOFR if the variable rate loan is indexed off of SOFR), which effectively secures a maximum interest rate the Fund would pay for each loan in the event the index rate increases beyond stipulated levels, if applicable. The interest rate cap on the Montane loan payable has a strike rate of 2.07% which effectively provides for a maximum interest rate of 4.50% relating to the Montane loan payable in the event SOFR exceeds 2.07%. There is no interest rate cap on the Hudson loan payable.

(iv) Subsequent to the refinancing, in November 2021 the Fund terminated and sold an interest rate cap associated with the previously outstanding loan payable at Montane for proceeds of $25 which was recorded against finance costs.

(In thousands of U.S. dollars, unless otherwise noted)

11. Loans payable (continued):

Loans payable of $39,008 (net of $56 of deferred financing costs) were classified as current liabilities as they are due and payable within 12 months of the date of the consolidated statement of financial position.

As at December 31, 2021, the loans had a weighted average term to maturity of 4.86 years and a weighted average interest rate of 2.49%.

As at 31 December 2021, the Fund was exposed to risks arising from interest rate benchmark reform once LIBOR is replaced with alternative benchmark interest rates. The Fund has early adopted IBOR Phase 2. Applying the practical expedient introduced by the amendments, when LIBOR is replaced, the adjustments to the contractual cash flows will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of LIBOR will not result in an immediate gain or loss recorded in profit or loss, which may have been required if the practical expedient was not available or adopted.

Future principal payments on loans payable are as follows:

	Principal payments	Balloon payments	Total
2022	$ —	$ 39,063	$ 39,063
2023	—	—	—
2024	345	—	345
2025	2,102	—	2,102
2026	2,154	—	2,154
Thereafter	4,091	83,308	87,399
Total	$ 8,692	$ 122,371	$ 131,063

12. Preferred shares – U.S. REIT series A:

The U.S. REIT has a total of 125 series A, preferred shares issued and outstanding that are held by U.S. residents. The preferred shares were issued on July 2, 2021 and are redeemable at the option of the U.S. REIT, at a redemption value of $1 per share. The preferred shares pay a cumulative dividend at 12% per annum, semi-annually on June 30 and December 31. The preferred shares have no voting rights and the U.S. REIT incurs a penalty if redeemed before December 31, 2023.

13. Net liabilities attributable to Unitholders:

(a) Composition of net liabilities attributable to Unitholders and beneficial ownership of the Fund:

The beneficial limited partnership interest in the net liabilities and net income and comprehensive income of the Fund is held in seven classes of Units: A, C, D, E, F, G and U. The Fund is authorized to issue an unlimited number of Units in the classes as described above. Each Unitholder is entitled to one vote for each Unit held. Each class of Units entitles the holder to the same rights as a Unitholder in another class of Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units' rights. As there are varying economic values per class of Units, the net liabilities attributable to Unitholders is distributed disproportionately on a per unit basis upon liquidation. Accordingly, these Units have been classified as a liability in the consolidated statement of financial position and any distributions paid on each class of Units is presented in the consolidated statement of net income and comprehensive income. For the period from January 8, 2021 to December 31, 2021, distributions of $2,570 were declared and recorded to distribution expense.

13. Net liabilities attributable to Unitholders (continued):

(a) Composition of net liabilities attributable to Unitholders and beneficial ownership of the Fund (continued):

The following table represents a summary of the changes in thousands of Units by class:

	Number of Units Outstanding (000's)								
	Class A	**Class C**	**Class D**	**Class E**	**Class F**	**Class G**	**Class U**	**Total Units**	**Net Liabilities attributable to Unitholders ($)**
Outstanding as at January 8, 2021	—	—	—	—	—	—	—	—	$ —
Issuance from the Offering	2,863	2,436	2,096	237	1,960	535	299	10,426	85,408
Units reallocated due to conversions	198	—	(41)	(48)	(152)	(5)	54	6	—
Issuance costs of the Offering	—	—	—	—	—	—	—	—	(4,109)
Net income and comprehensive income	—	—	—	—	—	—	—	—	23,770
Outstanding as at December 31, 2021	**3,061**	**2,436**	**2,055**	**189**	**1,808**	**530**	**353**	**10,432**	**$ 105,069**

(b) Carried interest:

The partners of SICPP, currently being an affiliate of the Manager and the President of the General Partner, through SICPP's indirect interest in Holding L.P., a 99.99% owned subsidiary of the Fund, are entitled to 25% of the total of all amounts each of which is the amount, if any, by which (i) the aggregate amount of distributions which would have been paid on all Units of a particular class if all distributable cash (as defined in the Fund's final long form prospectus dated March 19, 2021 (the "Prospectus")) of the Holding L.P. were received by the Fund through Investment L.P., a 100% owned subsidiary of the Fund and Starlight U.S. Multi-Family (No. 2) Core Plus Investment GP, Inc., a 100% owned subsidiary of the Fund, together with all other amounts distributable by the Fund, and distributed by the Fund (net of any amounts required to provide for expenses and determined without reference to any applicable U.S. taxes payable by or on behalf of the Investment L.P.) to Unitholders in accordance with the Fund's amended and restated limited partnership agreement, exceeds (ii) the aggregate minimum return ("Minimum Return", as defined in the Prospectus) in respect of such class of Units (the calculation of which includes the amount of the Investors Capital Return Base (as defined in the Prospectus)), each such excess, if any, to be calculated in U.S. dollars and, in the case of class A Units, class C Units, class D Units and class F Units, based on the applicable exchange rate on the date of distribution for actual distributions paid by the Fund and otherwise on the date of the applicable distribution from the Holding L.P. to the Investment L.P. and by the Investment L.P. to, directly or indirectly, the Fund, provided that, to the extent that the aggregate amount of distributions which would have been paid on all Units of a particular class pursuant to the foregoing exceed the Minimum Return for such class, the partners of SICPP, through SICPP's indirect interest in the Holding L.P., are entitled to 50% of each such excess amount (i.e., a catch-up) until the excess, if any, which would have been distributed in respect of such class in excess of the investors capital return base (as defined in the Prospectus) is equal to three times (i.e., 75%/25%) the catch-up payment receivable by the Manager in respect of such class.

As at December 31, 2021, the Fund had recognized a provision for carried interest of $11,211 for the period from January 8, 2021 to December 31, 2021.

(In thousands of U.S. dollars, unless otherwise noted)

14. Accounts payable and accrued liabilities:

The following table presents the details of accounts payable and accrued liabilities:

		December 31, 2021
Tenant prepayments	$	80
Operating payables		745
Accrued property taxes [(i)]		657
Accrued asset management fees (note 17)		59
	$	1,541

(i) Accrued property taxes represent property taxes incurred but not yet paid for the Properties owned by the Fund up to the date of the consolidated statement of financial position. Property taxes are recorded to the consolidated statement of net income and comprehensive income to either property tax expenses or fair value adjustment to IFRIC 21 as a result of the requirements of IFRIC 21. The sum of the amounts recorded to property tax expense and fair value adjustment IFRIC 21 in the consolidated statement of net income and comprehensive income in any given reporting period represents the actual property taxes incurred by the Fund in such reporting period.

15. Fund and trust expenses:

Fund and trust expenses consist of the following:

		January 8, 2021 to December 31, 2021
Asset management fees (note 17)	$	535
General and administrative expenses		324
	$	859

16. Segmented disclosure:

All of the Fund's assets and liabilities are in, and its revenues are derived from the U.S. real estate industry. The Fund's investment properties are, therefore, considered by management to have similar economic characteristics. No single tenant accounts for 10% or more of the Fund's rental revenue.

17. Transactions with related parties:

The consolidated financial statements include the following transactions with related parties:

The Manager is a related party to the Fund as the Manager is owned and controlled by Daniel Drimmer, a director and President and Chief Executive Officer of the General Partner and Unitholder of the Fund. The Fund engaged the Manager to perform certain management services, as outlined below.

(a) Pursuant to the management agreement dated March 31, 2021 (the "Management Agreement"), the Manager is to perform asset management services for fees equal to 0.35% of the sum of: the historical purchase price of the properties acquired in U.S. dollars and the cost of any capital expenditures in respect of the Fund's properties since the date of acquisition by the Fund. Included in Fund and trust expenses is $535 in asset management fees charged by the Manager (note 15) for the period from January 8, 2021 to December 31, 2021. The amount payable to the Manager as at December 31, 2021 was $59 (note 14).

(b) Pursuant to the Management Agreement, the Manager is entitled to receive an acquisition fee in respect of properties acquired, directly or indirectly, by the Fund as a result of such properties having been presented to the Fund by the Manager calculated as 1.0% of the purchase price of a property acquired in each calendar year.

(In thousands of U.S. dollars, unless otherwise noted)

17. Transactions with related parties (continued):

For the period from January 8, 2021 to December 31, 2021, the Fund incurred acquisition fees of $2,027 relating to the acquisition of the Properties. The acquisition of the Properties were from affiliate entities owned or controlled by the Manager. The total purchase price paid for each property was based on third party appraisals and the amounts were representative of the fair value of the net assets acquired. There are no ongoing contractual commitments with the related party as a result of the acquisition of the Properties.

(c) Pursuant to the Management Agreement, in the event that the Manager is required by the lenders of the Fund to provide a financing guarantee in connection with the amount borrowed by the Fund or its wholly owned subsidiaries to indirectly acquire an interest in the investment properties, the Fund and the U.S. REIT will, in consideration for providing such guarantee, in aggregate, pay the Manager a guarantee fee represented by an annual amount equal to 0.15% of the then-outstanding amount of such guaranteed funds. This fee is calculated and payable in arrears on the first day of each month. As of December 31, 2021, $nil guarantee fees have been paid or are payable.

(d) Aggregate compensation to key management personnel was $nil for the period from January 8, 2021 to December 31, 2021 as compensation of these individuals is paid by the Manager pursuant to the Management Agreement.

18. Finance costs:

Finance costs consist of the following:

		January 8, 2021 to December 31, 2021
Interest expense on loans payable	$	2,424
Amortization of deferred financing costs		351
Loss on early extinguishment of debt (note 11)		617
Fair value loss on derivative financial instruments (note 7)		141
	$	3,533

19. Supplemental cash flow information:

(a) Changes in non-cash operating working capital:

The following table presents the changes in non-cash operating working capital presented within the consolidated statement of cash flows:

		January 8, 2021 to December 31, 2021
Utility deposits	$	2
Tenant and other receivables		(45)
Prepaid expenses and other assets		257
Tenant rental deposits		43
Accounts payable and accrued liabilities		439
Distribution payable		282
Total change in non-cash operating working capital	$	978

(In thousands of U.S. dollars, unless otherwise noted)

19. Supplemental cash flow information (continued):

(b) Finance costs paid:

The following table presents the components of finance costs paid presented within the consolidated statement of cash flows:

		January 8, 2021 to December 31, 2021
Interest expense paid	$	(2,231)
Financing costs incurred on loans payable		(2,082)
Total finance costs paid	$	(4,313)

20. Commitments and contingencies:

At December 31, 2021, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of December 31, 2021 expire within 12 months. The Fund holds commitments to provide for carried interest when applicable and to distribute excess cash to Unitholders.

The Fund may be involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in the recognition of a liability that would have a significant adverse effect on the financial position of the Fund. The Fund has agreed to indemnify, in certain circumstances, the trustees and officers of the Fund and its subsidiaries.

21. Capital management:

The Fund's capital management objectives and policies are to maintain a strong capital base so as to support ongoing operations, maintain creditor and market confidence and to sustain future development of the business. Capital consists of loans payable including capital lines available and net liabilities attributable to Unitholders. The Fund monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also distributing appropriate amounts to the Unitholders on a regular basis.

The Fund was in compliance with all financial covenants as at December 31, 2021.

22. Risk management:

The Fund's activities expose it to credit risk, market risk, liquidity risk, currency risk and other risks. These risks and the actions taken to manage them are as follows:

(a) Credit risk:

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

22. Risk management (continued):

(a) Credit risk (continued):

At December 31, 2021, the Fund had accrued no allowance for uncollectible amounts as such amounts are written off directly against revenues at that time. During the period from January 8, 2021 to December 31, 2021, the Fund recorded $106 of bad debts against revenues in the consolidated statement of net income and comprehensive income.

The Fund is actively monitoring the potential impact on credit risk of the coronavirus (SARS – CoV2) and its variants (“COVID-19”) global pandemic (note 22(e)).

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. The investment properties are subject to the risks associated with debt financing, including the risk that certain loans may not be refinanced on terms as favourable as those of the existing indebtedness, in the event that such refinancings occur in future periods. As at December 31, 2021, the investment properties have been reported at fair value which reflects the Fund’s best estimate of future cash flows and capitalization rates applicable to the investment properties. The Fund continues to monitor and review the potential impact that COVID-19 may have on the future cash flows of its investment properties. During the period from January 8, 2021 to December 31, 2021, the Fund has reflected the capitalization rates used in the valuation of the Properties to ensure the appropriate fair values are reflected as at December 31, 2021. The capitalization rates are reflective of third-party appraisals as well as consideration of comparable sales transactions for similar properties and overall changes in the investment market for multi-family properties up to December 31, 2021.

The Fund’s objective in managing interest rate risk is to minimize the volatility of the Fund’s income. The Fund has the ability to enter into interest rate cap agreements for the variable rate loans which protect the Fund from increases in LIBOR or SOFR index rates beyond stipulated levels. For the period from January 8, 2021 to December 31, 2021, all else being equal, an increase of ten basis points in LIBOR or SOFR index rates would impact net income and comprehensive income by $97, and a decrease of ten basis points in LIBOR or SOFR index rates would impact net income and comprehensive income by $62.

The Fund continues to actively monitor the potential impact that COVID-19 has on market risks applicable to the Fund (note 22(e)).

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the Fund staggered the maturity dates of its loan portfolio and has options to extend certain loans. All of the Fund’s current liabilities have contractual maturities of less than 12 months and are subject to normal trade terms.

The Fund continues to actively monitor the potential impact that COVID-19 has on liquidity risks applicable to the Fund (note 22(e)).

22. Risk management (continued):

(d) Currency risk:

Currency risk is the risk that the Fund encounters fluctuations in the Canadian/U.S. dollar exchange rate. The revenues and expenses of the investment properties are denominated in U.S. dollars and distributions made to Fund Unitholders are in both Canadian and U.S. dollars. The Fund converts such distribution amounts into Canadian dollars, as applicable, before distributions are paid to Unitholders. As a consequence, distributions are impacted by the prevailing exchange rates.

The Fund utilizes variable rate collar arrangements to provide some protection against the impact of changes in the Canadian/U.S. dollar exchange rate on the Fund's monthly distributions on Canadian dollar Units (note 7).

The Fund continues to actively monitor the potential impact that COVID-19 has on currency risks applicable to the Fund (note 22(e)).

(e) Other risk – COVID-19:

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. COVID-19 vaccination programs continue across the U.S. to varying degrees in different states and jurisdictions with the immunization efforts widely considered to have been successful to date relative to other countries globally and the approval of a third COVID-19 booster by the U.S. Food and Drug Administration to help further advance immunization efforts in preventing the spread of COVID-19.

Any future changes due to COVID-19 and its various variants (such as the Omicron variant) could materially impact the financial results of the Fund, which include potential decreases in occupancy, collection rates and increases in bad debts. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments may have on the financial results and condition of the Fund in future periods. Other impacts of COVID-19 may include the Fund's ability to access capital including debt in future periods on terms consistent with those achieved in the past.

The Fund has undertaken actions to mitigate the effect on the operations of the Fund, with established responses to COVID-19 including various preventative measures and ongoing coordination with on-site property management teams to mitigate the spread of the virus.

The Fund continues to monitor collection rates and as at the date of approval of these consolidated financial statements, the Fund's rent collection rate for the Properties was approximately 99.1% for the period from January 8, 2021 to December 31, 2021, with the Fund expecting further rent collections in future periods relating to these rents. The Fund is also continuing to actively monitor liquidity to ensure appropriate capital is available to fund the ongoing operations of the Fund.

23. Fair value measurement of financial instruments:

The Fund uses various methods in estimating the fair values recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values:

- Level 1 - quoted prices in active markets; and
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating fair values of the Fund's financial instruments:

- The fair value of the Fund's financial assets, which include utility deposits, tenant and other receivables, restricted cash and cash, as well as financial liabilities, which include tenant rental deposits, accounts payable and accrued liabilities, finance cost payable and distribution payable, approximate their carrying amounts due to their short-term nature (Level 1).
- Derivative financial instruments are considered as Level 2 financial instruments.
- The fair value of loans payable is estimated based on the current market rates for debt with similar terms and conditions (Level 2). The fair value of the Fund's loans payable as at December 31, 2021 approximated their carrying value.
- Provision for carried interest and net liabilities attributable to Unitholders are considered as Level 3 financial instruments due to the extent of assumptions required beyond observable market data to derive the fair values.