

Consolidated Interim 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 March 31, 2021
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 – *Continuous Disclosure Obligations*, if an auditor has not performed a review of an entity's consolidated interim financial statements, they must be accompanied by a notice indicating that such consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Starlight U.S. Multi-Family (No. 2) Core Plus Fund have been prepared by and are the responsibility of Starlight U.S. Multi-Family (No. 2) Core Plus Fund's management.

Starlight U.S. Multi-Family (No. 2) Core Plus Fund's independent auditor has not performed a review of these consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of consolidated interim financial statements by an entity's auditor.

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

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

	Note	March 31, 2021
ASSETS		
Non-current assets:		
Investment properties	6	\$ 204,952
Derivative financial instruments	7	124
Utility deposits		29
Total non-current assets		205,105
Current assets:		
Tenant receivables	8	285
Prepaid expenses	9	318
Restricted cash	10	793
Cash		2,644
Total current assets		4,040
TOTAL ASSETS		\$ 209,145
LIABILITIES		
Non-current liabilities:		
Loans payable	11	\$ 87,649
Deferred income tax		4
Total non-current liabilities excluding net liabilities attributable to Unitholders		87,653
Current liabilities:		
Loans payable	11	38,789
Tenant rental deposits		174
Accounts payable and accrued liabilities	13	1,161
Finance costs payable		60
Total current liabilities excluding net liabilities attributable to Unitholders		40,184
TOTAL LIABILITIES		\$ 127,837
Net liabilities attributable to Unitholders	12(a)	81,308
TOTAL LIABILITIES, NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		\$ 209,145

Commitments and contingencies (note 19).

See accompanying notes to the consolidated interim 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 May 11, 2021, and signed on its behalf:

Kelly Smith Director Harry Rosenbaum Director

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

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

	Note	2021
Revenue from property operations		\$ 35
Expenses:		
Property operating costs		9
Property taxes		—
Income from rental operations		26
Finance costs	17	11
Fund and trust expenses	14	3
Unrealized foreign exchange gain		(5)
Fair value adjustment IFRIC 21	13	4
Income before income taxes		13
Income taxes – deferred		4
Net income and comprehensive income		\$ 9

See accompanying notes to the consolidated interim financial statements.

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

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

	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
Net income and comprehensive income	2	2	2	—	2	1	—	9
Balance, March 31, 2021	\$21,362	\$19,147	\$15,638	\$ 2,282	\$15,086	\$ 5,000	\$ 2,793	\$ 81,308

See accompanying notes to the consolidated interim financial statements.

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

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

	Note	2021
Operating activities:		
Net income and comprehensive income	\$	9
Adjustments for financing activities included in net income and comprehensive income:		
Finance costs	17	11
Adjustments for items not involving cash:		
Unrealized foreign exchange gain		(5)
Deferred tax		4
Change in non-cash operating working capital	18(a)	(11)
Change in restricted cash		(333)
Cash used in operating activities		(325)
Financing activities:		
Proceeds from the issuance of units, net of issuance costs		81,299
Loans payable:		
Proceeds from new financing		88,371
Proceeds from assumed financing		39,063
Finance costs paid	18(b)	(1,134)
Cash provided by financing activities		207,599
Investing activity:		
Acquisition of investment properties	6	(204,635)
Cash used in investing activity		(204,635)
Increase in cash		2,639
Cash, beginning of period		—
Change in cash due to foreign exchange		5
Cash, end of period	\$	2,644

See accompanying notes to the consolidated interim financial statements.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

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: 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 partnership units of the Fund (“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 March 31, 2021 was 10,901,933 (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 March 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

2. Basis of presentation:

(a) Statement of compliance:

These consolidated interim 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 ("IASB") and using accounting policies described herein.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These consolidated interim 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 interim 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated interim financial statements comprise the financial statements of the Fund and its subsidiaries. All intercompany 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 Partnership 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.

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 interim 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 interim 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(b) Critical judgments and estimates (continued):

(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 Fund's investment properties or through a disposition of its ownership interests in its U.S. subsidiaries.

(v) Carried Interest:

The determination by the Fund as at each Statement of Financial Position date as to whether a provision for carried interest should be recognized to the partners of Starlight Investments (No. 1) 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 from the limited partners of the Fund. The terms of the carried interest are outlined in note 12.

(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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(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, laundry 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 agreement.

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 to bad debt expense and included in property operating costs 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(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.

	<u>Classification/ Measurement</u>
<u>Financial assets:</u>	
Utility deposits	Amortized cost
Tenant and other receivables	Amortized cost
Derivative financial instruments	FVTPL
Restricted cash	Amortized cost
Cash	Amortized cost
<u>Financial liabilities:</u>	
Loans payable	Amortized cost
Tenant rental deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Finance costs 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.

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 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(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”).

Furthermore, the U.S. REIT intends to make and maintain elections 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(h) Income taxes (continued):

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

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.

Foreign taxes paid or considered to have been paid by a subsidiary Canadian corporation will not be allocated to Unitholders and, accordingly, no foreign tax credit or foreign tax deduction will be available to Unitholders in respect of such foreign taxes. While the subsidiary Canadian corporations will generally be entitled to claim foreign tax credits or foreign tax deductions in respect of such taxes, the maximum credit available to the subsidiary Canadian corporations will generally be limited to their Canadian tax otherwise payable in respect of the underlying U.S. source income.

Accordingly, if the Canadian tax rate applicable to such income is less than the applicable foreign tax rate, double taxation may arise.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

3. Significant accounting policies (continued):

(h) Income taxes (continued):

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

Deferred taxes

As at March 31, 2021 a deferred tax liability of \$4 for the Fund was accrued based on a blended state and federal tax rate of 25.0%. The deferred tax liability relates to the difference between the fair value of the investment properties and their tax basis as of March 31, 2021. The Investment L.P. would 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.

(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.

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

Notes to the Consolidated Interim Financial Statements
 For the period from January 8, 2021 (date of formation) to March 31, 2021
 (In thousands of U.S. dollars, unless otherwise noted)
 (Unaudited)

4. Adoption of accounting standards:

Future accounting policy changes:

There were no new standards or interpretations and improvements to existing standards that were issued by the IASB or by the International Financial Reporting Interpretations Committee that have not yet been adopted by the Fund.

5. Acquisitions:

The following acquisitions were completed by the Fund during the period from January 8, 2021 to March 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 asset 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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

6. Investment properties:

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

Balance, January 8, 2021	\$	—
Acquisition of investment properties (note 5)		204,952
Capital additions		—
Fair value adjustment		—
Balance, March 31, 2021	\$	204,952

The following table reconciles the cost base of investment properties to their fair value:

		March 31, 2021
Cost	\$	204,952
Cumulative fair value adjustment		—
Fair Value	\$	204,952

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

	March 31, 2021
Capitalization rate - weighted average	3.95 %

The Fund determined the fair value of each investment 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 Fund's investment 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 Fund's investment properties as set out in the following table:

Weighted average	Change		March 31, 2021
Capitalization rate	10 basis-point increase	\$	(5,061)
Capitalization rate	10 basis-point decrease	\$	5,323

The impact of a one percent change in the net operating income used to value the investment properties as at March 31, 2021 would affect the fair value by approximately \$3,026.

The Fund's investment 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.

7. Derivative financial instruments:

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

	March 31, 2021
Interest Rate Cap	\$ 124

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

7. Derivative financial instruments (continued):

Interest Rate Cap:

The Fund utilizes interest rate cap agreements to protect its interest costs on its variable rate loans as required by the 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. During the period from January 8, 2021 to March 31, 2021, the Fund purchased interest rate caps for a total of \$124 relating to the loans payable (note 11). The Fund elected not to use hedge accounting.

8. Tenant receivables:

The following table presents details of the tenant receivables balance:

	March 31, 2021
Tenant receivables, net	\$ 285

The Fund holds no collateral in respect of tenant receivables.

9. Prepaid expenses:

The following table presents details of the prepaid expenses balance:

	March 31, 2021
Prepaid insurance	\$ 292
Prepaid expenses	26
	\$ 318

10. Restricted cash:

The following table presents details of the restricted cash balance:

	March 31, 2021
Escrowed funds:	
Property taxes ⁽ⁱ⁾	\$ 617
Property insurance ⁽ⁱ⁾	84
Replacement and repairs ⁽ⁱ⁾	5
Restricted cash:	
Security deposits ⁽ⁱⁱ⁾	87
	\$ 793

(i) Escrowed funds include cumulative amounts that are funded monthly into escrow with the Fund's lenders. These amounts are used to pay property taxes, property insurance 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, as well as amounts pledged as support for letters of credit required for municipal utility services at certain properties

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

11. Loans payable:

Loans payable are secured against the applicable investment property 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	March 31, 2021	
						Principal Outstanding
Montane ⁽ⁱ⁾	IO	November 2024	One 1-year	SOFR + 2.40%	\$	88,371
Hudson ⁽ⁱⁱ⁾	IO	February 2022	One 1-year	LIBOR + 2.35%	\$	39,063
Face value					\$	127,434
Unamortized financing costs						(996)
Carrying value					\$	126,438

(i) On March 31, 2021, the Fund entered into an agreement for a \$100,000 credit facility (the “Credit Facility”) and was advanced an initial draw of \$88,371 on the Credit Facility and also entered into a mortgage secured by Montane. The Credit Facility carries IO payments until maturity at SOFR + 2.40% and allows for a one-year extension option. In addition, the Credit Facility carries an unused commitment fee of 0.2% payable monthly on the undrawn amounts.

(ii) The interest rate on the Hudson loan payable is subject to a LIBOR floor of 0.15%.

Loans payable of \$38,789 (net of \$274 of deferred financing costs) were classified as current liabilities as they are due and payable within 12 months of the date of the consolidated interim statement of financial position.

As at March 31, 2021, the loans had a weighted average term to maturity of 2.8 years and a weighted average interest rate of 2.44%.

Future principal payments on loans payable are as follows:

	Principal payments		Balloon payments		Total
2021 - remainder of year	\$	—	\$	—	—
2022		—		39,063	39,063
2023		—		—	—
2024		—		88,371	88,371
Total	\$	—	\$	127,434	\$ 127,434

12. 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 interim statement of financial position and any distributions paid on each class of Units is presented in the consolidated interim statement of net income and comprehensive income. For the period from January 8, 2021 to March 31, 2021, distributions of \$nil were declared and recorded to distribution expense given the Offering was completed on March 31, 2021.

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

Notes to the Consolidated Interim Financial Statements
 For the period from January 8, 2021 (date of formation) to March 31, 2021
 (In thousands of U.S. dollars, unless otherwise noted)
 (Unaudited)

12. 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)							Total Units	Net Liabilities attributable to Unitholders (\$)
	Class A	Class C	Class D	Class E	Class F	Class G	Class U		
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
Issuance Costs of the Offering	—	—	—	—	—	—	—	—	(4,109)
Net income and comprehensive income	—	—	—	—	—	—	—	—	9
Outstanding as at March 31, 2021	2,863	2,436	2,096	237	1,960	535	299	10,426	\$ 81,308

(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 the 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 the Fund 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 the 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 (as defined in the Prospectus) in respect of such class of units of the Fund (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 the Fund 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., will be 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 March 31, 2021, the Fund did not recognize a provision for carried interest after taking into account the Minimum Return to Unitholders.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

13. Accounts payable and accrued liabilities:

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

	March 31, 2021
Tenant prepayments	\$ 51
Operating payables	438
Accrued property taxes ⁽ⁱ⁾	670
Accrued asset management fees (note 16)	2
	\$ 1,161

(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 interim statement of financial position. Property taxes are recorded to the consolidated interim 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 interim 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.

14. Fund and trust expenses:

Fund and trust expenses for the period from January 8, 2021 to March 31, 2021 consist of the following:

	2021
Asset management fees (note 16)	\$ 2
General and administrative expenses	1
	\$ 3

15. Segmented disclosure:

All of the Fund's assets and liabilities are in, and its revenues are derived from, the U.S. real estate industry segment. 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.

16. Transactions with related parties:

The consolidated interim 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 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 Fund's properties since the date of acquisition by the Fund. Included in Fund and trust expenses is \$2 in asset management fees charged by the Manager (note 14) for the period from January 8, 2021 to March 31, 2021. The amount payable to the Manager as at March 31, 2021 was \$2 (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.

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

16. Transactions with related parties (continued):

For the period from January 8, 2021 to March 31, 2021, the Fund incurred acquisition fees of \$2,027 relating to the acquisition of the Properties. The acquisition of the Properties was from affiliate entities of owned or controlled by the Manager. The total purchase price paid for each property was based on third party appraisals and the amounts are 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 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 March 31, 2021, \$nil guarantee fees have been paid or are payable.
- (e) Aggregate compensation to key management personnel was \$nil for the period from January 8, 2021 to March 31, 2021 as compensation of these individuals is paid by the Manager pursuant to the Management Agreement.

17. Finance costs:

Finance costs during the period from January 8, 2021 to March 31, 2021 consist of the following:

		2021
Interest expense on loans payable	\$	9
Amortization of deferred financing costs		2
	\$	11

18. Supplemental cash flow information:

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

The following table presents the changes in non-cash operating working capital for the period from January 8, 2021 to March 31, 2021 presented within the consolidated interim statement of cash flows:

		2021
Tenant and other receivables	\$	(35)
Prepaid expenses and other assets		(36)
Accounts payable and accrued liabilities		60
Total change in non-cash operating working capital	\$	(11)

- (b) Finance costs paid:

The following table presents the components of finance costs paid for the period from January 8, 2021 to March 31, 2021 as presented within the consolidated interim statement of cash flows:

		2021
Interest expense paid	\$	(13)
Financing costs incurred on new / assumed loans payable (note 5(ii))		(1,121)
Total finance costs paid	\$	(1,134)

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

19. Commitments and contingencies:

At March 31, 2021, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of March 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.

20. 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 March 31, 2021.

21. 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 interim statement of net income and comprehensive income.

At March 31, 2021, the Fund had accrued no allowance for uncollectible amounts as such amounts are written off directly to bad debt expense at that time. During the period from January 8, 2021 to March 31, 2021, the Fund recorded \$nil of bad debt expense within property operating costs in the consolidated interim statement of net income and comprehensive income.

The Fund is actively monitoring the potential impact on credit risk of the novel coronavirus ("COVID-19") global pandemic (note 21(e)).

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

21. Risk management (continued):

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. 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 March 31, 2021, the Fund's 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 the COVID-19 global pandemic may have on the future cash flows of its investment properties. During the period from January 8, 2021 to March 31, 2021, the Fund has reflected the capitalization rates used in the purchase price valuation of the Properties to ensure the appropriate fair values are reflected as at March 31, 2021 (note 6). The capitalization rates are reflective of third party appraisals as well as consideration of comparable sales transactions and changes which have occurred in the overall investment market for multi-family properties up to March 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 March 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 \$nil, and a decrease of ten basis points in LIBOR or SOFR index rates would impact net income and comprehensive income by \$nil.

The Fund continues to actively monitor the potential impact that the COVID-19 global pandemic has on market risks applicable to the Fund (note 21(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 the COVID-19 global pandemic has on liquidity risks applicable to the Fund (note 21(e)).

(d) Currency risk:

Currency risk is the risk that the Fund encounters from 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 continues to actively monitor the potential impact that the COVID-19 global pandemic may have on currency risks applicable to the Fund (note 21(e)).

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

Notes to the Consolidated Interim Financial Statements
For the period from January 8, 2021 (date of formation) to March 31, 2021
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

21. Risk management (continued):

(e) Other Risk:

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.

Any future changes due to COVID-19 could materially impact the financial results of the Fund, which include potential decreases in 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 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 interim financial statements, the Fund's rent collection rate for the properties was approximately 98.3% for March 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.

22. Fair value measurement of financial instruments:

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

- Level 1 - quoted prices in active markets;
- 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 and finance cost 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 March 31, 2021 approximated their carrying value.
- 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.