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

STARLIGHT U.S. RESIDENTIAL FUND

For the three and six months ended June 30, 2023 and June 30, 2022
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of Starlight U.S. Residential Fund have been prepared by and are the responsibility of Starlight U.S. Residential Fund's management.

Starlight U.S. Residential Fund's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor.

STARLIGHT U.S. RESIDENTIAL FUND

Condensed Consolidated Interim Statement of Financial Position
as at June 30, 2023 and December 31, 2022
(In thousands of U.S. dollars)
(Unaudited)

	Note		June 30, 2023		December 31, 2022
ASSETS					
Non-current assets:					
Investment properties	7	$	626,138	$	672,026
Derivative financial instruments	8		7,873		7,337
Utility deposits			102		105
Total non-current assets			634,113		679,468
Current assets:					
Resident and other receivables	9		411		578
Prepaid expenses and other assets	10		756		146
Restricted cash	11		4,492		3,818
Cash			3,241		7,628
Total current assets			8,900		12,170
TOTAL ASSETS		**$**	**643,013**	**$**	**691,638**
LIABILITIES					
Non-current liabilities:					
Loans payable	12	$	343,910	$	445,387
Preferred shares – U.S. REITs series A	13		250		250
Deferred income tax			—		1,316
Total non-current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests			344,160		446,953
Current liabilities:					
Loans payable	12		111,512		19,307
Resident rental deposits			946		977
Accounts payable and accrued liabilities	15		4,814		3,561
Finance costs payable			1,396		1,980
Total current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests			118,668		25,825
TOTAL LIABILITIES		**$**	**462,828**	**$**	**472,778**
Net liabilities attributable to Unitholders	14(a)		178,541		216,685
Non-controlling interests	21		1,644		2,175
TOTAL LIABILITIES AND NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS AND NON-CONTROLLING INTERESTS		**$**	**643,013**	**$**	**691,638**

Commitments and contingencies (note 22).

Subsequent Events (note 26).

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Trustees of Starlight U.S. Residential Fund on August 9, 2023, and signed on its behalf:

Kelly Smith Trustee   *Harry Rosenbaum* Trustee

STARLIGHT U.S. RESIDENTIAL FUND

Condensed Consolidated Interim Statement of Net Income and Comprehensive Income
For the three and six months ended June 30, 2023 and June 30, 2022
(In thousands of U.S. dollars)
(Unaudited)

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue from property operations		$ 10,100	$ 8,270	$ 20,163	$ 14,847
Expenses:					
Property operating costs		2,586	1,969	5,290	3,493
Property taxes		—	—	5,407	3,778
Income from rental operations		7,514	6,301	9,466	7,576
Finance costs	19	6,681	3,670	15,660	4,675
Distributions to Unitholders	14(a)	—	2,438	—	4,900
Dividends to preferred shareholders – U.S. REITs series A	13	8	8	16	16
Fund and trust expenses	16	1,092	612	1,824	1,155
Unrealized foreign exchange loss (gain)		1	6	(3)	1
Realized foreign exchange loss (gain)		—	(2)	—	11
Fair value loss (gain) on investment properties	7	34,481	—	34,481	(20,573)
Fair value adjustment IFRIC 21		1,334	1,190	(2,721)	(1,644)
Provision for carried interest	14(b)	—	—	—	2,995
(Loss) Income before income taxes		(36,083)	(1,621)	(39,791)	16,040
Current income taxes		109	24	200	44
Deferred income tax (recovery) expense		(2,080)	42	(1,316)	7,383
Net (loss) income and comprehensive (loss) income		**$ (34,112)**	**$ (1,687)**	**$ (38,675)**	**$ 8,613**
Net (loss) income attributable to:					
Unitholders		(33,682)	(1,692)	(38,144)	8,608
Non-controlling interests	21	(430)	5	(531)	5
Net (loss) income and comprehensive (loss) income		**$ (34,112)**	**$ (1,687)**	**$ (38,675)**	**$ 8,613**

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. RESIDENTIAL FUND

Condensed Consolidated Interim Statement of Changes in Net Liabilities Attributable to Unitholders
For the six months ended June 30, 2023 and 2022
(In thousands of U.S. dollars)
(Unaudited)

	Class A	**Class C**	**Class D**	**Class E**	**Class F**	**Class G**	**Class I**	**Class U**	**Class B LP**	**Total**
Balance, January 1, 2023	$17,998	$19,260	$80,392	$6,153	$45,398	$6,724	$25,160	$10,210	$5,390	$216,685
Changes during the period:										
Re-allocation due to Unit conversions	(1,693)	—	2,580	—	(887)	—	—	—	—	—
Net loss and comprehensive loss	(2,907)	(3,390)	(14,573)	(1,066)	(7,833)	(2,047)	(4,428)	(951)	(949)	(38,144)
Balance, June 30, 2023	**$13,398**	**$15,870**	**$68,399**	**$5,087**	**$36,678**	**$4,677**	**$20,732**	**$ 9,259**	**$4,441**	**$178,541**

	Class A	**Class C**	**Class D**	**Class E**	**Class F**	**Class G**	**Class I**	**Class U**	**Class B LP**	**Total**
Balance, January 1, 2022	$25,752	$21,190	$81,821	$6,764	$50,621	$7,507	$27,680	$11,129	$5,930	$238,394
Changes during the period:										
Re-allocation due to Unit conversions	(601)	—	1,026	—	(425)	—	—	—	—	—
Net income and comprehensive income	910	214	2,991	244	1,812	273	999	400	765	8,608
Balance, June 30, 2022	**$26,061**	**$21,404**	**$85,838**	**$7,008**	**$52,008**	**$7,780**	**$28,679**	**$11,529**	**$6,695**	**$247,002**

See accompanying notes to the consolidated financial statements including note 14 for a description of the class B Units (“Class B LP Units”) of Starlight U.S. Residential (Multi-Family) Investment L.P. (“MF Investment LP”) and Starlight U.S. Residential (Single-Family) Investment L.P. (together with MF Investment LP, “Investment LPs”).

STARLIGHT U.S. RESIDENTIAL FUND

Condensed Consolidated Interim Statement of Cash Flows
For the three and six months ended June 30, 2023 and 2022
(In thousands of U.S. dollars)
(Unaudited)

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Operating activities:					
Net (loss) income and comprehensive (loss) income		$ (34,112)	$ (1,687)	$ (38,675)	$ 8,613
Adjustments for financing activities included in net (loss) income and comprehensive (loss) income:					
Finance costs	19	6,681	3,670	15,660	4,675
Distributions to Unitholders	14(a)	—	2,438	—	4,900
Dividends to preferred shareholders – U.S. REITs series A	13	8	8	16	16
Adjustments for items not involving cash:					
Unrealized foreign exchange loss		1	6	(3)	1
Deferred income tax (recovery) expense		(2,080)	42	(1,316)	7,383
Provision for carried interest	14(b)	—	—	—	2,995
Fair value loss (gain) on investment properties	7	34,481	—	34,481	(20,573)
Net loss attributable to non-controlling interest	21	(430)	—	(531)	—
Change in non-cash operating working capital	20(a)	1,315	5,246	1,314	1,996
Change in restricted cash		(1,111)	(1,455)	(674)	(1,712)
Cash provided by operating activities		**4,753**	**8,268**	**10,272**	**8,294**
Financing activities:					
Proceeds from issuance of Preferred Shares – U.S. REITs series A	13	—	—	—	250
Loans payable:					
Proceeds from new financing	12	20,000	216,725	20,000	216,725
Proceeds from refinancing	12	—	75,000	—	75,000
Repayment of existing loans payable	12	(32,352)	(54,672)	(32,352)	(54,672)
Draw downs on existing loans	12	725	1,914	1,790	8,963
Finance costs paid	20(b)	(7,116)	(8,866)	(15,491)	(9,993)
Distributions paid to Unitholders	14(a)	—	(2,438)	—	(4,900)
Dividends to preferred shareholders – U.S. REITs series A	13	(8)	(8)	(16)	(16)
Cash (used in) provided by financing activities		**(18,751)**	**227,655**	**(26,069)**	**231,357**
Investing activities:					
Acquisition of investment properties	5	—	(227,969)	—	(236,535)
Capital additions to investment properties	7	(1,163)	(1,772)	(2,906)	(2,775)
Disposition of investment properties	6	14,313	—	14,313	—
Non-controlling interests	21	—	4,089	—	4,089
Cash provided by (used in) investing activities		**13,150**	**(225,652)**	**11,407**	**(235,221)**
(Decrease) increase in cash		**(848)**	**10,271**	**(4,390)**	**4,430**
Cash, beginning of period		4,090	4,571	7,628	10,407
Change in cash due to foreign exchange		(1)	(6)	3	(1)
Cash, end of period		**$ 3,241**	**$ 14,836**	**$ 3,241**	**$ 14,836**

See accompanying notes to the condensed consolidated interim financial statements.

1. Nature of business:

Starlight U.S. Residential Fund (the “Fund”) is a “closed-end” trust formed under and governed by the laws of the Province of Ontario, pursuant to an amended and restated declaration of trust dated as of October 28, 2021 (“Declaration of Trust”). The term of the Fund is three years, with two one-year extensions subject to approval by the board of trustees of the Fund. The Fund was established for the primary purpose of directly or indirectly acquiring, owning and operating a portfolio primarily composed of income producing residential properties and single-family rental homes in the United States (“U.S.”) residential real estate market that can achieve significant increases in rental rates as a result of undertaking high return, 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 (“Primary Markets”).

On November 15, 2021, the Fund completed its initial public offering (the “Offering”), together with a concurrent private placement of class I trust units, for aggregate gross proceeds of $249,568 by issuing the following trust units of the Fund (“Units”): 3,422,689 class A Units, 3,430,000 class C Units (including 750,000 Class B Units assumed to be converted into class C Units for this purpose), 10,923,370 class D Units, 6,561,866 class F Units and 3,500,000 class I Units at a price of $10.00 Canadian dollars (“C$”) per Unit and 699,990 class E Units, 801,485 class G Units and 1,188,200 class U Units, at a price of $10.00 per Unit. The class A and class U Units distributed under the Offering were listed on the TSX Venture Exchange under the symbols SURF.A and SURF.U, respectively. Class A, C, D, F, I and Class B LP Units 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 Declaration of Trust (the “Conversion Ratios”). The weighted average class A equivalent Units outstanding as at June 30, 2023 was 31,819,904 (assumes all outstanding Units were converted to class A equivalent Units based on the Conversion Ratios).

Following completion of the Offering, the Fund acquired three class “A” institutional quality multi-family properties comprising a total of 1,133 suites which include Bainbridge Sunlake (“Sunlake”), Indigo Apartments (“Indigo”) and Lyric Apartments (“Lyric”), located in the States of Florida, North Carolina and Nevada, in the Tampa, Raleigh and Las Vegas metropolitan areas, respectively and 28 single-family rental homes located in Atlanta, Georgia. Subsequent to the Offering, the Fund acquired an additional multi-family property, Emerson at Buda (“Emerson”), located in Austin, Texas and an additional 21 single-family rental homes in Atlanta, Georgia in 2021. During the year ended December 31, 2022, the Fund acquired a multi-family property comprising 264 suites in Orlando, Florida and a 90% interest in a multi-family property comprising 272 suites in Phoenix, Arizona, as well as an additional 49 single-family rental homes in Atlanta, Georgia. The Fund’s multi-family properties (“MF Properties”) and single-family rental homes (“SF Properties”) are collectively the “Properties”.

During the six months ended June 30, 2023, the Fund disposed 58 of its 98 SF Properties in Atlanta, Georgia (note 6).

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. (“Starlight Group”) and a related party. As at June 30, 2023, the Fund’s property portfolio consisted of interests in six MF Properties comprising 1,973 suites and 40 SF Properties (December 31, 2022 - 1,973 suites and 98 SF 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 condensed 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 and using the accounting policies described herein.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties of the Fund and derivative financial instruments of the Fund, 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 condensed 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 condensed consolidated interim statement of net (loss) income and comprehensive (loss) 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:

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in the Fund's audited consolidated financial statements for the year ended December 31, 2022. These accounting policies are based on the IFRS applicable at that time. The condensed consolidated interim financial statements do not include all of the disclosures included in the audited consolidated financial statements for the year ended December 31, 2022 and accordingly, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022 and notes thereto.

4. Adoption of accounting standards:

(a) Accounting standards implemented:

(i) Amendment to IAS 8 Definition of Accounting Estimates:

The Fund adopted this amendment on January 1, 2023. The amendment introduces a definition of ‘accounting estimates’. The amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. This amendment did not have material impact on the condensed consolidated interim financial statements of the Fund.

(ii) Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements:

The Fund adopted these amendments on January 1, 2023. These amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies. The amendments provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments did not have material impact on the condensed consolidated interim financial statements of the Fund.

(b) Future accounting policy changes:

(i) Amendment to IAS 1 Presentation of Financial Statements (“IAS 1”):

This amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date. The amendment also clarifies the situations that are considered a settlement of a liability. The amendment is effective for annual periods beginning on or after January 1, 2024 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 1.

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

5. Acquisitions:

There were no acquisitions during the three and six months ended June 30, 2023.

The following MF Properties and SF Properties were acquired by the Fund during the year ended December 31, 2022. The properties were acquired indirectly through the Fund's subsidiary entities. The acquisitions were treated as asset acquisitions, and as a result, the fair value of consideration was allocated to the identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition as follows:

	Eight at East	The Ventura	SF Properties	Total
Acquisition date	27-Apr	25-May	Various	
Number of suites	264	272	N/A	536
Number of homes	N/A	N/A	49	49
City, State / Region	Orlando, FL	Phoenix, AZ	Atlanta, GA	
Investment properties(ii)	$ 92,840	$ 132,026	$ 11,042	$ 235,908
Add:				
Prepaid expenses and other assets	97	220	—	317
Restricted cash	730	140	—	870
Deduct:				
Accounts payable and accrued liabilities	(245)	(98)	—	(343)
Resident rental deposits	(109)	(106)	—	(215)
Net assets acquired	**$ 93,313**	**$ 132,182**	**$ 11,042**	**$ 236,537**
Consideration funded by:				
New loans payable(iii)	63,157	90,297	—	153,454
Non-controlling interests (note 21)	—	4,084	—	4,084
Cash paid	30,156	37,801	11,042	78,999
Total consideration	**$ 93,313**	**$ 132,182**	**$ 11,042**	**$ 236,537**

(i) On May 25, 2022, the Fund acquired a 90% interest in Ventura Mezz LLC, which indirectly owns 100% of The Ventura ("Ventura"). The remaining 10% in Ventura Mezz LLC is owned by an affiliate of the Manager (note 21).

(ii) Investment properties includes acquisition costs capitalized to investment properties amounting to $1,090 for Eight at East, $1,451 for Ventura and $441 for SF Properties.

(iii) New loans payable are net of finance costs incurred amounting to $1,068 for Eight and East and $1,203 for Ventura.

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

6. Dispositions:

The following asset dispositions were completed during the three and six months ended June 30, 2023. The fair value of consideration has been allocated to the identifiable assets and liabilities sold based on their fair values at the date of disposition as follows:

		SF Properties
Number of Properties (i)		58
City, State / Region		Atlanta, GA
Investment properties (ii)	$	14,313
Deduct:		
Tenant rental deposits		(94)
Accounts payable and accrued liabilities		(88)
Transaction costs (iii)		(374)
Net proceeds from disposition before repayment of loan payable	**$**	**13,757**
Repayment of loan payable(iv)	$	(13,757)
Net proceeds from disposition after repayment of loan payable	**$**	**—**

(i) 58 properties were sold during the three and six months ended June 30, 2023, including 56 homes on June 1, 2023, 1 home on June 2, 2023 and 1 home on June 6, 2023.

(ii) During the three and six months ended June 30, 2023, the Fund incurred fair value loss of $607 (note 7).

(iii) The transaction costs of $374 incurred were recorded to fund and trust expenses within the Condensed Consolidated Interim Statement of Net Income and Comprehensive Income.

(iv) The Fund utilized the disposition proceeds outlined in the table above to repay $13,757 of the SFR Facility (note 12).

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

7. Investment properties:

The following table summarizes the change in the investment properties for the six months ended June 30, 2023 and the year ended December 31, 2022:

	SF Properties	MF Properties	Total
Balance, January 1, 2022	**$ 12,534**	**$ 437,005**	**$ 449,539**
Acquisitions of investment properties (note 5)	11,042	224,866	235,908
Capital additions	2,149	3,710	5,859
Fair value adjustment	—	(19,280)	(19,280)
Balance, January 1, 2023	**$ 25,725**	**$ 646,301**	**$ 672,026**
Dispositions of investment properties (note 6)	(14,313)	—	(14,313)
Capital additions	233	2,673	2,906
Fair value adjustment	(607)	(33,874)	(34,481)
Balance, June 30, 2023	**$ 11,038**	**$ 615,100**	**$ 626,138**

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

	June 30, 2023			December 31, 2022		
	SF Properties	MF Properties	Total	SF Properties	MF Properties	Total
Cost	$ 11,038	$ 668,254	$ 679,292	$ 25,725	$ 665,580	$ 691,306
Cumulative fair value adjustment	—	(53,154)	(53,154)	—	(19,280)	(19,280)
Fair Value	**$ 11,038**	**$ 615,100**	**$ 626,138**	**$ 25,725**	**$ 646,300**	**$ 672,026**

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

	June 30, 2023		December 31, 2022	
	SF Properties	MF Properties	SF Properties	MF Properties
Capitalization rate - range	5.25% - 5.75%	4.25% - 4.52%	5.25% - 5.75%	4.00% - 4.50%
Capitalization rate - weighted average	5.50 %	4.45 %	5.50 %	4.24 %

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.

The fair values of the Properties are sensitive to changes in the key valuation assumptions. A 10 basis-point ("bps") change in the capitalization rates would result in a change to the estimated fair value of the Properties as at June 30, 2023 as set out in the following table:

		June 30, 2023		December 31, 2022	
Weighted average	Change	SF Properties	MF Properties	SF Properties	MF Properties
Capitalization rate	10 bps increase	$ (197)	$ (13,517)	$ (459)	$ (14,896)
Capitalization rate	10 bps decrease	$ 204	$ 14,138	$ 476	$ 15,616

The impact of a one percent change in the net operating income used to value the investment properties as at June 30, 2023 would affect the fair value of MF Properties by approximately $7,015 (December 31, 2022 - $7,362) and the fair value of SF Properties by approximately $142 (December 31, 2022 - $360).

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 24(b)).

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

8. Derivative financial instruments:

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

		June 30, 2023		December 31, 2022
Interest rate caps (a)	$	7,887	$	7,530
Variable rate collar (b)		(14)		(193)
	$	7,873	$	7,337

(a) Interest rate caps:

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. As the Fund has elected not to use hedge accounting, an unrealized fair value gain of $720 and fair value loss of $1,485 was recorded in finance costs in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2023 (June 30, 2022 - gains of $515 and $923), respectively. As at June 30, 2023, the fair value of the interest rate caps were $7,887 (December 31, 2022 - $7,530). A summary of the Fund’s interest rate caps is presented below:

Property Name	**Maturity Date**	**Index(i)**	**Strike Rate**	**Notional Amount**	
Sunlake	June 1, 2024	NY SOFR	2.50%(ii)	$	75,000
Indigo(iii)	November 10, 2024	Term SOFR	3.75%		63,002
Lyric(iv)	November 15, 2023	Term SOFR	3.00%		91,375
Emerson	April 6, 2024	Term SOFR	2.75%		56,000
Eight at East(v)	January 7, 2024	Term SOFR	3.00%		64,225
Ventura(vi)	June 9, 2024	Term SOFR	3.50%		92,750

(i) The interest rate caps protect from increases in the index rates above stipulated levels as noted above. The index rates applicable are 30-day New York Federal Reserve Secured Overnight Financing Rate (“NY SOFR”) or one-month term Secured Overnight Financing Rate (“Term SOFR”).

(ii) The strike rate increased from 2.25% to 2.50% on June 1, 2023.

(iii) On January 25, 2023, the Fund entered into an interest rate swap contract relating to the Indigo property loan payable at a swap rate of 3.75%, fixing the all-in interest rate associated with such loan at 5.70% until the initial maturity. The upfront cost of entering into the interest rate swap was $867. On May 23, 2023, the Fund repaid $13,000 of the Indigo loan payable using proceeds from the credit facility entered into by the Fund (note 12 (c)). The Fund sold a portion of the swap to reduce the notional amount of the swap to $63,002. The proceeds from the sale were $167.

(iv) Effective June 15, the Fund revised the Lyric interest rate cap to convert the variable index rate from the U.S. 30-day London Interbank Offered Rate to Term SOFR.

(v) As part of the conversion of the Eight at East loan payable to a fixed rate loan (note 12c), the Fund was required to sell the interest rate cap and deposit proceeds from the sale of the cap into a reserve account with the lender. The escrowed funds will be returned to the Fund under certain conditions or upon repayment of the associated loan payable. In addition, the Fund is no longer required to purchase a replacement interest rate cap for Eight at east in January 2024 which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.

(vi) On March 17, 2023, the Fund acquired an interest rate cap which commenced June 10, 2023 and expires on June 9, 2024 for $1,061. The interest rate cap is for a notional amount of $92,750 with a Term SOFR strike rate of 3.50% and was required to be purchased based on the terms of the Ventura loan payable, replacing the interest rate cap which expired in June 2023.

(b) Variable rate collar:

The Fund entered into a variable rate collar contract on December 15, 2021, which allowed the Fund to establish a guaranteed monthly exchange rate between $1.2575 and $1.3200 for the conversion of U.S. dollar funds to Canadian dollar funds amounting to $930 (Canadian dollars) per month. The contract was entered into, and subsequently amended, to protect against the potential impact of any weakening of the U.S. dollar on potential amounts required to fund any monthly Canadian dollar distributions. Under the terms of the amended contract, the first monthly settlement occurs each successive month during the contract term on or about the 12th day of each month until April 11, 2024. 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 $1.2875 and a maximum exchange rate of $1.3925.

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

8. Derivative financial instruments (continued):

(b) Variable rate collar (continued):

The following table summarizes the material terms for the variable rate collar of the Fund as well as the balance presented in the condensed consolidated interim financial statements as at June 30, 2023:

Contract Start Date	Contract Maturity	Collar Floor	Collar Ceiling		June 30, 2023
September 8, 2022	April 10, 2024	$1.2875	$1.3925	$	(14)

Unrealized fair value gains of $100 and $179 were recorded in finance costs in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2023 (June 30, 2022 - gains of $30 and $70). The fair value of the variable rate collar contract as at June 30, 2023 was $(14) (December 31, 2022 - $(193)). 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.

9. Resident receivables:

The following table presents details of the resident receivables balance:

		June 30, 2023		December 31, 2022
Resident receivables (i)	$	292	$	577
Other receivables (i)		119		1
	$	411	$	578

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

10. Prepaid expenses and other assets:

The following table presents details of the prepaid expenses balance:

		June 30, 2023		December 31, 2022
Prepaid insurance	$	626	$	32
Prepaid expenses		130		95
Other deposits		—		19
	$	756	$	146

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

11. Restricted cash:

The following table presents details of the restricted cash balance:

	June 30, 2023	December 31, 2022
Escrowed funds:		
Property taxes (i)	$ 2,361	$ 2,229
Property insurance (i)	543	451
Interest and other reserves (ii)	777	304
Replacement and repairs (i)	98	55
Restricted cash:		
Security deposits (iii)	713	779
	$ 4,492	$ 3,818

(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, insurance and property repairs coming due within a 12-month period.

(ii) Interest reserve includes amounts funded into escrow with certain of the Fund's lenders which may be used to fund interest costs in future periods subject to certain conditions of each individual loan payable.

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

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

12. 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 NY SOFR or Term SOFR in each case plus an interest rate spread. Under certain loans, the Fund has purchased an interest rate cap which provides for a maximum interest rate payable in the event the variable index rate is above the strike rate of the cap. Certain of the Fund's loans payable also have capital lines available to fund eligible future capital expenditures incurred at the applicable Property. A summary of the Fund's loans payable is presented below:

						June 30, 2023		December 31, 2022	
Property Name [i]	Payment Terms	Maturity Date	Extension Options	Interest Rate[ii]	Max Rate[ii]	Capital Line Available	Principal Outstanding	Capital Line Available	Principal Outstanding
Sunlake	IO	June 1, 2025	Two 1-year	NY SOFR + 2.75%	5.00 %	$ —	$ 75,000	$ —	$ 75,000
Indigo (a)	IO	November 12, 2024	Two 1-year	Term SOFR + 1.95%	5.70 %	1,885	61,117	2,347	73,655
Lyric	IO	November 9, 2024	Two 1-year	Term SOFR + 1.80%	4.80 %	1,173	90,202	1,628	89,747
SFR Facility (b)	IO	June 30, 2023	n/a	Term SOFR + 3.00%	n/a	—	—	—	14,352
Emerson	IO	April 9, 2024	Three 1-year	Term SOFR + 2.60%	5.35 %	1,424	56,263	1,687	56,000
Eight at East (c)	IO	May 7, 2025	Two 1-year	Term SOFR + 2.60%	5.60 %	—	64,225	—	64,225
Ventura	IO	June 9, 2024	Two 1-year	Term SOFR + 3.50%	7.00 %	640	92,110	1,250	91,500
Unsecured loan (a)	IO	June 1, 2023	One 6-month	9.0%	n/a	—	—	—	5,000
Credit Facility (a)	IO	May 23, 2024	n/a	Term SOFR + 3.50%	n/a	—	20,000	—	—
Face value						$ 5,122	$ 458,917	$ 6,912	$ 469,479
Unamortized financing costs							(3,495)		(4,785)
Carrying value							$ 455,422		$ 464,694

Breakdown of current versus non-current portion of carrying value:	June 30, 2023	December 31, 2022
Current	$ 111,512	$ 19,307
Non-current	$ 343,910	$ 445,387

(i) The loans payable in the table above were entered into on the date of acquisition of each respective Property owned by the Fund, with the exception of the $14,352 credit facility ("SFR Facility") outlined above, Emerson, the unsecured loan and the credit facility.

(ii) The Fund utilizes interest rate cap agreements to protect its interest costs on variable rate loans as required by certain lenders. In the event the strike rate of the interest rate cap is below the variable index rate (Term SOFR or NY SOFR) at a monthly settlement date, the Fund's maximum interest rate payable would be equal to the credit spread plus the strike rate on the interest rate cap for each applicable loan. The terms of the applicable interest rate caps for the Fund are outlined in note 8(a).

(a) On May 23, 2023, the Fund entered into a $25,000 credit facility bearing IO payments at Term SOFR + 3.50% until maturity in May 2024 ("Credit Facility"). During the three and six months ending June 30, 2023, $20,000 was drawn and utilized to repay $13,000 of the Indigo loan payable and $5,000 to repay the unsecured loan in full.

(b) On June 1, 2023 the Fund repaid $13,757 of the SFR Facility using the proceeds from the disposition of 58 SF Properties (Note 6). The SFR Facility was repaid in full with a payment of $595 on June 29, 2023.

(c) On July 26, 2023, the Fund amended the existing loan payable to modify the Eight at East loan to a fixed rate loan bearing IO payments at 5.75% from the date of the amendment to the initial maturity date of May 7, 2025 (note 26). After May 7, 2025, during the extension periods available under the loan, the loan will convert back to a variable rate loan bearing IO payments at Term SOFR + 2.60%. As part of such amendment, the Fund discharged its obligation to purchase a replacement interest rate cap in November 2023, which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.

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

12. Loans payable (continued):

Loans payable of $111,512 (net of $598 of deferred financing costs) (December 31, 2022 - $19,307, net of $45 of deferred financing costs) were classified as current liabilities as they are due and payable within 12 months of the date of the condensed consolidated interim statement of financial position. As at June 30, 2023, the Fund's loans had a weighted average term to maturity of 1.33 years (December 31, 2022 - 1.78 years) and a weighted average interest rate of 5.74% (December 31, 2022 - 5.68%). Future principal payments on loans payable are as follows:

	Principal payments	Balloon payments	Total
2023	—	—	$ —
2024	—	319,692	$ 319,692
2025	—	139,225	$ 139,225
Total	$ —	$ 458,917	$ 458,917

13. Preferred shares – U.S. Real Estate Investment Trust series A:

The U.S. REIT's each have 125 series A, preferred shares issued and outstanding that are held by U.S. residents. The Starlight U.S. Residential (Multi-Family) REIT Inc. and Starlight U.S. (Single-Family) REIT Inc. preferred shares were issued on January 6, 2022 and January 20, 2022, respectively, and are redeemable at the option of the REIT at a redemption value of $1 per share, subject to prepayment penalties under certain conditions. The preferred shares pay a cumulative dividend at 12% per annum, semi-annually on June 30 and December 31 and have no voting rights.

14. 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 (loss) income and comprehensive (loss) income of the Fund is held in nine classes of Units: A, C, D, E, F, G, I, U and Class B LP Units. The Fund is authorized to issue an unlimited number of Units in classes A, C, D, E, F, G, I, U. The Class B LP Units are exchangeable into, and economically equivalent to, class C Units where such Units have been included as part of the net liabilities attributable to Unitholders in the Fund's condensed consolidated interim financial statements. In the event of a liquidation, dissolution or wind-up of the Fund, or an Investment LP in an insolvency scenario, the Class B LP Units will automatically exchange into class C Units. Each Unitholder is entitled to one vote for each Unit (including Class B LP Units) 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 are 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 condensed consolidated interim statement of net (loss) income and comprehensive (loss) income. For the three and six months ended June 30, 2023, distributions of $nil were declared and recorded to distribution expense (June 30, 2022 - $2,438 and $4,900). On November 25, 2022, the Fund announced its intention to pause monthly distributions for all classes of Units, effective with the November 2022 distribution, which would have been payable on December 15, 2022. The reduction in the distributions will be retained by the Fund for general Fund purposes and amounts to approximately $9,600 per annum.

14. 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 I	Class U	Class B LP	Total Units		Net Liabilities attributable to Unitholders ($)
Outstanding as at January 1, 2023	2,642	2,680	11,805	694	6,462	918	3,500	1,077	750	30,528	$	216,685
Units reallocated due to conversions	(219)	—	350	(6)	(128)	447	—	(444)	—	—		—
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	—	—		(38,144)
Outstanding as at June 30, 2023	**2,423**	**2,680**	**12,155**	**688**	**6,334**	**1,365**	**3,500**	**633**	**750**	**30,528**	**$**	**178,541**

(b) Carried interest:

The partners of Starlight Investments Residential Partnership ("SIRP") (currently being Starlight Group and the President of the Fund), through SIRP's indirect interest in Starlight U.S. Residential (Multi-Family) Holding L.P. and Starlight U.S. Residential (Single-Family) Holding L.P. (collectively referred to as the "Holding LPs"), are entitled to the carried interest, being an aggregate amount equal 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 (assuming all Class B LP Units were exchanged for class C Units) of a particular class if all distributable cash of the Holding LPs were received by the Fund (through the Investment LPs, Starlight U.S Residential (Multi-Family) Investment GP, Inc., and Starlight U.S. Residential (Single-Family) Investment GP, Inc.), together with all other amounts distributable by the Fund (including distributable cash generated by investees of the Fund not held through the Holding LPs, if any), 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 Fund, the Investment LPs or any other investee partnership that is treated as a corporation for U.S. federal income tax purposes) to Unitholders in accordance with the Declaration of Trust, exceeds (ii) the aggregate minimum return in respect of such class of Units (including, in the case of class C Units, the class C Units issuable upon exchange of Class B LP Units), the calculation of which includes the amount of the investors capital return base, each such excess, if any, to be calculated in U.S. dollars and, in the case of Canadian dollar 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 by any relevant investee to the Fund, provided that, to the extent that the aggregate amount of distributions which would have been paid on all Units (assuming all Class B LP Units were exchanged for class C Units) of a particular class pursuant to the foregoing exceeds the minimum return for such class, the partners of SIRP, through SIRP's indirect interest in the Holding LPs, will be entitled to an aggregate amount equal to 50% of each such excess amount (i.e., a catch-up) until the amounts, if any, distributable to Unitholders in excess of the investors capital return base, as defined in the Fund's final long form prospectus dated October 28, 2021, is equal to three times (i.e., 75%/25%) the catch-up payment receivable by the partners of SIRP in respect of such class. Pursuant to a side letter to be entered into between the partners of SIRP and the holders of class I Units, the partners of SIRP will pay a percentage of the carried interest received to the holders of class I Units in an amount that is intended to result in the carried interest retained by the partners of SIRP being reduced to 20% in respect of the class I Units, with no catch-up amount. As at June 30, 2023, the Fund had recognized a provision for carried interest of $nil (December 31, 2022 - $nil), resulting in an expense of $nil for the three and six months ended June 30, 2023 (June 30, 2022 - $nil and $2,995).

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

15. Accounts payable and accrued liabilities:

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

	June 30, 2023	December 31, 2022
Resident prepayments	$ 116	$ 126
Operating payables	1,974	1,831
Accrued property taxes (i)	2,411	1,364
Accrued asset management fees (note 18)	176	189
Excise tax and franchise tax payable	137	51
	$ 4,814	$ 3,561

(i) Accrued property taxes represent property taxes incurred but not yet paid for the Properties up to the date of the condensed consolidated interim statement of financial position. As a result of the requirements of International Financial Reporting Interpretations Committee Interpretation 21, Levies ("IFRIC 21"), property taxes are recorded to the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income to either property tax expenses or fair value adjustment to IFRIC 21. The sum of the amounts recorded to property tax expense and fair value adjustment IFRIC 21 in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income in any given reporting period represents the actual property taxes incurred by the Fund in such reporting period.

16. Fund and trust expenses:

Fund and trust expenses consist of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Asset management fees (note 18)	$ 562	$ 446	$ 1,128	$ 834
General and administrative expenses	156	166	322	321
Transaction costs (note 6)	374	—	374	—
	$ 1,092	$ 612	$ 1,824	$ 1,155

17. Segmented disclosure:

All of the Fund's assets and liabilities are in, and its revenues are derived from the U.S. real estate industry. No single resident accounts for 10% or more of the Fund's rental revenue. The Fund consists of two operating segments which comprise one reportable segment. The following two operating segments have been determined by the Fund's chief operating decision makers:

- **Multi-family rental business** which includes owning and operating suburban garden- and wrap-style multi-family rental homes in the Primary Markets.
- **Single-family rental business** which includes owning and operating suburban single-family rental homes in the Primary Markets.

The Fund evaluates the performance of each operating segment using a number of measures, including revenues and net income. The multi-family and single-family rental businesses operate in the same Primary Markets using similar methods to distribute rental services and are considered by management to have similar economic characteristics, and the single-family rental business does not meet the quantitative thresholds under IFRS 8 - Business Segments to be classified as a separate reportable segment. The multi-family and single-family rental businesses are therefore considered to be one reportable segment for the purposes of these financial statements.

18. Transactions with related parties:

The condensed 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 President and Chief Executive Officer of Starlight Group and Unitholder and Chief Executive Officer of the Fund. The Fund engaged the Manager to perform certain management services as outlined below:

(a) Pursuant to the management agreement dated November 15, 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 were $562 and $1,128 in asset management fees charged by the Manager (note 16) for the three and six months ended June 30, 2023 (June 30, 2022 - $446 and $834). The amount payable to the Manager as at June 30, 2023 was $176 (December 31, 2022 - $189) (note 15).

(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 multi-family property and 2.0% of the purchase price of a single-family rental home. For the three and six months ended June 30, 2023, the Fund incurred acquisition fees of $nil (June 30, 2022 - $2,337 and $2,503) relating to the acquisition of additional multi-family properties and single-family rental homes (note 5).

(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 each 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 June 30, 2023, $nil guarantee fees have been paid or are payable (December 31, 2022 - $nil).

(d) Aggregate compensation to key management personnel was $nil for the three and six months ended June 30, 2023 as compensation of these individuals is paid by the Manager pursuant to the Management Agreement (June 30, 2022 - $nil).

On May 20, 2022, the Fund acquired a 90% interest in Ventura Mezz LLC, the entity that indirectly owns Ventura, with the remaining 10% ownership of Ventura Mezz LLC acquired by an entity controlled by Daniel Drimmer, the President and Chief Executive Officer of Starlight Group and a trustee, Unitholder and Chief Executive Officer of the Fund ("Ventura Minority Owner"). There are no ongoing contractual commitments with the Ventura Minority Owner other than typical governing legal documents for Ventura Mezz LLC which outline that all decision making in respect of such entity, including day-to-day and material decisions, will be proportionately made by the Fund, including its subsidiaries, and the Ventura Minority Owner through established governance practices. The purchase price of Ventura, including the 10% acquired by the Ventura Minority Owner was determined based on the agreed upon purchase price with the third party seller and represents the fair value of the property acquired at that time. See note 21 for details on the accounting for the non-controlling interest.

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

19. Finance costs:

Finance costs consist of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest expense on loans payable	$ 6,773	$ 3,108	$ 12,926	$ 4,280
Amortization of deferred financing costs	728	489	1,428	770
Loss on early extinguishment of debt	—	618	—	618
Unrealized Fair value (gain) loss on interest rate caps (note 8)	(720)	(515)	1,485	(923)
Unrealized Fair value (gain) on variable rate collar (note 8)	(100)	(30)	(179)	(70)
	$ 6,681	$ 3,670	$ 15,660	$ 4,675

20. 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 condensed consolidated interim statement of cash flows:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Utility deposits	$ 1	$ (13)	$ 2	$ (67)
Resident and other receivables	69	(146)	167	(254)
Prepaid expenses and other assets	1,036	4,129	(79)	(141)
Resident rental deposits	(64)	103	(30)	155
Accounts payable and accrued liabilities	273	1,196	1,254	2,736
Distribution payable	—	(23)	—	(433)
Total change in non-cash operating working capital	$ 1,315	$ 5,246	$ 1,314	$ 1,996

(b) Finance costs paid:

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest expense paid	$ (7,157)	$ (2,846)	$ (13,510)	$ (3,971)
Financing costs incurred on loans payable	41	(6,020)	(1,981)	(6,022)
Total finance costs paid	$ (7,116)	$ (8,866)	$ (15,491)	$ (9,993)

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

21. Non-controlling interests:

The following table summarizes the change in non-controlling interests for the three months ended June 30, 2023:

Ventura Non-Controlling Interest at May 25, 2022 - 10% (i)	**$**	**4,084**
Net loss attributable to Ventura Non-Controlling Interest		(1,909)
Balance, December 31, 2022		**2,175**
Net loss attributable to Ventura Non-Controlling Interest (ii)		(531)
Balance, June 30, 2023	**$**	**1,644**

(i) Given the Fund's 90% indirect ownership interest in Ventura, the Fund has control over Ventura and has wholly consolidated its financial position and results of operations in these condensed consolidated interim financial statements (note 5). The initial purchase price paid for the Ventura non-controlling interest by the Ventura minority owner has been reflected in the table above in accordance with the Fund's basis of presentation as outlined in note 2(e).

(ii) During the three and six months ended June 30, 2023, the Ventura non-controlling interest revenues from property operations were $147 and $295, property operating expenses were $34 and $70 and finance costs were $147 and $351. Net loss and comprehensive loss attributable to the non-controlling interest for the three and six months ended June 30, 2023 was $430 and $531.

22. Commitments and contingencies:

At June 30, 2023, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of June 30, 2023 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.

23. 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 June 30, 2023.

24. 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 residents 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 condensed consolidated interim statement of net (loss) income and comprehensive (loss) income.

24. Risk management (continued):

(a) Credit risk (continued):

At June 30, 2023, the Fund had accrued no allowance for uncollectible amounts as such amounts are written off directly against revenues at that time. During the three and six months ended June 30, 2023, the Fund recorded $239 and $532 of bad debts against revenues in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income (June 30, 2022 - $80 and $148).

The Fund continues to actively monitor the impact of interest rates, inflation, the potential impact any resurgence in the coronavirus (SARS – CoV2) and its variants (“COVID-19”), and the impact that any changes in migration or other population growth patterns caused by the lagging effects of COVID-19 including return to work policies at various employers or otherwise, may have on credit risks applicable to the Fund.

(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 June 30, 2023, 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’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 Term SOFR or NY SOFR beyond stipulated levels. In certain instances and typically in the event no existing interest rate protection is in place for such loan payable, the Fund is required to purchase an interest rate cap if Term SOFR or NY SOFR increase above certain levels in accordance with terms in the loan agreements. In addition, if existing in place interest rate caps have an expiry date prior to the maturity date of the applicable loan payable to which it relates, the Fund may be required to purchase a replacement interest rate cap for the duration such loan remains outstanding, subject to certain conditions in each applicable loan agreement. Typically such interest rate caps would be required to be purchased on or before the expiry of the existing interest rate cap, if applicable. For both the three and six months ended June 30, 2023, all else being equal, a change of ten bps in Term SOFR or NY SOFR index rates would impact net (loss) income and comprehensive (loss) income by $2 (June 30, 2022 - $118 and $235).

(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. On November 25, 2022, the Fund announced its intention to pause monthly distributions for all classes of Units, commencing with the November 2022 distribution, which would have been payable on December 15, 2022. The reduction in the distributions will be retained by the Fund for general Fund purposes and amounts to approximately $9,600 per annum.

24. 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 any 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 any distributions are paid by the Fund to Unitholders. As a consequence, any distributions paid by the Fund 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 any distributions paid related to the Fund's Canadian dollar Units (note 8). Given the Fund paused distributions to Unitholders commencing December 2022, the Fund also continues to closely monitor the existing variable rate collar arrangement to minimize any settlements that may be required under the existing contract terms.

25. Fair value measurement of financial instruments:

The Fund uses various methods in estimating the fair values recognized in the condensed 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; 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, resident and other receivables, restricted cash and cash, as well as financial liabilities, which include resident rental deposits, accounts payable and accrued liabilities, finance cost payable and distributions 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 June 30, 2023 approximated their carrying value; and
- 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.

26. Subsequent events

On July 26, 2023, the Fund amended the existing Eight at East loan payable to a fixed rate loan bearing IO payments at 5.75% from the date of the amendment to the initial maturity date of May 7, 2025. After May 7, 2025, during the extension periods available under the loan, the loan will convert back to a variable rate loan bearing IO payments at Term SOFR + 2.60%. As part of such amendment, the Fund discharged its obligation to purchase a replacement interest rate cap in November 2023, which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.