

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

**STARLIGHT U.S. MULTI-FAMILY (NO. 1)  
VALUE-ADD FUND**

Three and nine months ended September 30, 2018, three months ended  
September 30, 2017 and for the period April 24, 2017 to September 30, 2017  
(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 interim financial statements, they must be accompanied by a notice indicating that such financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Starlight U.S. Multi-Family (No.1) Value-Add Fund (the "Fund") have been prepared by and are the responsibility of the Fund's management.

The 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 interim financial statements by an entity's auditor.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

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

	Note	September 30, 2018	December 31, 2017
<b>ASSETS</b>			
Non-current assets:			
Investment properties	5	\$ 225,110	\$ 161,142
Derivative financial instruments	7	241	54
Utility deposits		90	84
Total non-current assets		225,441	161,280
Current assets:			
Tenant and other receivables	8	520	128
Prepaid expenses and other assets	9	150	1,475
Restricted cash	10	2,462	2,909
Cash		2,114	7,393
Total current assets		5,246	11,905
<b>TOTAL ASSETS</b>		<b>\$ 230,687</b>	<b>\$ 173,185</b>
<b>LIABILITIES</b>			
Non-current liabilities:			
Mortgages payable	11	\$ 139,141	\$ 104,343
Preferred shares – U.S. REIT series A	12	125	-
Provision for carried interest	14	3,289	-
Deferred income tax		9,006	1,964
Total non-current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests		151,561	106,307
Current liabilities:			
Tenant rental deposits		278	230
Accounts payable and accrued liabilities	13	1,197	917
Finance costs payable		325	232
Distributions payable		334	337
Total current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests		2,134	1,716
<b>TOTAL LIABILITIES</b>		<b>\$ 153,695</b>	<b>\$ 108,023</b>
Net liabilities attributable to Unitholders	14	75,441	65,162
Net liabilities attributable to non-controlling interests	20	1,551	-
<b>TOTAL LIABILITIES AND NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS AND NON-CONTROLLING INTERESTS</b>		<b>\$ 230,687</b>	<b>\$ 173,185</b>

Commitments and contingencies (note 21).

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Directors of Starlight U.S. Multi-Family (No. 1) Value-Add GP, Inc., as General Partner for Starlight U.S. Multi-Family (No. 1) Value-Add Fund on November 7, 2018, and signed on its behalf:

Graham Rosenberg Director Harry Rosenbaum Director

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Condensed Consolidated Interim Statement of Net Income and Comprehensive Income  
 Three and nine months ended September 30, 2018 and for the period April 24, 2017 to  
 September 30, 2017  
 (In thousands of U.S. dollars)  
 (Unaudited)

	Note	Three months ended		Nine months ended	For the period
		September 30, 2018	September 30, 2017	September 30, 2018	April 24, 2017 to September 30, 2017
Revenue from property operations		\$ 4,524	\$ 3,505	\$ 11,456	\$ 4,091
Expenses:					
Property operating costs		1,346	895	3,186	1,030
Property taxes		-	-	2,645	-
Income from rental operations		3,178	2,610	5,625	3,061
Share of net loss (income) in joint venture	6	-	-	(960)	-
Finance costs	18	1,584	918	4,180	1,063
Distributions to Unitholders		959	1,020	2,986	1,020
Dividends to Preferred Shareholders – U.S. REIT series A		4	-	12	-
Fund and trust expenses	15	256	207	788	278
Unrealized foreign exchange (gain) loss		(4)	6	(5)	3
Fair value adjustment investment properties	5	(10,999)	(5,678)	(21,761)	(5,678)
Fair value adjustment IFRIC 21		633	614	(673)	716
Provision for carried interest	14	1,552	-	3,289	-
Income before income taxes		9,193	5,523	17,769	5,659
Income taxes: - current		8	8	22	9
- deferred		2,984	2,591	7,042	2,663
Total income taxes		2,992	2,599	7,064	2,672
Net income and comprehensive income		\$ 6,201	\$ 2,924	\$ 10,705	\$ 2,987
Net income attributable to:					
Unitholders		5,782	2,924	10,279	2,987
Non-controlling interests	20	419	-	426	-
Net income and comprehensive income		\$ 6,201	\$ 2,924	\$ 10,705	\$ 2,987

See accompanying notes to the condensed consolidated interim financial statements.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Condensed Consolidated Interim Statement of Changes in Net Liabilities Attributable to Unitholders  
 Nine months ended September 30, 2018 and for the period April 24, 2017 to September 30, 2017  
 (In thousands of U.S. dollars)  
 (Unaudited)

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Balance, December 31, 2017	\$12,670	\$12,748	\$13,120	\$10,663	\$13,708	\$ -	\$2,253	\$65,162
Changes during the period:								
Re-allocation due to unit conversions	501	-	(141)	339	(360)	-	(339)	-
Net income and comprehensive income	2,078	2,011	2,046	1,735	2,107	-	302	10,279
<b>Balance, September 30, 2018</b>	<b>\$15,249</b>	<b>\$14,759</b>	<b>\$15,025</b>	<b>\$12,737</b>	<b>\$15,455</b>	<b>\$ -</b>	<b>\$2,216</b>	<b>\$75,441</b>

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Balance, April 24, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Changes during the period:								
Units issued on offering, net of issue costs	12,918	12,061	9,994	9,305	13,119	1,338	2,914	61,649
Re-allocation due to unit conversions	(1,013)	-	2,500	782	(149)	1,338	(782)	-
Net income and comprehensive income	577	584	606	489	628	-	103	2,987
<b>Balance, September 30, 2017</b>	<b>\$12,482</b>	<b>\$12,645</b>	<b>\$13,100</b>	<b>\$10,576</b>	<b>\$13,598</b>	<b>\$0</b>	<b>\$2,235</b>	<b>\$64,636</b>

See accompanying notes to the condensed consolidated interim financial statements.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Condensed Consolidated Interim Statement of Cash Flows

Three and nine months ended September 30, 2018 and for the period April 24, 2017 to

September 30, 2017

(In thousands of U.S. dollars)

(Unaudited)

	Note	Three months ended September 30, 2018	September 30, 2017	Nine months ended September 30, 2018	For the period April 24, 2017 to September 30, 2017
<b>Operating activities:</b>					
Net income and comprehensive income		\$ 6,201	\$ 2,924	\$ 10,705	\$ 2,987
Adjustments for financing activities included in net income and comprehensive income:					
Finance costs	18	1,584	918	4,180	1,063
Distributions to Unitholders		959	1,020	2,986	1,020
Dividends to Preferred Shareholders – U.S. REIT series A		4	-	12	-
Adjustments for items not involving cash:					
Share of net loss (income) in joint venture	6	-	-	(960)	-
Fair value adjustment of investment properties including IFRIC 21		(10,620)	(5,055)	(22,185)	(6,309)
Unrealized foreign exchange (gain) loss		(5)	-	(5)	-
Provision for carried interest	14	1,552	-	3,289	-
Change in non-cash operating working capital	19	(94)	813	1,345	1,241
Change in restricted cash		(504)	(752)	447	(752)
Deferred tax		2,984	2,591	7,042	2,663
<b>Cash provided by operating activities</b>		<b>2,061</b>	<b>2,459</b>	<b>6,856</b>	<b>1,913</b>
<b>Financing activities:</b>					
Proceeds from the issuance of units, net of issuance costs		-	(1)	-	61,648
Mortgages payable:					
Proceeds from new financing		-	-	-	104,950
Draw downs on existing loans		1,053	-	1,872	-
Proceeds from refinancing		-	-	8,300	-
Proceeds from issuance of Preferred shares – U.S. REIT series A	12	-	-	125	-
Finance costs paid		(1,778)	(857)	(4,270)	(1,731)
Distributions paid to Unitholders		(959)	(1,020)	(2,986)	(1,020)
Dividends to Preferred Shareholders – U.S. REIT series A	12	(4)	-	(12)	-
<b>Cash (used in) provided by financing activities</b>		<b>(1,688)</b>	<b>(1,878)</b>	<b>3,029</b>	<b>163,847</b>
<b>Investing activities:</b>					
Acquisitions of investment properties	4	-	-	(5,643)	(155,193)
Non-controlling interests	4	-	-	1,125	-
Capital additions to investment properties	5	(1,620)	(524)	(4,194)	(546)
Transferred in from joint venture	6	-	-	(6,612)	-
Contributions to joint venture	6	-	-	(85)	-
Distributions from joint venture	6	-	-	245	-
<b>Cash used in investing activities</b>		<b>(1,620)</b>	<b>(524)</b>	<b>(15,164)</b>	<b>(155,739)</b>
<b>Increase (decrease) in cash</b>		<b>(1,247)</b>	<b>57</b>	<b>(5,279)</b>	<b>10,021</b>
<b>Cash, beginning of period</b>		<b>3,361</b>	<b>9,964</b>	<b>7,393</b>	<b>-</b>
<b>Cash, end of period</b>		<b>\$ 2,114</b>	<b>\$ 10,021</b>	<b>\$ 2,114</b>	<b>\$ 10,021</b>

See accompanying notes to the condensed consolidated interim financial statements.

# STARLIGHT U.S. MULTI-FAMILY (NO.1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to

September 30, 2017

---

Starlight U.S. Multi-Family (No. 1) Value-Add 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. 1) Value-Add GP, Inc. (the “General Partner”). The Fund may be extended beyond five years by a special resolution of the unitholders of the Fund (“Unitholders”). The Fund was established for the purpose of investing in value-add, income-producing, multi-family properties in the 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, Colorado, Florida, Georgia, Nevada, North Carolina, Tennessee and Texas.

Following completion of the initial public offering (the “Offering”), the Fund acquired two multi-family residential properties comprising a total of 943 suites located in the States of Arizona and Texas in the markets of Phoenix and Austin, respectively. The balance of the net proceeds of the Offering was used to subsequently acquire a 50% interest in one additional value-add income-producing, multi-family property in Atlanta, Georgia. On June 12, 2018, the Fund acquired an additional ownership interest in the Atlanta, Georgia property of 41.49295% resulting in a total controlling interest of 91.49295%. During the period, the Fund was 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 September 30, 2018, the Fund’s property portfolio consisted of interests in three properties totaling 1,193 suites.

On June 16, 2017, the Fund completed the Offering and issued the following limited partnership units: 1,834,158 class A units, 1,622,500 class C units, 1,419,000 class D units, 1,805,408 class F units and 190,000 class H units at a price of C\$10.00 and 312,080 class U units and 996,700 class E units, at a price of \$10.00. The class A units and class U units distributed under the Offering were listed on the TSX Venture Exchange under the symbols SUVA.A and SUVU.U, respectively. The registered office of the Fund is located at 3280 Bloor Street West, Centre Tower, Suite 1400, Toronto Ontario M8X 2X3.

## 1. 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 Accounting Standards (“IAS”) 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the Fund since the last consolidated financial statements as at and for the period ended December 31, 2017. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## 1. Basis of presentation (continued):

### (b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, investment in joint ventures 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 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 statement of net income and comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

### (d) Critical judgements and estimates:

The preparation of these condensed consolidated interim 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. 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.

# STARLIGHT U.S. MULTI-FAMILY (NO.1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to

September 30, 2017

---

## 2. Significant accounting policies:

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in the Fund's period ended December 31, 2017 audited consolidated financial statements. These accounting policies are based on the IFRS applicable at that time. These condensed consolidated interim financial statements do not include all of the disclosures included in the period ended December 31, 2017 audited consolidated financial statements and accordingly, should be read in conjunction with the period ended December 31, 2017 audited consolidated financial statements and notes thereto.

## 3. Adoption of accounting standards:

Certain new standards, interpretations and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") but are not yet effective for the period ended September 30, 2018. Management is assessing the effects of the pronouncements on the Fund. The standards that may be applicable to the Fund are the following:

### (a) Accounting standards implemented

The Fund implemented IFRS 9, Financial Instruments ("IFRS 9") and IFRS 15, Revenue from Contracts with Customers ("IFRS 15") on January 1, 2018. The impact on implementations are described below.

#### (i) IFRS 9:

The Fund adopted IFRS 9 on January 1, 2018 which introduces a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. Upon transition to IFRS 9, the Fund's financial assets previously classified as loans and receivables and financial liabilities previously classified as other liabilities under IAS 39, Financial Instruments, are now classified at amortized cost. The financial assets and financial liabilities previously classified as fair value through profit or loss continue to be categorized as fair value through profit and loss.

There were no changes in the measurement attributes for any of the Fund's financial assets and financial liabilities upon transition to IFRS 9 and adoption of the new expected credit loss impairment model did not result in any change to the Fund's allowance for impairment.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

### 3. Adoption of accounting standards (continued):

#### (ii) IFRS 15:

The Fund adopted IFRS 15 on January 1, 2018 on a modified retrospective basis. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. As the Fund's most material revenue stream, rental revenue, is outside the scope of the new standard, the adoption of IFRS 15 did not have a material impact to the unaudited condensed consolidated interim financial statements. Service components, including the recovery of costs, fall within the scope of IFRS 15; however, the Fund has concluded that the pattern of revenue recognition is unchanged.

The Fund implemented this standard and there is no significant impact on the Fund's revenue.

#### (b) Future accounting policy changes:

##### (i) IFRS 16, Leases ("IFRS 16"):

IFRS 16, has been issued but is not yet effective for the nine months ended September 30, 2018 and, accordingly has not been applied in preparing these condensed consolidated interim financial statements. The Fund intends to adopt this standard on its effective date.

IFRS 16 supersedes IAS 17 Leases, IFRS Interpretations Committee 4 Determining whether an Arrangement contains a Lease, Standards Interpretation Committee ("SIC") -15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases requirements. The effective date for IFRS 16 is January 1, 2019.

The Fund has assessed the impact of the new standard and there are no significant changes expected to the consolidated financial statements.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to

September 30, 2017

## 4. Acquisitions:

The following asset acquisition was completed during the nine months ended September 30, 2018. 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:

	<b>Coventry Pointe</b>	
	(i)	
Acquisition date:	12-June	
Investment properties (ii)	\$	37,588
Add:		
Utility deposits		6
Tenant and other receivables		70
Prepaid expenses and other assets		19
Restricted cash		261
Deduct:		
Tenant rental deposits		55
Accounts payable and accrued liabilities		189
Finance cost payable		11
Assumed mortgage (net of finance costs of \$223)		24,309
<b>Net asset acquired</b>	<b>\$</b>	<b>13,380</b>
Consideration funded by:		
Assumed from joint venture (note 6)	50.0%	\$ 6,612
Non-controlling interests (note 20)	8.5%	1,125
Cash paid	41.5%	5,643
		<b>\$ 13,380</b>

(i) The Fund acquired an additional interest of 41.49295% in Coventry Pointe from an affiliated entity of the Manager, resulting in an increase in its ownership of a controlling interest of 91.49295%. The property is located in Atlanta, Georgia and is comprised of 250 suites.

(ii) Investment properties are net of the International Financial Reporting Interpretations Committee 21 – Levies (“IFRIC 21”) levies adjustment for property taxes of \$152 for Coventry Pointe.

# STARLIGHT U.S. MULTI-FAMILY (NO.1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 4. Acquisitions (continued):

The following asset acquisitions were completed during the period ended December 31, 2017. The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition as follows:

	The Landing(i)	Spectra South(ii)	Total
Acquisition date	16-Jun	16-Jun	
Investment properties (iii)	\$ 94,615	\$ 59,500	\$ 154,115
Add:			
Prepaid expenses and other assets	67	20	87
Restricted cash	1,278	2,035	3,313
Deduct:			
Accounts payable and accrued liabilities	26	1,893	1,919
Tenant rental deposits	150	116	266
<b>Net asset acquired</b>	<b>\$ 95,784</b>	<b>\$ 59,546</b>	<b>\$ 155,330</b>
Consideration paid, funded by:			
New financing obtained and used for acquisition	\$ 64,190	\$ 40,021	\$ 104,211
Cash paid	31,594	19,525	51,119
	\$ 95,784	\$ 59,546	\$ 155,330

- (i) The Fund completed the acquisition of The Landing at Round Rock ("The Landing"), located in Austin, Texas, which is comprised of 583 suites.
- (ii) The Fund completed the acquisition of Spectra South, located in Phoenix, Arizona which is comprised of 360 suites, from an affiliated entity of the Manager.
- (iii) Investment properties are net of IFRIC 21 adjustments relating to property taxes of \$1,953 and \$388, respectively, for The Landing and Spectra South.

# STARLIGHT U.S. MULTI-FAMILY (NO.1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 5. Investment properties:

The following table summarizes the change in the investment properties for the nine months ended September 30, 2018 and for the period from April 24, 2017 to December 31, 2017:

Balance, April 24, 2017	\$	-
Acquisitions of investment properties (note 4)		154,115
Capital additions		1,148
Fair value adjustment		5,678
IFRIC 21 property tax liability adjustment		201
Balance, December 31, 2017	\$	161,142
Acquisitions of investment properties (note 4)		37,588
Capital additions		4,194
Fair value adjustment		21,761
IFRIC 21 property tax liability adjustment		425
Balance, September 30, 2018	\$	225,110

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

	September 30, 2018	December 31, 2017
Cost	\$ 199,541	\$ 157,741
Cumulative fair value adjustment	27,439	5,678
Cumulative IFRIC 21 property tax liability adjustment (i)	(1,870)	(2,277)
Balance	\$ 225,110	\$ 161,142

(i) The Cumulative IFRIC 21 realty tax liability adjustment reflects the estimated property taxes payable by the Fund as at the reporting date.

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

	September 30, 2018	December 31, 2017
Capitalization rate - range	4.50% to 4.75%	4.64% to 5.27%
Capitalization rate - weighted average	4.61%	5.02%

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 5. Investment properties (continued):

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	September 30, 2018	December 31, 2017
Capitalization rate	10 basis-point increase	\$ (4,863)	\$ (3,187)
Capitalization rate	10 basis-point decrease	\$ 4,988	\$ 3,316

The impact of a one percent change in the net operating income used to value the investment properties as at September 30, 2018 would affect the fair value by approximately \$2,268 (December 31, 2017 - \$1,633).

## 6. Investment in joint venture:

The Fund had an investment in a joint venture during the period January 9, 2018 to June 11, 2018 and applied equity accounting to report its interest. The remaining 50% interest in the joint venture was owned by an affiliate of the Manager. The following table details the Fund's ownership interest in the equity investee as of June 11, 2018:

Entity	Principal Activity	June 11, 2018	December 31, 2017
Coventry Pointe Acquisition LP	Owns and operates an income property	50%	-%

The following table presents the changes in the aggregate carrying value of the Fund's investment in joint venture:

Balance, as at December 31, 2017	\$ -
Initial contribution	5,812
Share of net income from January 9 to June 11, 2018	960
Contributions	85
Distributions	(245)
Balance, as at June 11, 2018	\$ 6,612

On June 12, 2018, the Fund acquired an additional ownership interest of 41.49295% in Coventry Pointe from an affiliate of the Manager, resulting in a total controlling interest of 91.49295% (note 4). The Fund assumed \$6,612 of net assets from the joint venture, and subsequently reports the investment on a consolidated basis in the consolidated financial statements as at September 30, 2018 (note 20).

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 6. Investment in joint venture (continued):

The following table presents the results of the Fund's equity accounted investee on a 100% basis up to the June 11, 2018 transaction date:

	Period from April 1 to June 11, 2018	Period from January 1 to June 11, 2018
Revenues from property operations	\$ 712	\$ 1,533
Property operating costs	(242)	(486)
Finance costs	(208)	(425)
Fair value adjustment on investment property	(456)	1,434
Fair value adjustment IFRIC 21	(63)	(137)
Net (loss) income	(257)	1,919
Share of net (loss) income in joint venture	\$ (128)	\$ 960

## 7. Derivative financial instruments:

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

	September 30, 2018	December 31, 2017
Variable Rate Collar (a)	\$ -	\$ 54
Interest Rate Cap (b)	241	-
Balance, end of the period	\$ 241	\$ 54

### (a) Variable rate collar:

On November 27, 2017, the Fund entered into a variable rate collar contract with a Canadian chartered bank with a maturity date of November 9, 2018. The contract allows the Fund to exchange U.S. dollar funds for C\$4,140 in aggregate or C\$345 each month to provide the holders of Canadian dollar units with some protection against the weakening of the U.S. dollar up to the date of declaration of distributions. The contract provides the Fund with protection at a low of C\$1.2680 per U.S. dollar while participating to a high of C\$1.3400 per U.S. dollar. The fair value of the contract as at September 30, 2018 was \$nil (December 31, 2017 - \$54), resulting in an unrealized gain of \$19 and unrealized loss of \$54 for the three and nine months ended September 30, 2018, respectively (2017 - \$nil).

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 7. Derivative financial instruments (continued):

### (b) Interest Rate Cap

The Fund utilizes interest rate cap agreements to protect its interest costs on its variable rate mortgages as required by the applicable lenders. For the mortgages on The Landing and Spectra South, the Fund purchased interest rate caps for \$207 and \$114, respectively. As the Fund has elected not to use hedge accounting, an unrealized fair value loss of \$80 was recorded in finance costs in the condensed consolidated statement of net income and comprehensive income for the three and nine months ended September 30, 2018 (2017 – \$nil and \$nil).

The following is a summary of the Fund's interest rate cap agreements:

	Notional Amount	Maturity Date	LIBOR Strike	Carrying Value and Fair Value as at	
				September 30, 2018	December 31, 2017
SMBC Capital Markets, Inc.	\$ 78,100	10-Jul-20	3.00%	\$ 156	\$ -
SMBC Capital Markets, Inc.	42,350	10-Jul-20	3.00%	85	-
	\$ 120,450			\$ 241	\$ -

## 8. Tenant and other receivables:

The following table presents details of the tenant and other receivables balance:

	September 30, 2018	December 31, 2017
Tenant receivables, net	\$ 154	\$ 98
Other receivables	366	30
	\$ 520	\$ 128

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

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 9. Prepaid expenses and other assets:

The following table presents details of the prepaid expenses and other assets balance:

	September 30, 2018	December 31, 2017
Prepaid insurance	\$ 39	\$ 140
Prepaid expenses	111	35
Acquisition deposits	-	1,300
	\$ 150	\$ 1,475

## 10. Restricted cash:

The following table presents details of the restricted cash balance:

	September 30, 2018	December 31, 2017
Escrowed funds:		
Property taxes (i)	\$ 1,947	\$ 2,588
Property insurance (i)	155	21
Restricted cash:		
Security deposit (ii)	60	-
Cash collateral – variable rate collar	300	300
	\$ 2,462	\$ 2,909

- (i) Restricted cash includes cumulative amounts that are paid monthly into escrow to the Fund's lender for property taxes and property insurance obligations 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 their lease, as applicable.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 11. Mortgages payable:

Mortgages payable are secured by investment properties and bear interest at variable rates based on U.S. 30-day London Interbank Offered Rate (“LIBOR”) plus an interest rate spread.

Property Name	Payment Terms	Maturity Date	Interest Rate	September 30, 2018	December 31, 2017
The Landing (i)	Interest only until July 2020	July 2020, with two one-year extension options	LIBOR + 2.00%	\$ 74,230	\$ 64,700
Spectra South(ii)	Interest only until July 2020	July 2020, with two one-year extension options	LIBOR + 2.00%	40,393	40,250
Coventry Pointe(iii)	Interest only until January 2021	January 2021, with two one-year extension options	LIBOR + 2.00%	25,030	-
Face value				139,653	104,950
Unamortized financing costs				(512)	(607)
Carrying value				\$ 139,141	\$ 104,343

- (i) On June 11, 2018, the Fund refinanced The Landing and generated additional proceeds of \$8,097, net of \$203 in finance costs. The Landing mortgage allows the Fund to draw an additional \$5,100 for approved capital expenditures. As at September 30, 2018, the Fund had drawn \$1,230 on this additional available funding.
- (ii) The Spectra South mortgage allows the Fund to draw an additional \$2,100 for approved capital expenditures. As at September 30, 2018, the Fund had drawn \$143 on this additional available funding.
- (iii) The Coventry Pointe mortgage allows the Fund to draw an additional \$3,648 for approved capital expenditures. As at September 30, 2018, the Fund had drawn \$890 on this additional available funding.

All of the Fund's mortgages payable are non-current as at September 30, 2018. Future principal payments on mortgages payable are as follows:

	Principal payments	Balloon payments	Total
2018	\$ -	\$ -	\$ -
2019	-	-	-
2020	-	114,623	114,623
2021	-	25,030	25,030
Total	\$ -	\$ 139,653	\$ 139,653

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to

September 30, 2017

---

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

The Fund's subsidiary, Starlight U.S. Multi-Family (No. 1) Value-Add REIT Inc. ("U.S. REIT"), has issued and outstanding 125 series A, preferred shares ("shares") that are held by U.S. residents. The shares were issued January 1, 2018 and are redeemable at the option of the U.S. REIT, at a redemption value of \$1 per share. The shares pay a cumulative dividend at 12.5% per annum, semi-annually on June 30 and December 31. The shares have no voting rights.

## 13. Accounts payable and accrued liabilities:

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

	September 30, 2018	December 31, 2017
Tenant prepayments	\$ 207	\$ 163
Operating payables	337	266
Accrued property management fees, utilities, payroll, other	478	442
Accrued asset management fees (note 17)	57	46
Deferred revenue <sup>(i)</sup>	118	-
	\$ 1,197	\$ 917

(i) Deferred revenue represents payments received from third party providers of television, internet and telephone services in exchange for the Fund utilizing these providers exclusively for a fixed term at one property owned by the Fund, Coventry Pointe. The amounts are amortized to revenue over the ten year term of the contracts.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 14. Net liabilities attributable to Unitholders:

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: class A, C, D, E, F, H 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 limited partnership 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 will be distributed disproportionately on a per unit basis upon liquidation.

	Units (000's)	Value
Units issued, April 24, 2017 (date of formation)	-	\$ -
Units issued on Offering, June 16, 2017	8,180	64,923
Less issuance costs	-	(3,275)
Additional units on conversion	1	-
Net income and comprehensive income	-	3,514
Units as at December 31, 2017	8,181	\$ 65,162
Additional units on conversion	1	-
Net income and comprehensive income	-	10,279
Units as at September 30, 2018	8,182	\$ 75,441

As at September 30, 2018, the Fund had 8,182,043 total limited partnership units issued and outstanding comprised of 1,769,220 class A units, 1,622,500 class C units, 1,743,333 class D units, 1,114,900 class E units, 1,738,210 class F units, and 193,880 class U units. There were no class H units outstanding.

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

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Units outstanding, as at December 31, 2017	1,702	1,623	1,762	1,081	1,785	-	228	8,181
Units reallocated due to conversions	67	-	(19)	34	(47)	-	(34)	1
Units outstanding, as at September 30, 2018	1,769	1,623	1,743	1,115	1,738	-	194	8,182

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 14. Net liabilities attributable to Unitholders (continued):

### *Carried Interest:*

The partners of Starlight Investments Value Add Partnership (“SIVAP”), currently being Starlight Group Property Holdings Inc. (“Starlight”) and the President of Starlight GP, through SIVAP’s indirect interest in the Holding L.P. (as defined in the Offering Prospectus), are entitled to 25% of the total of all amounts each of which is the amount, if any, by which (i) the aggregate amount of distributions which would have been paid on all units of a particular class if all distributable cash, as defined in the Offering prospectus, of the Holding L.P. were received by 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 Offering prospectus), in respect of such class of units (the calculation of which, for greater clarity includes the amount of the Investors Capital Return Base, as defined in the Offering prospectus), each such excess, if any, to be calculated in U.S. dollars and, in the case of C\$ units, based on the applicable exchange rate on the date of distribution for actual distributions paid by the Fund and otherwise on the date of the applicable distribution from the Holding L.P. to the Investment L.P. and by the Investment L.P. to, directly or indirectly, the Fund, provided that, to the extent that the aggregate amount of distributions which would have been paid on all units of a particular class pursuant to the foregoing exceed the Minimum Return for such class, the partners of SIVAP (currently being Starlight and the President of the General Partner), through SIVAP’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 amounts, if any, distributable in excess of the Investors Capital Return Base is equal to three times (i.e., 75%/25%) the catch-up payment receivable by the Starlight in respect of such class.

As of September 30, 2018, the Fund had recognized a provision for carried interest after taking into account the Minimum Return to Unitholders of \$3,289 (December 31, 2017 – \$nil), resulting in an expense of \$1,552 and \$3,289 during the three and nine months ended September 30, 2018, respectively (three and nine months ended September 30, 2017 – \$nil and \$nil, respectively).

## 15. Fund and trust expenses:

Fund and trust expenses consist of the following:

	Three months ended		Nine months	For the period
	September	September	ended	ended
	30, 2018	30, 2017	September	September 30,
			30, 2018	2017
Asset management fees	\$ 166	\$ 136	\$ 478	\$ 158
General and administrative expenses	90	71	310	120
	\$ 256	\$ 207	\$ 788	\$ 278

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## 16. Segmented disclosure:

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

## 17. Transactions with related parties:

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

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

- (a) Pursuant to the management agreement dated June 16, 2017 (the "Management Agreement"), as assigned, 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 in U.S. dollars.

Included in Fund and trust expenses is \$166 and \$478 in asset management fees charged by the Manager (note 15) for the three and nine months ended September 30, 2018, respectively (2017 - \$136 and \$158). The amount payable to the Manager as at September 30, 2018 was \$57 (December 31, 2017 - \$46) (note 13).

- (b) Pursuant to the Management Agreement, as assigned, 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 follows:
- i. 1.0% of the purchase price of a property, on the first \$150,000 of properties acquired in each calendar year;
  - ii. 0.75% of the purchase price of a property, on the next \$150,000 of properties acquired in each calendar year; and
  - iii. 0.50% of the purchase price on properties in excess of \$300,000 of properties acquired in each calendar year.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to

September 30, 2017

## 17. Transactions with related parties (continued):

For the three and nine months ended September 30, 2018, the Fund incurred acquisition fees of \$nil and \$333 (2017 - \$nil and \$1,535), relating to the acquisition of Coventry Pointe. Acquisition fees are paid at the time of acquisition and are initially capitalized to investment properties on acquisition. The acquisition of a 50% interest on January 9, 2018 and an approximately 41.5% interest on June 12, 2018 in Coventry Pointe for \$17,563 and \$15,596, respectively was from an affiliated entity of the Manager. The total purchase price was based on third party appraised valuations and the amounts were representative of the fair value of the net assets acquired. There are no ongoing contractual commitments with the related party as a result of the interest acquired in Coventry Pointe.

- (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 properties, the Fund and the U.S. REITs 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 September 30, 2018, \$nil guarantee fees have been paid or are payable (December 31, 2017 – \$nil).

## 18. Finance costs:

Finance costs consist of the following:

	Three months ended		Nine months ended	For the period
	September 30, 2018	September 30, 2017	September 30, 2018	April 24, 2017 to September 30, 2017
Interest on mortgages payable	\$ 1,456	\$ 857	\$ 3,513	\$ 992
Amortization of financing costs	67	61	188	71
Loss on early extinguishment of debt	-	-	345	-
Fair value loss on derivative financial instrument (note 7)	61	-	134	-
	\$ 1,584	\$ 918	\$ 4,180	\$ 1,063

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

## 19. Change in non-cash operating working capital:

The following table presents the changes in non-cash operating working capital:

	Three months ended		Nine months ended	For the period
	September 30, 2018	September 30, 2017	September 30, 2018	April 24, 2017 to September 30, 2017
Utility deposits	\$ -	\$ -	\$ (6)	\$ (10)
Tenant and other receivables	(70)	(73)	(392)	(150)
Prepaid expenses and other assets	(22)	42	1,325	(100)
Tenant rental deposits	2	(17)	48	134
Accounts payable and accrued liabilities	7	450	280	821
Finance cost payable	(15)	70	93	205
Distribution payable	4	341	(3)	341
	\$ (94)	\$ 813	\$ 1,345	\$ 1,241

## 20. Non-controlling interests:

	As at September 30, 2018
8.50705 % of Coventry Pointe	\$ 1,147

The following table summarizes the change in non-controlling interests for the period from June 12 to September 30, 2018:

Non-controlling interest at acquisition date of Coventry Pointe (a)	\$ 1,125
Net income attributable to non-controlling interests (b)	426
Balance, September 30, 2018	\$ 1,551

- (a) On June 12, 2018 ("Date of Acquisition"), the Fund acquired an additional ownership of 41.49295% of Coventry Pointe from an affiliate of the Manager, resulting in a total and controlling interest of 91.49295%. All decision making in respect of the Coventry Pointe, including day-to-day and material decisions are made exclusively by the Fund through its established governance practices in accordance with the limited liability agreement of Coventry Pointe Multi-Family Holding LLC and Starlight Investments Acquisition (No.6) Partnership. Accordingly, the Fund has control over Coventry Pointe and has wholly consolidated its financial position and results of operations. Coventry Pointe was valued at \$37,588 as of June 12, 2018 and had mortgages payable of \$24,309, net of finance costs of \$223. Coventry Pointe had total assets of \$37,944 and liabilities of \$24,564. The non-controlling interest amount of \$1,551 represents net assets of \$1,125 at the time of initial acquisition plus net income from the date of acquisition to September 30, 2018.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## 20. Non-controlling interests (continued):

- (b) For Coventry Pointe non-controlling interests of 8.50705% for the period from June 12 to September 30, 2018, revenues from property operations were \$88, with property operating expenses of \$40, finance costs of \$27, fund and trust expenses of \$4, deferred taxes of \$71 and a fair value adjustment of investment properties of \$480. Net income and comprehensive income from Date of Acquisition to September 30, 2018 was \$426.

## 21. Commitments and contingencies:

At September 30, 2018, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of September 30, 2018 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.

## 22. 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 mortgages payable 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 September 30, 2018.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## 23. Risk management:

The Fund's activities expose it to credit risk, market risk liquidity risk and currency risk. 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, and geographically diversifying the location of the properties. The Fund monitors its collection experience on monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. Subsequent recoveries of amounts previously written-off are credited in the consolidated statements of net income and comprehensive income.

### (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 mortgages will not be refinanced on terms as favourable as those of the existing indebtedness.

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 all its variable rate mortgages once LIBOR reaches stipulated levels. For the nine months ended September 30, 2018, all else being equal, an increase or decrease of ten basis points in LIBOR would impact net income and comprehensive income by \$104 (2017 - \$31).

### (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 mortgage portfolio over a number of years and has options to extend certain mortgages.

All of the Fund's current liabilities have contractual maturities of less than 12 months and are subject to normal trade terms. For contractual maturities of mortgages payable, see note 11.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## 23. Risk management (continued):

### (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 the 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.

As at September 30, 2018 the Fund had entered into a variable rate collar arrangement to provide some protection against the impact of changes in the Canadian/U.S. dollar exchange rate on the Fund's monthly distributions on Canadian dollar units (note 7).

## 24. Fair value measurement of financial instruments:

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

- Level 1 - quoted prices in active markets;
- 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:

- (i) 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).
- (ii) Derivative financial instruments are considered as Level 2 financial instruments.
- (iii) The fair value of mortgages 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 mortgages payable as at September 30, 2018 approximated their carrying value.
- (iv) Investment properties 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.

# STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND

Notes to the Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2018 and for the period from April 23, 2017 to September 30, 2017

---

## **25. Comparative figures:**

Certain comparative figures have been reclassified to conform with the current year presentation of the Condensed Consolidated Interim Financial Statements.