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

STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

Three and six months ended June 30, 2018 and 2017
(Unaudited)

STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

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

	Note		June 30, 2018		December 31, 2017
			(Unaudited)		(Audited)
ASSET					
Non-current assets:					
Investment properties	7	$	1,386,058	$	1,239,476
Derivative financial instruments	14		1,875		348
Utility deposits			416		386
Total non-current assets			1,388,349		1,240,210
Current assets:					
Assets of property held for sale	6		-		29,629
Tenant and other receivables	8		2,061		1,757
Prepaid expenses and other assets	9		1,193		2,145
Restricted cash	10		14,414		15,552
Cash			9,623		4,463
Total current assets			27,291		53,546
TOTAL ASSETS		**$**	**1,415,640**	**$**	**1,293,756**
LIABILITIES					
Non-current liabilities:					
Loans payable	11	$	872,804	$	729,155
Derivative financial instruments	14		944		-
Preferred shares - U.S. REIT's series A	12		625		625
Provision for carried interest	18		7,425		-
Deferred income tax			101,019		84,317
Total non-current liabilities excluding net liabilities attributable to Unitholders			982,817		814,097
Current liabilities:					
Liabilities of property held for sale	6		-		21,673
Loans payable	11		-		37,710
Credit facility	13		12,139		14,322
Derivative financial instruments	14		1,199		-
Tenant rental deposits			1,780		1,496
Accounts payable and accrued liabilities	15		6,998		5,654
Finance costs payable	16		2,882		2,306
Distributions payable			2,076		2,053
Total current liabilities excluding net liabilities attributable to Unitholders			27,074		85,214
TOTAL LIABILITIES			**1,009,891**		**899,311**
Net liabilities attributable to Unitholders	18		405,749		394,445
TOTAL LIABILITIES AND NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		**$**	**1,415,640**	**$**	**1,293,756**

Commitments and contingencies (Note 23).

Subsequent events (Note 27).

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Directors of Starlight U.S. Multi-Family (No. 5) Core GP, Inc., as General Partner for Starlight U.S. Multi-Family (No.5) Core Fund on August 29, 2018, and signed on its behalf:

Graham Rosenberg Director *Harry Rosenbaum* Director

STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

Condensed Consolidated Interim Statement of Net Income and Comprehensive Income
(In thousands of U.S. dollars)
(Unaudited)

	Note	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
		(Unaudited)		(Unaudited)	
Revenue from property operations		$ 27,551	$ 24,568	$ 54,084	$ 48,879
Expenses:					
Property operating costs		7,299	6,483	14,222	12,715
Property taxes		-	-	16,832	16,898
Income from rental operations		20,252	18,085	23,030	19,266
Finance costs	21	10,033	7,682	21,602	12,974
Distributions to Unitholders		6,285	6,082	12,522	12,260
Dividends to Preferred Shareholders – U.S. REITs series A		20	20	39	39
Fund and trust expenses	17	1,379	1,327	2,841	2,748
Transaction costs on dispositions of investment properties		(2)	1,056	389	1,056
Unrealized foreign exchange (gain) loss		(244)	382	(705)	468
Realized foreign exchange (gain) loss		-	(57)	208	(47)
Fair value adjustment investment properties	7	(41,734)	(8,301)	(42,653)	(17,996)
Fair value adjustment IFRIC 21		4,548	3,919	(7,810)	(8,725)
Provision for carried interest	18	7,425	-	7,425	-
Income before income taxes		32,542	5,975	29,172	16,489
Income taxes - current		168	99	1,010	205
- deferred		11,853	2,598	16,702	8,672
Net income and comprehensive income		$ 20,521	$ 3,278	$ 11,460	$ 7,612

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

Condensed Consolidated Interim Statement of Changes in Net Liabilities Attributable to Unitholders
Six months ended June 30, 2018 and 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	$107,854	$109,886	$107,423	$26,383	$25,739	$1,153	$16,007	$394,445
Changes during the period:								
Units repurchased and cancelled under normal course issuer bid ("NCIB")	(156)	-	-	-	-	-	-	(156)
Re-allocation due to unit conversions	(403)	(92)	987	249	(455)	(1)	(285)	-
Net income and comprehensive income	3,121	3,194	3,153	775	726	34	457	11,460
Balance, June 30, 2018	$110,416	$112,988	$111,563	$27,407	$26,010	$1,186	$16,179	$405,749

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Balance, December 31, 2016	$86,599	$83,852	$78,619	$17,907	$20,985	$ 887	$14,442	$303,291
Changes during the period:								
Units repurchased and cancelled under NCIB	(2,706)	-	-	-	-	-	-	(2,706)
Re-allocation due to unit conversions	378	(115)	954	2,249	(1,163)	(8)	(2,295)	-
Net income and comprehensive income	2,134	2,121	2,015	510	502	22	308	7,612
Balance, June 30, 2017	$86,405	$85,858	$81,588	$20,666	$20,324	$ 901	$12,455	$308,197

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

Condensed Consolidated Interim Statement of Cash Flows
Three and six months ended June 30, 2018
(In thousands of U.S. dollars)
(Unaudited)

		Three months ended		Six months ended	
	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Operating activities:					
Net income and comprehensive income		$ 20,521	$ 3,278	$ 11,460	$ 7,612
Adjustments for financing activities included in net income and comprehensive income:					
Finance costs	21	10,033	7,682	21,602	12,974
Distributions to Unitholders		6,285	6,082	12,522	12,260
Dividends to Preferred Shareholders – U.S. REIT's series A		20	20	39	39
Transaction costs on disposition of investment properties		(2)	1,056	389	1,056
Adjustments for items not involving cash:					
Fair value adjustment of investment properties including IFRIC 21		(37,503)	(4,631)	(45,638)	(19,444)
Unrealized foreign exchange (gain) loss		(244)	382	(705)	468
Provision for carried interest	18	7,425	-	7,425	-
Change in non-cash operating working capital	22	173	1,372	3,342	2,009
Change in restricted cash		(4,553)	(3,604)	1,804	(964)
Deferred tax		11,853	2,598	16,702	8,672
Cash provided by operating activities		14,008	14,235	28,942	24,682
Financing activities:					
Repurchase of units under NCIB		(156)	(1,295)	(156)	(2,706)
Credit facility:					
Proceeds from credit facility			4,485		4,485
Paydown of credit facility		-	-	(1,590)	-
Loans payable:					
Proceeds from new financing		-	78,321	40,695	78,321
Proceeds from re-financing		-	19,921	41,797	19,921
Repayment of mezzanine debt		-	-	(6,051)	-
Principal payments		-	(602)	(260)	(1,001)
Purchase of interest rate cap		-	(54)	-	(54)
Finance costs paid		(9,283)	(8,572)	(21,988)	(13,669)
Distributions to Unitholders		(6,285)	(6,082)	(12,522)	(12,260)
Dividends to Preferred Shareholders – U.S. REIT's series A		(20)	(20)	(39)	(39)
Cash provided by (used in) financing activities		(15,744)	86,102	39,886	72,998
Investing activities:					
Acquisitions	4	-	(105,579)	(78,258)	(105,579)
Proceeds on the disposition of investment properties	5	-	31,555	19,718	31,555
Transaction costs on disposition of investment properties		2	(1,056)	(389)	(1,056)
Capital additions to investment properties	7	(2,663)	(1,808)	(4,739)	(3,165)
Cash used in investing activities		(2,661)	(76,888)	(63,668)	(78,245)
Increase (decrease) in cash		(4,397)	23,449	5,160	19,435
Cash, beginning of period		14,020	3,655	4,463	7,669
Cash, end of period		$ 9,623	$ 27,104	$ 9,623	$ 27,104

See accompanying notes to the condensed consolidated interim financial statement

Starlight U.S. Multi-Family (No. 5) Core 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 extension options available through approval by the General Partner. The Fund may be extended beyond five years by the passing of a special resolution by the unitholders of the Fund ("Unitholders"). The Fund was established for the primary purpose of indirectly owning and operating a portfolio of diversified revenue generating rental properties in the United States of America multi-family real estate market.

The Fund's initial properties were indirectly acquired through the exchange of the limited partnership units of Starlight U.S. Multi-Family Core Fund, Starlight U.S. Multi-Family (No. 2) Core Fund, Starlight U.S. Multi-Family (No. 3) Core Fund, Starlight U.S. Multi-Family (No. 4) Core Fund and the exchange of common shares of Campar Capital Corporation (collectively the "Plan of Arrangement"), for limited partnership units ("units") of the Fund. Subsequent to completion of its initial public offering (the "Offering") on October 18, 2016, the Fund indirectly acquired three additional properties comprised of an aggregate of 910 suites located in the States of Georgia, Nevada and Texas in the markets of Atlanta, Las Vegas and Austin, respectively, in the United States. The class A units and class U units are listed on the TSX Venture Exchange under the symbols STUS.A and STUS.U, respectively.

During the period, the Fund was managed by Starlight Investments US AM Group LP (the "Manager") which is wholly owned subsidy of Starlight Group Property Holdings Inc. and a related party. As of June 30, 2018, the Fund's property portfolio consists of 23 properties and a total of 7,289 suites.

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:

(i) 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.

(ii) Basis of measurement:

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

1. Basis of presentation (continued):

(iii) 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 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 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.

(iv) Critical judgements and estimates:

The preparation of these condensed consolidated interim financial statements in conformity with IFRS require 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.

(v) Investment property held for sale:

The Fund has classified property (or a disposal group) as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell, excluding investment property which is carried at fair value.

2. Significant accounting policies:

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in the Fund's year ended December 31, 2017 audited consolidated financial statements. 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 year ended December 31, 2017 audited consolidated financial statements and accordingly, should be read in conjunction with the year 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 June 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) Financial Instruments ("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 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.

(ii) Revenue from Contracts with Customers ("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 contract 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.

3. Adoption of accounting standards:

(b) Future accounting policy changes:

(i) Leases ("IFRS 16"):

IFRS 16, Leases, has been issued but is not yet effective for the six months ended June 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.

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

4. Acquisitions:

The following asset acquisitions were completed during the six months ended June 30, 2018. 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:

	Altis at Sand Lake (i)	Alexander Village (ii)	Total
Acquisition date:	1-Feb	29-Mar	
Investment properties (iii)	$ 69,389	$ 59,290	$ 128,679
Add:			
Utility deposits	34	-	34
Tenant and other receivables	-	13	13
Prepaid expenses and other assets	5	21	26
Restricted cash	471	196	667
Deduct:			
Tenant rental deposits	199	118	317
Accounts payable and accrued liabilities	714	59	773
Assumed mortgage (net of finance costs of $346)	50,071	-	50,071
Net asset acquired	$ 18,915	$ 59,343	$ 78,258
Consideration funded by:			
New financing obtained and used for acquisition	$ -	$ 39,434	$ 39,434
Proceeds from dispositions held in escrow (note 5)	-	19,716	19,716
Cash paid	18,915	193	19,108
	$ 18,915	$ 59,343	$ 78,258

(i) The Fund completed the acquisition of Altis at Sand Lake, located in Orlando, Florida and comprised of 315 suites, from an affiliated entity of the Manager.

(ii) The Fund completed the acquisition of Alexander Village, located in Charlotte, North Carolina and comprised of 320 suites, from an affiliated entity of the Manager.

(iii) Investment properties are net of the IFRIC 21, Levies adjustment for property taxes of $898 and $504, respectively for Altis at Sand Lake and Alexander Village.

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

4. Acquisitions (continued):

The following asset acquisitions were completed during the year 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:

	Spectra North (i)	Carrick Bend (ii)	Copperfield Apartments (iii)	The Callie (iv)	Total
Acquisition date:	16-Jun	28-Jun	1-Aug	8-Dec	
Investment properties (v)	$ 50,984	$ 54,772	$ 47,948	$ 47,208	$ 200,912
Add:					
Utility deposits	-	-	-	12	12
Tenant and other receivables	21	25	39	21	106
Prepaid expenses and other assets	17	17	15	2	51
Restricted cash	115	58	255	1,008	1,436
Deduct:					
Tenant rental deposits	253	166	26	57	502
Accounts payable and accrued liabilities	-	-	123	108	231
Finance costs payable	-	-	98	77	175
Assumed mortgage (net of finance costs of $227)	-	-	32,073	30,500	62,573
Assumed mezzanine loan	-	-	-	10,349	10,349
Net asset acquired	$ 50,884	$ 54,706	$ 15,937	$ 7,160	$ 128,687
Consideration funded by:					
New financing obtained and used for acquisition	$ 36,407	$ 33,778	-	-	$ 70,185
Proceeds from dispositions held in escrow (note 5)	12,814	18,738	-	4,869	36,421
Cash paid	1,663	2,190	15,937	2,291	22,081
	$ 50,884	$ 54,706	$ 15,937	$ 7,160	$ 128,687

(i) The Fund completed the acquisition of Spectra North, located in Phoenix, Arizona and comprised of 274 suites, from an affiliated entity of the Manager.
(ii) The Fund completed the acquisition of Carrick Bend, located in Denver, Colorado and comprised of 228 suites, from an affiliated entity of the Manager.
(iii) The Fund completed the acquisition of Copperfield Apartments, located in Nashville, Tennessee and comprised of 288 suites, from an affiliated entity of the Manager.
(iv) The Fund completed the acquisition of The Callie, located in Dallas, Texas and comprised of 261 suites, from an affiliated entity of the Manager.
(v) Investment properties are net of the IFRIC 21, Levies adjustment for property taxes of $356, $341, $422 and $887, respectively for Spectra North, Carrick Bend, Copperfield Apartments and The Callie.

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

5. Dispositions:

The following asset dispositions were completed during the six months ended June 30, 2018. 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:

	The Villages at Sunset Ridge (i)	Greenhaven Apartments (ii)	Total
Disposition date:	13-Feb	15-Mar	
Investment properties (iii)	$ 29,407	$ 32,475	$ 61,882
Add:			
Tenant and other receivables	-	14	14
Prepaid expenses and other assets	56	4	60
Deduct:			
Mortgage payable	21,695	19,199	40,894
Tenant rental deposits	15	50	65
Accounts payable and accrued liabilities	469	724	1,193
Finance cost payable	26	60	86
Net assets disposed	$ 7,258	$ 12,460	$ 19,718
Consideration received:			
Proceeds held in escrow and reinvested in acquisitions (note 4)	$ 7,258	$ 12,460	$ 19,718
	$ 7,258	$ 12,460	$ 19,718

(i) The Fund completed the disposition of Residences at The Villages at Sunset Ridge located in Houston, Texas, comprised of 257 suites.

(ii) The Fund completed the disposition of Greenhaven Apartments located in Dallas, Texas, comprised of 216 suites.

(iii) The Fund incurred a total of $342 in transaction costs during the period as a result of the disposition of investment properties.

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

5. Dispositions (continued):

The following asset dispositions were completed during the year ended December 31, 2017. 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:

	Residences at Cinco Ranch (i)	Belle Haven Apartments (ii)	Villages of Towne Lake (iii)	The Reserve at Jones Road (iv)	Total
Disposition date:	1-Jun	22-Jun	27-Jun	27-Oct	
Investment properties (v)	$ 36,804	$ 28,142	$ 18,456	$ 13,875	$ 97,277
Add:					
Utility deposits	-	-	-	6	6
Tenant and other receivables	18	-	-	35	53
Prepaid expenses and other assets	12	-	2	2	16
Restricted cash	422	234	-	252	908
Deduct:					
Mortgage payable	23,900	17,820	8,581	9,198	59,499
Tenant rental deposits	35	21	12	28	96
Accounts payable and accrued liabilities	507	370	1,289	43	2,209
Finance cost payable	-	-	-	18	18
Net assets disposed	$ 12,814	$ 10,165	$ 8,576	$ 4,883	$ 36,438
Consideration received:					
Proceeds held in escrow and reinvested in acquisitions (note 4)	$ 12,814	$ 10,165	$ 8,576	$ 4,883	$ 36,438
	$ 12,814	$ 10,165	$ 8,576	$ 4,883	$ 36,438

(i) The Fund completed the disposition of Residences at Cinco Ranch located in Houston, Texas, comprised of 300 suites.

(ii) The Fund completed the disposition of Belle Haven Apartments located in Charlotte, North Carolina, comprised of 176 suites.

(iii) The Fund completed the disposition of Villages of Towne Lake located in Houston, Texas, comprised of 126 suites.

(iv) The Fund completed the disposition of The Reserve at Jones Road located in Houston, Texas, comprised of 114 suites.

(v) The Fund incurred a total of $1,067 in transaction costs during the period as a result of the disposition of investment properties.

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

6. Properties held for sale

The net assets of The Villages at Sunset Ridge as at December 31, 2017 were as follows:

		The Villages at Sunset Ridge
Investment properties	$	28,364
Deposits		16
Tenant and other receivables		78
Prepaid expenses and other assets		14
Restricted cash		991
Cash		166
Assets of property held for sale		29,629
Tenant rental deposits		14
Accounts payable and accrued liabilities		68
Finance cost payable		63
Mortgage payable (net of finance costs of $2)		21,528
Liabilities of property held for sale		21,673
Net assets held for sale	$	7,956

(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, 2018 and the year ended December 31, 2017:

Balance, December 31, 2016	$	1,056,414
Acquisitions of investment properties (note 4)		200,912
Dispositions of investment properties (note 5)		(97,277)
Capital additions		8,029
Fair value adjustment		100,670
IFRIC 21 realty tax liability adjustment		(908)
Investment property held for sale (note 6)		(28,364)
Balance, December 31, 2017		1,239,476
Acquisitions of investment properties (note 4)		128,679
Dispositions of investment properties (note 5)		(33,518)
Capital additions		4,739
Fair value adjustment		42,653
IFRIC 21 realty tax liability adjustment		4,029
Balance, June 30, 2018	$	1,386,058

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

	June 30, 2018	December 31, 2017
Cost	$ 1,235,009	$ 1,163,473
Cumulative fair value adjustment	144,413	101,760
Cumulative IFRIC 21 realty tax liability adjustment	6,636	2,607
Investment property held for sale (note 6)	-	(28,364)
Fair value	$ 1,386,058	$ 1,239,476

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

7. Investment properties (continued):

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

	June 30, 2018	December 31, 2017
Capitalization rates - range	4.50% to 5.00%	4.74% to 5.25%
Capitalization rate - weighted average	4.75%	4.89%

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

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	June 30, 2018		December 31, 2017
Capitalization rate	10-basis-points increase	$(28,763)	$	(25,628)
Capitalization rate	10-basis-points decrease	$30,000	$	26,697

The impact of a one percent change in the net operating income used to value the investment properties as at June 30, 2018 would affect the fair value by approximately $13,950 (December 31, 2017 - $12,798).

8. Tenant and other receivables:

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

		June 30, 2018		December 31, 2017
Tenant receivables, net	$	808	$	741
Other receivables		1,253		1,016
	$	2,061	$	1,757

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

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

9. Prepaid expenses and other assets:

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

	June 30, 2018	December 31, 2017
Prepaid insurance	$ 687	$ 1,355
Prepaid expenses	506	790
	$ 1,193	$ 2,145

10. Restricted Cash:

The following table presents details of the restricted cash balances:

	June 30, 2018	December 31, 2017
Escrowed funds:		
Property taxes	$ 8,884	$ 11,045
Replacement / repairs	1,116	1,512
Property insurance	1,032	595
Interest rate caps	-	39
Insurance proceeds	1,193	1,631
Internally restricted cash:		
Security deposit	1,008	730
Withholding tax funds	1,181	-
	$ 14,414	$ 15,552

Restricted cash includes cumulative amounts that are paid monthly into escrow funds to the Fund's lenders for property taxes and property insurance obligations coming due within a 12-month period. Replacement/repairs restricted cash includes cumulative amounts that are paid monthly to lenders to reserve funds for planned capital improvements and either specific repairs or non-specific operating maintenance. Escrowed interest rate caps relate to restricted funds to meet lender requirements for the purchase of interest rate caps in respect of certain loans with variable rates should U.S. 30-day London Interbank Offered Rate ("LIBOR") reach stipulated levels.

Insurance proceeds relate to settlement funds received in connection with remediation expenses at Yorktown Crossing caused by a fire that occurred on August 17, 2016 as a result of a lightning strike. One of the 13 buildings comprising 24 suites at the property was impacted. For the six months ended June 30, 2018, $39 (six months ended June 30, 2017 - $157) has been recognized in revenue from property operations relating to the insurance claim for loss of income since the fire occurred and $2,055 was received in total insurance proceeds to replace the subject building. The Fund completed the rebuilding of the 24 suites impacted on March 19, 2018 and as of June 30, 2018, $2,132 has been incurred relating to the rebuild since the incident.

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

10. Restricted Cash (continued):

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.

11. Loans payable:

Loans payable include mortgages payable and mezzanine loans. Mortgages payable are secured by investment properties and bear interest at various fixed and variable rates with payment terms of either monthly blended principal and interest payments ("MBPI") or interest only ("IO"). The Fund's variable rate mortgages are based on LIBOR plus an interest rate spread. Mezzanine loans are secured by the indirect interest in the property owner and bear interest at a fixed rate.

Property Name	Payment Terms	Maturity Date	Interest Rate	June 30, 2018	December 31, 2017
Mortgages Payable:					
Falls at Eagle Creek	MBPI	December 2021	LIBOR + 1.94%	$ -	$ 33,641
Greenhaven Apartments	MBPI	December 2021	LIBOR + 1.97%	-	19,296
Sorelle Apartments (ii)	IO until July 2020	June 2024	LIBOR + 2.10%	51,750	51,750
Palm Valley Apartments	IO until April 2017	March 2025	LIBOR + 1.84%	-	31,074
Soho Parkway Apartments	IO until July 2017	June 2022	LIBOR + 1.96%	-	33,567
Broadstone Travesia	IO	April 2018 + one-year extension option	LIBOR + 1.75%	-	36,000
The Allure	IO until July 2019	July 2025	LIBOR + 1.98%	36,909	36,909
Altis at Grand Cypress	IO until February 2018	January 2023	LIBOR + 2.25%	-	37,600
Verano Apartments (ii)	IO until July 2020	June 2024	LIBOR + 2.10%	46,950	46,950
South Boulevard Apartments (ii)	IO until July 2020	June 2024	LIBOR + 2.10%	38,540	38,540
City North at Sunrise Ranch	IO	November 2019 + two one-year extension options	LIBOR + 2.00%	35,496	35,496
The Views at Coolray Field	IO	November 2019 + two one-year extension options	LIBOR + 1.90%	23,075	23,075
Pooled Mortgage One (i)	IO	November 2021 + one-year extension option	LIBOR + 2.15%	279,968	279,968
Copperfield Apartments	IO	Jul 2020 + two one-year extension option	LIBOR + 2.00%	32,300	32,300
The Callie	IO	June 2020	LIBOR + 2.00%	30,500	30,500
Pooled Mortgage Two (iii)	IO	February 2023 + one-year extension option	LIBOR + 2.00%	304,629	-
Total mortgages payable				880,117	766,666
Mezzanine Loan:					
The Callie (iv)	IO	June 2020	9.25%	-	6,306
Total loans payable face value				880,117	772,972
Unamortized financing costs				(7,313)	(6,107)
Total loans payable carrying value				$ 872,804	$ 766,865

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

11. Loans payable (continued):

(i) The Pooled Mortgage One includes eight properties: The Village at Marquee Station, Falls at Copper Lake, Yorktown Crossing, The Reserves at Alafaya and Pure Living Heathrow as at December 31, 2016, with the additions of Carrick Bend and Spectra North following their acquisition and Boardwalk Med Center following its refinancing during the year ended December 31, 2017. With the expansion of the Pooled Mortgage One from its original principal amount, the spread was reduced from 2.40% to 2.15%.

(ii) On June 27, 2017, the Fund refinanced Sorelle Apartments, Verano Apartments and South Blvd Apartments and generated additional proceeds of $18,617, net of $1,304 in finance costs.

(iii) The Pooled Mortgage Two includes seven properties: Falls at Eagle Creek, Palm Valley Apartments, Soho Parkway Apartments, Broadstone Travesia and Altis at Grand Cypress, with the additions of Altis at Sand Lake and Alexander Village following their acquisition.

(iv) On February 1, 2018, the Fund repaid the mezzanine loan on The Callie.

Loans payable are classified as current liabilities if they are due and payable within 12-months after the date of the condensed consolidated interim statement of financial position. The following table provides a breakdown of current and non-current portions of loans payable:

		June 30, 2018		December 31, 2017
Non-current:				
Loans payable	$	880,117	$	733,702
Unamortized financing costs		(7,313)		(4,547)
		872,804		729,155
Current:				
Loans payable		-		39,270
Unamortized financing costs		-		(1,560)
		-		37,710
Balance	$	872,804	$	766,865

Future principal payments on loans payable are as follows:

		Principal payment		Balloon payment		Total
2018	$	-	$	-	$	-
2019		288		58,571		58,859
2020		1,515		62,800		64,315
2021		2,759		279,968		282,727
2022		2,868		-		2,868
Thereafter		5,256		466,092		471,348
Total	$	12,686	$	867,431	$	880,117

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

The Funds subsidiary U.S. REITs collectively have issued and outstanding 625 Series A, Preferred shares that are held by U.S. residents. The shares are redeemable at the option of the U.S. REITs, at a redemption value of $1 per share subject to a prepayment penalty. 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. Credit facility:

On October 19, 2016, the Fund entered into an unsecured credit facility agreement (the "Credit facility") with a Canadian chartered bank with a maturity date of October 19, 2017 which is secured by a general charge over the Fund's property, assets and undertakings and is subordinate to any permitted liens. The Credit facility has two tranches: Tranche A allows the Fund to borrow up to C$10,000; and Tranche B allows the Fund to borrow up to C$13,000.

The Credit facility was renewed on October 18, 2017 for an additional one-year term, with Tranche B amended to reduce the borrowing capacity to C$8,000. In addition, the interest rate was reduced to the prime rate plus 2.15% (previously prime plus 3.39%) or the banker's acceptance ("BA") stamping fee plus 3.15% (previously BA stamping fee plus 4.39%).

As at June 30, 2018, the Fund had drawn $12,139 (December 31, 2017 - $14,322), net of unamortized financing costs of $11 (December 31, 2017 - $26) on the Credit facility. All amounts drawn were BA advances, including C$8,000 from Tranche A and C$8,000 from Tranche B. A 0.50% standby fee is charged on any undrawn amount under the Credit facility.

Included in finance costs is interest of $301 relating to the BA advances and $nil of standby fees for the period ended June 30, 2018 (June 30, 2017 - $166 and $17 respectively).

14. Derivative financial instruments:

(a) 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. Upon refinancing the mortgages on South Blvd Apartments, Verano Apartments and Sorelle Apartments, the Fund purchased interest rate caps for $19, $16 and $19, respectively. As the Fund has elected not to use hedge accounting, an unrealized fair value loss of $59 and $nil was recorded in finance costs in the condensed consolidated statement of net income and comprehensive income for the three and six months ended June 30, 2018, respectively (three and six months ended June 30, 2017 – gain of $10, loss of $4, respectively).

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

14. Derivative financial instruments (continued):

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

	Notional Amount	Maturity Date	LIBOR Strike	Carrying Value and Fair Value at June 30, 2018	Carrying Value and Fair Value at December 31, 2017
Commonwealth Bank of Australia	21,695	1-Jul-18	4.08%	$ -	$ -
Commonwealth Bank of Australia	36,909	1-Jul-18	4.00%	-	-
The Bank of New York Mellon	19,330	1-Nov-18	3.78%	-	-
Commonwealth Bank of Australia	37,600	1-Jan-19	4.00%	-	-
SMBC Capital Markets, Inc.	38,000	1-Feb-19	3.75%	-	-
Federal Home Loan and Mortgage Corporation (i)	305,000	26-Mar-20	3.90 - 4.50%	1,051	-
Federal Home Loan and Mortgage Corporation (ii)	280,000	23-Apr-20	4.05 - 4.65%	1,050	-
SMBC Capital Markets, Inc.	38,540	1-Jul-20	3.65%	9	8
SMBC Capital Markets, Inc.	46,950	1-Jul-20	3.90%	6	6
SMBC Capital Markets, Inc.	51,750	1-Jul-20	3.90%	6	7
	$875,774			$ 2,122	$ 21

(i) On March 27, 2018, the Fund entered into an interest rate collar agreement to provide protection on the rate of interest payable on the Pooled Mortgage Two facility. This agreement provides for a LIBOR floor rate of 1.88% and a LIBOR ceiling rate of 2.5% and covers approximately $305,000 in face value of mortgages payable across eight properties. The fair value of the derivative financial instrument and corresponding cost of the liability has been recorded on the balance sheet.

(ii) On April 24, 2018, the Fund entered into an interest rate collar agreement to provide protection on the rate of interest payable on the Pooled Mortgage One facility. This agreement provides for a LIBOR floor rate of 1.9% and a LIBOR ceiling rate of 2.5% and covers approximately $280,000 in face value of mortgages payable across eight properties. The fair value of the derivative financial instrument and corresponding cost of the liability has been recorded on the balance sheet.

The combined non-current portion of the liability associated with Pool Mortgage One Facility and Pool Mortgage Two Facility is $944 and the combined current portion is $1,199, both as at June 30, 2018.

The following table represents a summary of the changes in fair value for the interest rate cap and collar agreements:

	June 30, 2018	December 31, 2017
Balance, beginning of the period	$ 21	$ 8
Purchase during the period	2,404	54
Unrealized loss for the period	(303)	(41)
Balance, end of the period	$ 2,122	$ 21

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

14. Derivative financial instruments (continued):

(b) Variable Rate Collar

On March 9, 2017, the Fund entered into a variable rate collar contract with a Canadian chartered bank with an expiration date of March 9, 2018. The contract allowed the Fund to exchange U.S. dollar funds for C$29,400 in aggregate or C$2,450 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.

On March 2, 2018, the Fund entered in a new variable rate collar contract with a Canadian chartered bank with a maturity date of December 11, 2018. The contract allows the Fund to exchange U.S. dollar funds for C$22,050 in aggregate or C$2,450 each month. The nine-month contract which began in April 2018 allows the Fund to exchange U.S. funds each month within a range of C$1.2700 to C$1.3220. The fair value of the contract as at June 30, 2018 was a loss of $247, resulting in an unrealized loss of $574 during the six months ended June 30, 2018 (six months ended June 30, 2017 – gain of $561).

15. Accounts payable and accrued liabilities:

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

	June 30, 2018	December 31, 2017
Tenant prepayments	$ 1,342	$ 908
Operating payables	186	488
Accrued liability relating to Yorktown Crossing (note 10)	671	1,247
Accrued property management fees, utilities, payroll, other	3,106	2,500
Accrued asset management fees	360	348
Accrued service fees	152	154
Deferred revenue	-	9
Accrued withholding tax payable	1,181	-
	$ 6,998	$ 5,654

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

16. Finance costs payable:

The following table presents the details of finance costs payable:

	June 30, 2018	December 31, 2017
Accrued interest on mortgages payable	$ 2,882	$ 2,161
Accrued interest on mezzanine loan	-	54
Accrued interest on Credit facility	-	1
Insurance financing	-	90
	$ 2,882	$ 2,306

17. Fund and trust expenses:

The following table presents the details of Fund and trust expenses:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Asset management fees	$ 1,084	$ 926	$ 2,132	$ 1,844
General and administrative expenses	143	245	408	433
Service fees	152	156	301	319
One-time reorganization costs	-	-	-	152
	$ 1,379	$ 1,327	$ 2,841	$ 2,748

18. 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, F, H, U and E. 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 unit entitles the holder to the same rights as a Unitholder in another class of units 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 as at December 31, 2017	49,024	$ 394,445
Class A units repurchased and cancelled under NCIB	(24)	(156)
Additional units on conversion	3	-
Net income and comprehensive income	-	11,460
Units as at June 30, 2018	49,003	$ 405,749

As at June 30, 2018, the Fund had 49,003,188 total units issued and outstanding, comprised of 13,935,782 class A units, 13,511,772 class C units, 14,080,640 class D units, 2,632,971 class E units, 3,138,133 class F units, 149,614 class H units and 1,554,276 class U units. 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	13,997	13,512	13,941	2,606	3,237	150	1,581	49,024
Units repurchased and cancelled under NCIB	(24)	-	-	-	-	-	-	(24)
Units reallocated due to conversions	(37)	-	140	27	(100)	-	(27)	3
Units as at June 30, 2018	13,936	13,512	14,081	2,633	3,137	150	1,554	49,003

The NCIB commenced on November 1, 2016 and remained in effect until October 31, 2017. On October 26, 2017, the Fund announced the TSX-V had accepted the renewal of the existing NCIB commencing November 1, 2017, to remain in effect until the earlier of (i) October 31, 2018 or (ii) the date on which the Fund has purchased the maximum number of units permitted under the NCIB.

18. Net liabilities attributable to Unitholders (continued):

Under the NCIB, the Fund may purchase for cancellation up to a maximum of 1,396,448 class A units and 157,189 class U units, representing 10% of the Fund's public float of class A units and class U units, respectively. The Fund may not purchase more than 2% of the issued and outstanding class A units or class U units during any 30-day period, which as at October 26, 2017, represented 281,264 class A units and 31,635 class U units, respectively.

During the six months ended June 30, 2018, the Fund purchased and cancelled 23,500 class A units at a total cost of C$207, the equivalent of $156 (year ended December 31, 2017 – 390,400, C$3,609, $2,706, respectively).

Carried Interest:

The Manager and the President of the Fund, as holders of the class B units of Starlight Investments Partnership, are entitled to 25% of the excess distributable cash after returning: (i) 6.5% per annum on the initial investment amount contributed, less the aggregate agents fees payable, if any, in respect of the units of the Fund calculated on a cumulative basis from the effective date of the Plan of Arrangement (the "Minimum Return"); and (ii) the return of the initial investment amount contributed from units of the Fund pursuant to the Plan of Arrangement and the Offering, less the aggregate agents fees payable.

In the event the Minimum Return is not received by Unitholders of the Fund, an amount of up to 20% of the deemed value, net of taxes payable, paid as a carried interest in connection with the Plan of Arrangement will be payable to the Fund.

As of June 30, 2018, the Fund had recognized a provision for carried interest after taking into account the Minimum Return to Unitholders of $7,425 (December 31, 2017 – $nil).

19. 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.

20. 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 significant Unitholder of the Fund.

(a) Pursuant to the management agreement dated October 15, 2016 (the "Management Agreement") as assigned, the Manager is to perform asset management services for fees equal to 0.35% of the sum of:

    i. the appraised values of the Properties acquired in connection with the Plan of Arrangement, or in the case of future acquisitions, the purchase price of the Fund's properties in U.S. dollars; and
    ii. the cost of any capital expenditures in respect of Fund's properties since the date of acquisition by the Fund in U.S. dollars.

(b) In addition, the Manager is to receive an amount equal to the service fee paid to registered dealers on the Fund's distributions, paid quarterly in arrears.

    Included in Fund and trust expenses is $2,132 in asset management fees and $301 in service fees (six months ended June 30, 2017 - $1,844 and $319, respectively) charged by the Manager (note 17) for the period ended June 30, 2018, of which $512 is payable (note 15) at June 30, 2018 (December 31, 2017 - $502).

(c) 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 $100,000 of properties acquired in each calendar year;

    ii. 0.75% of the purchase price of a property, on the next $100,000 of properties acquired in each calendar year; and

    iii. 0.50% of the purchase price on properties in excess of $200,000 of properties acquired in each calendar year.

    For the period ended June 30, 2018, the Fund incurred acquisition fees of $1,213, which are paid at the time of acquisition and capitalized to investment properties (June 30, 2017 - $1,039).

20. Transactions with related parties (continued):

(d) Pursuant to the Management Agreement as assigned, the Manager is entitled to receive a disposition fee equal to 0.5% up to a maximum of $5,500 of the value of a "Disposition Transaction" defined as an amalgamation, merger, arrangement, take-over bid, material transfer or sale of Units or rights or other securities of the Fund or interest therein or thereto, or sale of all or substantially all of the properties indirectly held by the Fund or a wholly owned subsidiaries of the Fund, whether in one transaction or a series of transactions. No such disposition fee is payable unless the value of the Disposition Transaction is greater than the aggregate appraised values at the time of acquisition by the Fund in relation to the Plan of Arrangement properties or acquisition properties as proposed in the Fund Offering. As of June 30, 2018, $nil disposition fees have been paid or are payable.

(e) Pursuant to the Management Agreement as assigned, 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 each 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 June 30, 2018, $nil guarantee fees have been paid or are payable.

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

21. Finance costs:

The following table presents the details of finance costs:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest on mortgages payable	$ 8,859	$ 5,391	$ 16,524	$ 10,355
Interest on mezzanine loans payable	-	-	39	-
Interest and standby charges on Credit facility (note 13)	144	74	301	183
Amortization of mortgage discount	-	2	-	5
Amortization of financing costs	492	503	951	1,065
Loss on early extinguishment of debt	2	1,913	2,910	1,913
Fair value loss (gain) on derivative financial instruments	536	(208)	877	(557)
Other interest	-	7	-	10
	$ 10,033	$ 7,682	$ 21,602	$ 12,974

22. Change in non-cash operating working capital:

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Utility deposits	$ 9	$ 1	$ 4	$ 34
Tenant and other receivables	(202)	(234)	(305)	(469)
Prepaid expenses and other assets	293	540	973	(568)
Tenant rental deposits	67	(196)	18	(181)
Accounts payable and accrued liabilities	(200)	1,986	1,295	2,790
Finance cost payable	289	(698)	636	442
Distribution payable	(83)	(27)	23	(39)
Held for sale change in working capital			698	
	$ 173	$ 1,372	$ 3,342	$ 2,009

23. Commitments and contingencies:

At June 30, 2018, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of June 30, 2018 expire within 12-months. The Fund holds commitments to provide for carried interest when applicable, to pay service fees on outstanding class A units and class U units 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.

24. 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, the Credit facility 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, 2018.

25. 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 a monthly basis and ensures 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 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 loans and credit facilities 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 floating rate mortgages. Loan agreements for some of the Fund's properties require the Fund to enter into an interest rate cap agreement once LIBOR reaches stipulated levels. For the period ended June 30, 2018, all else being equal, an increase or decrease of ten basis points in LIBOR would impact net income and comprehensive income by $436 (June 30, 2017 - $364).

25. Risk management (continued):

(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 over a number of years 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. For contractual maturities of loans payable, see note 11.

(d) Currency risk:

Currency risk is the risk 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 June 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, see note 14(b).

26. 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 tenant and other receivables, restricted cash and cash, as well as financial liabilities, which include tenant rental deposits, accounts payable and accrued liabilities, Preferred shares – U.S. REITs series A, finance cost

26. Fair value measurement of financial instruments (continued):

payable and distributions 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 loans payable and Credit facility 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 and Credit facility as at June 30, 2018 approximated their carrying value net of financing costs.

(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.

27. Subsequent events:

On July 13, 2018, the Fund entered into index lock agreements to fix the interest rate on a proposed new mortgage financing totaling $612,000. The new fixed rate financing, which the Fund expects to close during the three months ended December 31, 2018, comprises a six year tranche at a fixed rate of 3.92% with five years of interest only payments and a seven year tranche at a fixed rate of 3.95% and five years of interest only payments.

On July 27, 2018, the Fund entered into a second amending agreement to its Credit facility providing for a $8,500 tranche C facility bearing interest at an interest rate spread of 3.15% over LIBOR. The tranche C matures on the same date as the tranche A and B facilities on October 19, 2018.