



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

FOR THE PERIOD FROM APRIL 24, 2017 (DATE OF FORMATION) TO
DECEMBER 31, 2017

MARCH 7, 2018

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING INFORMATION	2
BASIS OF PRESENTATION	3
NON-IFRS FINANCIAL MEASURES.....	3
INVESTMENT OVERVIEW, OBJECTIVES AND STRATEGY	4
FINANCIAL AND OPERATIONAL HIGHLIGHTS	7
FINANCIAL PERFORMANCE	9
NON-IFRS FINANCIAL MEASURES – FFO AND AFFO	15
LIQUIDITY AND CAPITAL RESOURCES	17
CAPITAL STRUCTURE AND DEBT PROFILE	18
RELATED PARTY TRANSACTIONS AND ARRANGEMENTS	20
AUDIT COMMITTEE	21
REMUNERATION OF MANAGEMENT OF THE FUND	23
REMUNERATION OF THE DIRECTORS OF STARLIGHT GP	25
SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES	25
FUTURE ACCOUNTING POLICY CHANGES	26
RISKS AND UNCERTAINTIES.....	27
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING....	32
SUBSEQUENT EVENTS.....	32
FUTURE OUTLOOK.....	33
QUARTERLY INFORMATION.....	33
SCHEDULE A – AUDIT COMMITTEE CHARTER	34

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following management’s discussion and analysis (“MD&A”) of the consolidated financial results of Starlight U.S. Multi-Family (No. 1) Value-Add Fund (the “Fund”) dated March 7, 2018, for the period from April 24, 2017 (date of formation) to December 31, 2017 should be read in conjunction with the Fund’s audited consolidated financial statements and accompanying notes for the same period. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information is provided for the purposes of assisting the reader in understanding the Fund’s financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the Fund or the real estate industry and may include statements regarding the financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, occupancy levels, average monthly rents (“AMR”), taxes, and plans and objectives of or involving the Fund. Particularly, matters described at “Future Outlook” are forward-looking information. In some cases, forward-looking information can be identified by terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “seek”, “aim”, “estimate”, “target”, “goal”, “project”, “predict”, “forecast”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking information necessarily involves known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the Fund’s control, affect the operations, performance and results of the Fund and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results.

Information contained in forward-looking information is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management’s perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the inventory of multi-family real estate properties; the availability of properties for acquisition and the price at which such properties may be acquired; the availability of mortgage financing and current interest rates; the extent of competition for properties; the ability of the Fund to benefit from its value-add program; the population of multi-family real estate market participants; assumptions about the markets in which the Fund operates; the ability of a wholly-owned subsidiary of Starlight Group Property Holdings Inc. or its affiliates (the “Manager” or “Starlight”) to manage and operate the properties of the Fund; the global and North American economic environment; foreign currency exchange rates; and governmental regulations or tax laws.

Although the Fund believes the expectations reflected in such forward-looking information are reasonable and represent the Fund’s projections, expectations and beliefs at this time, such information involves known and unknown risks and uncertainties which may cause the Fund’s actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking information. Important factors that could cause actual results to differ materially from the Fund’s expectations include, among other things, the availability of suitable properties for purchase by the Fund, the availability of mortgage financing for such properties, and general economic and market factors, including interest rates, business competition and changes in government regulations or in tax laws. See “Risks and Uncertainties”. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking information, as there can be no assurance that actual results will be consistent with such forward-looking information.

The forward-looking information included in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian securities law, the Fund undertakes no obligation to update or revise publicly any forward-looking information, whether because of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

BASIS OF PRESENTATION

The Fund’s audited consolidated financial statements for the period from April 24, 2017 (date of formation) to December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Fund’s presentation currency is United States (“U.S.”) dollars. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of U.S. dollars, except for per limited partnership unit of the Fund (“unit” or “units”) and AMR information. All references to “C\$” are to Canadian dollars.

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as adjusted funds from operations (“AFFO”), Average Monthly Rent (“AMR”), Cash provided by operating activities, including interest paid, economic occupancy, funds from operations (“FFO”), gross book value (“Gross Book Value”), indebtedness (“Indebtedness”), indebtedness coverage ratio (“Indebtedness Coverage Ratio”), Indebtedness to Gross Book Value, interest coverage ratio (“Interest Coverage Ratio”) and net operating income (“NOI”) are not measures defined under IFRS as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income (loss) and comprehensive income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. AFFO, AMR, Cash provided by operating activities, including interest paid, economic occupancy, FFO, Gross Book Value, Interest Coverage Ratio and NOI as computed by the Fund may not be comparable to similar measures as reported by other trusts or companies in similar or different industries. The Fund uses these measures to better assess the Fund’s underlying performance and provides these additional measures so that investors may do the same.

AFFO is defined as FFO subject to certain additional adjustments, including: (i) amortization of fair value mark-to market adjustments on loans assumed; (ii) amortization of financing costs; and (iii) deduction of a reserve for normalized maintenance capital expenditures and suite make ready costs, as determined by the Manager. Other adjustments may be made to AFFO as determined by the Manager. AFFO is presented in this MD&A as the Manager considers this non-IFRS measure to be an important performance measure to determine the sustainability of future distributions paid to Unitholders after a provision for maintenance capital expenditures. AFFO should not be interpreted as an indicator of cash generated from operating activities, as it does not consider changes in working capital. AFFO has not been calculated in accordance with the RPAC definition, as the Fund adjusts for non-cash items to better measure the sustainability of future distributions. This MD&A does not include a presentation of adjusted cash flow from operations as defined by Real Property Association of Canada (“RPAC”).

AMR is defined as the total in place rents divided by the total number of suites occupied as at the reporting date.

Cash provided by operating activities, including interest paid, is a measure of the amount of cash generated from operating activities including interest paid and is presented in this MD&A as the Manager considers this non-IFRS measure when determining the sustainability of future distributions paid to Unitholders.

Economic occupancy is calculated by taking effective net rent after considering vacancy and concessions and dividing by gross potential rent. The Fund considers this an important operating metric to evaluate the extent to which revenue potential is being realized.

FFO is defined as net income (loss) and comprehensive income (loss) in accordance with IFRS, excluding fair value adjustments of the investment properties, fair value adjustments on derivative instruments, distributions to Unitholders of units classified as financial liabilities, IFRIC 21 adjustment for property taxes, deferred income tax expense and realized or unrealized foreign exchange gains and losses. FFO payout ratio compares distributions declared to FFO. FFO is a measure of operating performance based on the funds generated from the business before reinvestment or provision for other capital needs. FFO is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of operating performance and is calculated in accordance with RPAC.

Gross Book Value is defined as the fair market value of the Fund’s investment properties (the “Properties” here at Portfolio Summary). Gross Book Value is presented in this MD&A as the Fund considers this non-IFRS measure to be an important measure of the Fund’s financial condition.

Indebtedness is defined as the face value of mortgages payable. Indebtedness is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of the Fund’s financial condition.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Indebtedness Coverage Ratio is defined as net income (loss) and comprehensive income (loss) in accordance with IFRS before deferred taxes plus finance costs, which include amortization of financing costs and mortgage premiums, fair value adjustments on derivative instruments, less finance income and adjusted for other non-cash items divided by interest and principal payments. Generally, a higher Indebtedness Coverage Ratio demonstrates a stronger ability to satisfy the Fund’s debt service obligations. Indebtedness Coverage Ratio is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of the amount of cash flow available to meet annual principal and interest payments and ultimately the ability of the Fund to make cash distributions to unitholders of the Fund (“Unitholders”).

Indebtedness to Gross Book Value is defined as the Fund’s Indebtedness divided by the Fund’s Gross Book Value of the Properties. Indebtedness to Gross Book Value is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of the Fund’s financial condition.

Interest Coverage Ratio is defined as net income (loss) and comprehensive income (loss) in accordance with IFRS before deferred taxes plus finance costs, which includes amortization of financing costs and mortgage premiums, fair value adjustments on derivative instruments, less finance income and adjusted for other non-cash items divided by interest expense. Generally, a higher Interest Coverage Ratio indicates a lower credit risk. Interest Coverage Ratio is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of the amount of cash flow available to meet annual interest payments and ultimately the ability of the Fund to make cash distributions to Unitholders.

NOI is defined as all property revenue, less direct property costs such as utilities, property taxes (normalized to remove the impact from IFRS Interpretations Committee 21 (“IFRIC 21”) for each reporting period), repairs and maintenance, on-site salaries, insurance, bad debt expenses, property management fees, and other property specific administrative costs. NOI is presented in this MD&A as the Manager considers this non-IFRS measure to be an important measure of the Fund’s operating performance and uses this measure to assess the Fund’s property operating performance on an unlevered basis.

Reconciliations of net income (loss) and comprehensive income (loss) to FFO and AFFO are provided herein at “Non-IFRS Financial Measures – FFO and AFFO”. In addition, a reconciliation of cash provided by operating activities including interest paid to AFFO is provided herein at “Non-IFRS Financial Measures – FFO and AFFO” and a reconciliation of NOI from the financial statement presentation of revenue, property operating costs and property taxes is provided herein at “Financial and Operational Highlights”.

INVESTMENT OVERVIEW, OBJECTIVES AND STRATEGY

The Fund is a limited partnership formed under and governed by the laws of the Province of Ontario. The registered office of the Fund is located at 3280 Bloor Street West, Centre Tower, Suite 1400, Toronto, Ontario M8X 2X3. The term of the Fund is targeted to be three years (the “Term”), with two one-year extensions available subject to approval by Starlight U.S. Multi-Family (No. 1) Value-Add GP, Inc., the general partner of the Fund (“Starlight GP”). The Fund may be extended beyond five years by special resolution of the Unitholders. After the closing of the Fund’s initial public offering (the “Offering”) on June 16, 2017, the Fund acquired two Properties consisting of a combined 943 suites. The Properties are in Austin, Texas and Phoenix, Arizona.

The Fund has seven classes of units. Class A units denominated in Canadian dollars and class U units denominated in U.S. dollars are listed on the TSX Venture Exchange under the symbols SUVA.A and SUVA.U, respectively. The Fund also has five unlisted unit classes, class C units, class D units, class F units, and class H units, which are Canadian dollar denominated, and class E units, which are U.S. dollar denominated.

INVESTMENT OBJECTIVES

The Fund’s investment objectives are to:

1. Indirectly acquire, own, and operate a portfolio comprised of value-add, income producing multi-family properties 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 (the “Primary Markets”);
2. Make stable monthly cash distributions;
3. Increase rental rates through light value-add capital expenditures and the use of revenue management software; and

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

4. Enhance revenue through ancillary income opportunities and reduce operating expenses through active asset management with the use of best-in-class property managers to generate economies of scale with the goal of ultimately directly or indirectly disposing of its interests in the assets by the end of the Term.

In order to meet its investment objectives, the Fund’s investment strategy is as follows:

INVESTMENT STRATEGY

The Fund was established for the purpose of investing indirectly 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. The Manager believes the U.S. multi-family real estate sector presents a compelling investment opportunity and provides competitive long-term returns when compared to other real estate asset classes.

ACQUISITION OF VALUE-ADD U.S. MULTI-FAMILY REAL ESTATE

1. Identify value-add acquisition opportunities in the U.S. multi-family residential market by leveraging the Manager’s relationships with principals, operators and brokers located in the Fund’s target markets and by its ability to source “off-market” opportunities.
2. Target multi-family assets that are:
 - a. properties that can achieve significant increases in rental rates as a result of undertaking high return, light value-add capital expenditures and active asset management;
 - b. strategically located in the Primary Markets with strong job, population and economic growth rates;
 - c. strategically located within their respective suburban submarkets with barriers to new development; and
 - d. stabilized, with the potential to benefit from an active management strategy.
3. Complete a comprehensive due diligence program, including cash flow and value-add return modeling, operating expense reviews, and third-party reports including market studies, structural and environmental assessments and appraisals.
4. Conduct a broad canvass of the lending community, including lenders with whom the Manager enjoys long-term relationships, to secure debt financing on competitive terms.
5. Explore, from time to time, co-investment opportunities involving the Fund and one or more co-investors.

ASSET VALUE ENHANCEMENT THROUGH ACTIVE MANAGEMENT STRATEGY

1. Utilize the Manager’s network to source attractive future acquisitions from private equity funds, operators and other real estate asset managers.
2. Increase rental rates through value-add capital improvement programs, including targeted light value-add capital expenditures to rental suites (e.g. kitchen, bathrooms, fenced-in yards, etc.), clubhouse and resident amenity spaces and modernization improvements, rental rate mapping and the use of yield management software.
3. Seek ancillary income opportunities (e.g. door-to-door waste pick-up service).
4. Reduce operating expenses such as staffing, maintenance contracts, advertising and insurance through economies of scale.
5. Utilize reputable best-in-class U.S. based property managers.

ARIZONA, COLORADO, FLORIDA, GEORGIA, NEVADA, NORTH CAROLINA, TENNESSEE AND TEXAS

The Manager targets acquisitions in the Primary Markets, where markets feature:

- a) compelling population, economic and employment growth rates;
- b) ‘landlord friendly’ legal environments; and
- c) comfortable climates and quality of life.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Fund expects to indirectly acquire additional properties in the Primary Markets and the Manager believes that each of the Primary Markets exhibits the characteristics highlighted above.

VALUE REALIZATION THROUGH STRATEGIC DISPOSITIONS

1. The Manager expects asset value increases to be realized through a combination of NOI growth, achieved by, among other things, capital expenditures resulting in increased rental rates and a pricing premium on the aggregated portfolio.
2. The Manager, on behalf of the Fund, plans to execute dispositions throughout the Term on a single asset or portfolio basis through private and public market transactions to maximize value.
3. The private real estate investment market and the public capital markets will be monitored to seek an exit strategy that can be executed with a view towards maximizing disposition proceeds.

PORTFOLIO SUMMARY

As at December 31, 2017, the Fund owned two Properties that have an aggregate of 943 suites located in the States of Arizona and Texas.

Property	Location	Suites	Year Completed	Rentable Area (Sq. Ft)	Average Suite Size (Sq. Ft)	Land Area (Acres)	Date of Original Acquisition
The Landing at Round Rock	7711 O'Connor Road	583	2001	716,701	1,229	33.21	June 16, 2017
Austin, Texas		583	2001	716,701	1,229	33.21	
Spectra South	20425 North 7th Street	360	2007	315,360	876	11.35	June 16, 2017
Phoenix, Arizona		360	2007	315,360	876	11.35	
Total (Average)		943	(2003)	1,032,061	(1,121)	44.56	

THE LANDING AT ROUND ROCK

The Landing at Round Rock (“The Landing”) is located at 7711 O'Connor Road, Round Rock, Texas, 30 kilometres north of downtown Austin. Completed in 2001, the property is comprised of 44 garden-style three-storey buildings on a 33.21 acre site and offers 583 suites ranging in size from one bedroom to four bedrooms.

SPECTRA SOUTH

Spectra South is located at 20425 North 7th Street, Phoenix, Arizona, 32 kilometres north of downtown Phoenix. Completed in 2007, the property is comprised of 19 garden-style three-storey buildings on a 11.35 acre site and offers 360 suites ranging in size from one bedroom to three bedrooms.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Below are the highlights of the financial and operational performance of the Fund as at December 31, 2017 and for the period from April 24, 2017 (date of formation) to December 31, 2017, including a comparison to the Fund’s financial forecast (the “Forecast”) included in the Fund’s final prospectus dated June 12, 2017 (the “Prospectus”). For ease of comparison, the Forecast was adjusted to reflect the actual number of days that each property was owned during the period from April 24, 2017 to December 31, 2017.

KEY HIGHLIGHTS:

- The Fund has initiated its value-add capital improvement program and by December 31, 2017, the Fund had completed upgrades and re-leased 22 suites achieving an average return on investment of 23.0% and average rent increases of \$167 per month, which was above the average rent increase forecasted by the Fund.
- On November 30, 2017 the Fund entered into a variable rate collar contract for a 12-month period to provide protection from the impact of any potential weakening of the U.S. dollar on the Fund’s Canadian dollar distributions. The 12-month contract allows the Fund to exchange U.S. funds each month within a range of C\$1.2680 to C\$1.3400 to fund Canadian dollar distributions.
- The Fund recognized a fair value increase on its Properties of \$5,678 during period from April 24, 2017 to December 31, 2017 driven by capitalization rate compression.
- Revenue from property operations for the three months and period ended December 31, 2017 was \$3,380 and \$7,471, which was 5.0% and 3.5% lower than Forecast, respectively. This variance is primarily due to economic occupancy being lower in the three months ended December 31, 2017, which is typically the slowest leasing period of the year.
- Net income and comprehensive income was \$527 and \$3,514 for the three months and period ended December 31, 2017 respectively (Forecast – net loss and comprehensive loss of \$429 and \$756, respectively). The increases were driven by the fair value increase on the Properties.
- Economic occupancy was impacted by additional suites entering the suite upgrade program towards the end of 2017 with the intention to re-lease upgraded suites in the early months of 2018, to coincide with the peak leasing season.
- NOI margin for the three months and period ended December 31, 2017 was 57.7% and 57.5%, respectively, an improvement over the forecasted amounts of 57.0% and 57.2%.
- NOI was \$1,951 and \$4,296, or 3.8% and 3.0% lower than Forecast for the three months and period ended December 31, 2017, respectively, predominately due to the lower economic occupancy during the three months ended December 31, 2017.
- The Fund’s AFFO for the three months and period ended December 31, 2017 was \$780 and \$1,777, 9.5% and 6.2% below the Forecast predominantly due to lower NOI.
- The Fund’s AFFO payout ratio since the commencement of operations on June 16, 2017 was 113.9%, however after adjusting for the fact that the Fund had not yet fully deployed the equity raised in the Offering, the revised AFFO payout ratio was 95.1% compared to the Forecast of 89.2%.
- Indebtedness to Gross Book Value was 65.1%, within the Fund’s targeted range.
- Interest Coverage Ratio and Indebtedness Coverage Ratio was 2.01 and 2.04 times for the three months and period ended December 31, 2017, respectively.
- As at December 31, 2017, the weighted average interest rate on mortgages payable was 3.41% and the weighted average term to maturity was 2.50 years.
- As at December 31, 2017, the Fund had cash on hand of \$7,393. Subsequent to December 31, 2017, the Fund announced that it had acquired a 50% interest in Landmark at Coventry Pointe, a 250-suite value-add property completed in 2002 and located in Atlanta, Georgia. The Fund has fully deployed the proceeds of the Offering following the closing of the acquisition. See Subsequent Events.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Forecast was prepared in accordance with IFRS and was based on management’s estimates and using assumptions that reflected management’s intended course of action for the periods presented, given management’s judgement as to the most probable set of economic conditions. The Forecast was not, when made, a historical fact, but a forward-looking statement about, among other things, the financial condition, results of operations and business of the Fund and is subject to important risks, uncertainties and assumptions that can be found in the Prospectus.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at December 31, 2017		
Operational Information		
Number of properties		2
Total suites		943
Economic occupancy ⁽¹⁾		90.9%
AMR (in actual dollars)	\$	1,212
Average monthly rent per square foot (in actual dollars)	\$	1.13
Summary of Financial Information		
Gross Book Value		\$161,142
Indebtedness		\$104,950
Indebtedness to Gross Book Value ⁽²⁾		65.13%
Weighted average mortgage interest rate		3.41%
Weighted average mortgage term to maturity		2.50 years
For the three months ended December 31, 2017		
Period from April 24, 2017 to December 31, 2017 ⁽¹⁾		
Summary of Financial Information		
Revenue from property operations	\$3,380	\$7,471
Property operating costs	\$875	\$1,905
Property taxes ⁽³⁾	\$554	\$1,270
NOI	\$1,951	\$4,296
Net income and comprehensive income	\$527	\$3,514
FFO	\$778	\$1,773
FFO per unit - basic and diluted	\$0.10	\$0.22
AFFO	\$780	\$1,777
AFFO per unit - basic and diluted	\$0.10	\$0.22
Interest coverage ratio	2.01 x	2.04 x
Indebtedness coverage ratio	2.01 x	2.04 x
FFO payout ratio	129.0%	114.2%
AFFO payout ratio	128.7%	113.9%
Normalized FFO payout ratio ⁽⁴⁾	108.6%	95.3%
Normalized AFFO payout ratio ⁽⁴⁾	108.3%	95.1%
Weighted average units Outstanding (000s) - basic and diluted	8,181	8,180
(1) Economic occupancy for the period from April 24, 2017 to December 31, 2017.		
(2) The Fund commenced operations following the acquisition of the Initial Properties on June 16, 2017.		
(3) Property taxes were adjusted to exclude the International Financial Reporting Interpretations Committee 21 - Levies ("IFRIC 21") adjustment and treat property taxes as an expense that is amortized during the fiscal year for purposes of calculating NOI.		
(4) Normalized payout ratios eliminate distributions paid on Offering proceeds not deployed as at December 31, 2017.		

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FINANCIAL PERFORMANCE

The Fund does not, as a matter of course, publish its business plans, budgets, strategies or make external projections or forecasts, including its anticipated financial position and results of operations. Pursuant to applicable Canadian securities laws, the Fund is required to update the Forecast set out in the Prospectus during the relevant period by identifying any material changes from the Forecast resulting from events that have occurred since it was issued and by comparing the Forecast with actual results for the periods covered.

The Fund is also required to discuss events and circumstances that occurred during the period from April 24, 2017 to December 31, 2017 that are reasonably likely to cause actual results to differ materially from the Forecast for periods that are not yet complete and their expected differences, if any. Material variances from the Forecast have been discussed in greater detail throughout this MD&A. For comparison purposes, the Forecast has been adjusted to reflect the Fund’s actual period of ownership of the Properties which commenced on June 16, 2017. The Forecast assumed that the Fund would raise gross subscription proceeds at the closing of the Offering of \$57,000 whereas the Fund actually raised \$64,923. As a result, the Fund has additional cash to deploy and has higher distribution payments to Unitholders when compared to the Forecast which impacts net income (loss) and comprehensive income (loss), FFO and AFFO per unit, and FFO and AFFO payout ratios.

	For the three months ended		Period from April 24, 2017 to	
	December 31, 2017	Forecast	December 31, 2017	Forecast
Revenue from property operations	\$ 3,380	\$ 3,558	\$ 7,471	\$ 7,740
Property operating costs	(875)	(893)	(1,905)	(1,935)
Income from property operations	2,505	2,665	5,566	5,805
Finance costs	(893)	(965)	(1,956)	(2,042)
Distributions to Unitholders	(1,004)	(845)	(2,024)	(1,690)
Distributions to Preferred Shareholders - U.S. REIT series A	-	(4)	-	(4)
Fund and trust expenses	(218)	(188)	(496)	(465)
Unrealized foreign exchange loss	-	-	(3)	-
Fair value adjustment of investment properties	-	-	5,678	-
Fair value adjustment IFRIC 21	(554)	(636)	(1,270)	(1,377)
Income taxes:				
Current	(8)	(8)	(17)	(17)
Deferred	699	(448)	(1,964)	(966)
Net income (loss) and comprehensive income (loss)	\$ 527	\$ (429)	\$ 3,514	\$ (756)

RESULTS OF OPERATIONS

The following discussion compares the Fund’s actual results for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 to the Forecast for the same periods.

	Three months ended December			Period from April		
	31, 2017	Forecast	% Variance	December 31, 2017	Forecast	% Variance
Revenue from property operations	\$ 3,380	\$ 3,558	(5.0)%	\$ 7,471	\$ 7,740	(3.5)%
Property operating costs	875	893	2.0%	1,905	1,935	1.6%
Property taxes ⁽¹⁾	554	636	12.9%	1,270	1,377	7.8%
NOI	\$ 1,951	\$ 2,029	(3.8)%	\$ 4,296	\$ 4,428	(3.0)%
NOI margin	57.7%	57.0%		57.5%	57.2%	

(1) Property taxes were adjusted to exclude the IFRIC 21 adjustment and treat property taxes as an expense that is amortized during the fiscal year.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

REVENUE FROM PROPERTY OPERATIONS

Revenue from property operations for the three months ended December 31, 2017 was \$3,380, \$178 or 5.0% below the Forecast primarily due to a reduction in economic occupancy. In addition, AMR and ancillary income were slightly below the Forecast.

Revenue from property operations for the period from April 24, 2017 to December 31, 2017 was \$7,471, \$269 or 3.5% below the Forecast. The Fund’s economic occupancy for the period was 90.9%, below the Forecast of 93.6%. The Fund’s AMR as at December 31, 2017 was \$1,212 compared to \$1,227 in the Forecast.

By December 31, 2017, the Fund had completed upgrades to and re-leased 22 suites and achieved an average return on investment of 23.0%. Upgraded suites which were leased by December 31, 2017 achieved an average increase of \$167 per month (in actual dollars), above the market rent for the equivalent non-upgraded suite. The following table presents the results achieved on the suite upgrade program for the period from April 24, 2017 to December 31, 2017.

	Number of Suites Upgraded and Leased	Rental Premium (per suite, per month) in actual dollars	Return on Investment
The Landing	12	\$ 225	22.1%
Spectra South	10	\$ 115	23.8%
Combined	22	\$ 167	23.0%

AVERAGE MONTHLY RENT AND OCCUPANCY

The following table presents AMR (in actual dollars) as at December 31, 2017 compared to the Forecast:

Properties	AMR As at December 31, 2017	
	Actual	Forecast
The Landing	\$ 1,348	\$ 1,363
Spectra South	\$ 1,003	\$ 1,020
Total	\$ 1,212	\$ 1,227

As at December 31, 2017, the Landing AMR was \$1,348 compared to the Forecast of \$1,363, primarily due to higher vacancy in the larger suites which carry higher average rents offsetting AMR growth achieved in the one and two-bedroom suites. Spectra South AMR was \$1,003 compared to the Forecast of \$1,020, a decrease of \$17 or 1.7%.

The Fund has achieved AMR growth since acquisition at Spectra South of 1.4% on an annualized basis. AMR growth at The Landing has been minimal to date given the seasonal slowdown in leasing of the larger three and four-bedroom suites which carry higher average rents

The following table presents economic occupancy of the Properties for the three months ended December 31, 2017 and the period from April 24, 2017 to December 31, 2017 compared to the Forecast:

Properties	Economic occupancy For the three months Ended December 31, 2017		Economic occupancy For the period from April 24, 2017 to December 31, 2017	
	Actual	Forecast	Actual	Forecast
The Landing	88.3%	92.2%	91.3%	93.8%
Spectra South	89.5%	93.2%	89.9%	93.3%
Total	88.7%	92.5%	90.9%	93.6%

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the three months ended December 31, 2017, the Landing economic occupancy was 88.3% (Forecast 92.2%) and Spectra South economic occupancy was 89.5% (Forecast 93.2%). For the period from April 24, 2017 to December 31, 2017, the Landing economic occupancy was 91.3% (Forecast 93.8%) and Spectra South economic occupancy was 89.9% (Forecast 93.3%). The lower economic occupancy at the Landing was due to a slower leasing period for the larger three and four-bedroom suites.

Occupancy at Spectra South was lower than Forecast due to the three months ended December 31, 2017 being a slow leasing period in the Phoenix market. In addition, the property is carrying additional vacant suites in preparation for the increase of the suite upgrade program to coincide with the strongest leasing season in Phoenix which occurs in the first few months of the calendar year.

The table below outlines the Fund’s quarterly AMR and economic occupancy:

Properties	December 31, 2017			September 30, 2017			June 30, 2017		
	Suites	AMR	Occ % ⁽¹⁾	Suites	AMR	Occ % ⁽¹⁾	Suites	AMR	Occ % ⁽¹⁾
The Landing	583	\$ 1,348	88.3%	583	\$ 1,354	94.1%	583	\$ 1,345	93.6%
Spectra South	360	\$ 1,003	89.5%	360	\$ 998	90.1%	360	\$ 995	90.3%
Total	943	\$ 1,212	88.7%	943	\$ 1,223	92.8%	943	\$ 1,217	92.6%

⁽¹⁾ Economic occupancy

The Fund’s AMR reduced from \$1,223 to \$1,212 during the three months ended December 31, 2017 due to the increase in vacancy of three and four-bedroom suites at the Landing which carry higher average rents. AMR at Spectra South increased from \$998 to \$1,003 or an annualized 2.0%

PROPERTY OPERATING COSTS

Property operating costs were \$18 or 2.0% lower than the Forecast for the three months ended December 31, 2017 and \$30 or 1.6% lower than the Forecast for the period from April 24, 2017 to December 31, 2017, primarily due to lower repair and maintenance costs than forecast.

PROPERTY TAXES

Property taxes were \$554 for the three months ended December 31, 2017 compared to the Forecast of \$636. The reduction of \$82, or 12.9%, was due to lower than anticipated property tax expense at both The Landing and Spectra South resulting from the assessed values received being lower than in the Forecast.

Property taxes were \$1,270 for the period from April 24, 2017 to December 31, 2017 compared to the amount in the Forecast of \$1,377. The reduction of \$107, or 7.8%, was due to a lower anticipated property tax expense at both The Landing and Spectra South resulting from the assessed values received being lower than in the Forecast.

NOI

NOI was \$1,951 for the three months ended December 31, 2017, \$78 or 3.8% lower than in the Forecast due to the lower revenue from property operations being partly offset by lower than Forecasted property operating costs and property taxes. NOI margin was 57.7% for the three months ended December 31, 2017, an increase of 70 basis points when compared to the Forecast due to the lower property operating costs and property taxes.

NOI was \$4,296 for the period from April 24, 2017 to December 31, 2017, \$132 or 3.0% lower than in the Forecast due to the lower revenue from property operations being partly offset by lower than Forecasted property operating costs and property taxes. NOI margin was 57.5% for the period from April 24, 2017 to December 31, 2017, an increase of 30 basis points when compared to the Forecast due to the lower property operating costs and property taxes.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FINANCE COSTS

The Fund’s finance costs for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 are summarized below:

	Three months ended December 31, 2017		Period from April 24, 2017 to December 31, 2017	
		Forecast		Forecast
Interest on mortgages payable	\$ 886	\$ 908	\$ 1,878	\$ 1,919
Amortization of financing costs	61	57	132	123
Fair value adjustment on derivative instruments	(54)	-	(54)	-
Total	\$ 893	\$ 965	\$ 1,956	\$ 2,042

Interest on mortgages payable for the three months ended December 31, 2017 was \$886 (Forecast - \$908). The \$22 or 2.4% reduction in interest on mortgages payable was due to the actual average U.S. 30-day London Interbank Offered Rate (“LIBOR”) rate being lower than the rate used in the Forecast. In addition, the Fund did not draw on available financing sources to fund the value-add initiatives at Spectra South and the Landing which were funded from cash on hand.

Interest on mortgages payable for the period from April 24, 2017 to December 31, 2017 was \$1,878 (Forecast - \$1,919). The \$41 or 2.1% reduction in interest on mortgages payable was due to the actual average U.S. 30-day LIBOR rate being lower than the rate used in the Forecast. In addition, the Fund did not draw on financing sources to fund the value-add initiatives at Spectra South and the Landing which were funded from cash on hand.

Amortization of financing costs for the three months ended December 31, 2017 was \$61 (Forecast - \$57). The increase of \$4 or 7.0% was due to the Fund incurring higher financing costs than the Forecast at the time the Properties were acquired.

Amortization of financing costs for the period from April 24, 2017 to December 31, 2017 was \$132 (Forecast - \$123). The variance of \$9 or 7.3% was due to the Fund incurring higher financing costs than the Forecast at the time the investment properties were acquired.

The fair value adjustment on derivative instruments relates to the Fund entering into a variable rate collar contract to provide protection from the impact of any potential weakening of the U.S. dollar on the Fund’s Canadian dollar distributions. The 12-month contract allows the Fund to exchange U.S. funds each month within a range of C\$1.2680 to C\$1.3400 to fund Canadian dollar distributions. For the three months and period ended December 31, 2017, the Fund recorded an unrealized gain on derivative instruments of \$54.

DISTRIBUTIONS TO UNITHOLDERS

For the three months ended December 31, 2017 the Fund distributed \$1,004 to Unitholders and for the period from April 24, 2017 to December 31, 2017 the Fund distributed \$2,024. The Fund’s first distribution to Unitholders was paid for the month of July 2017 which represented the Fund’s first full month operating the investment properties. For the period from April 24, 2017 to December 31, 2017, the Fund paid full distributions even though the proceeds from the Offering were not yet fully deployed.

FUND AND TRUST EXPENSES

Fund and trust expenses include costs incurred by the Fund that are not directly attributable to the Properties. These costs include items such as legal and audit fees, director fees, investor relations expenses, directors’ and officers’ insurance premiums, expenses relating to the administration of the Fund’s distributions and other general and administrative expenses associated with the operation of the Fund. Also included in the Fund expenses are asset management fees payable to Starlight. See “Related Party Transactions and Arrangements – Arrangements with Starlight”.

Fund and trust expenses for the three months ended December 31, 2017 were \$218 (Forecast - \$188), an increase of \$30 or 16.0% primarily due to higher administration expenses. Included in the Fund and trust expenses are asset management fees of \$136.

Fund and trust expenses for the period from April 24, 2017 to December 31, 2017 were \$496 (Forecast - \$465), an increase of \$31 or 6.7% primarily due to higher administration expenses. Also included in the Fund and trust expenses are asset management fees of \$295.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

UNREALIZED FOREIGN EXCHANGE GAIN

The Fund recognized an unrealized foreign exchange loss of \$nil for the three months ended December 31, 2017 and an unrealized foreign exchange loss of \$3 for the period from April 24, 2017 to December 31, 2017 relating to expenses incurred in Canadian dollars.

INVESTMENT PROPERTIES – FAIR VALUE ADJUSTMENTS

The Fund has selected the fair value method to account for real estate classified as investment properties. Fair values are supported by a combination of internal financial information and market data. The determination of fair value is based on, among other things, the amount of rental income from future leases reflecting current market conditions, adjusted for assumptions of future cash flows in respect of current and future leases, capitalization rates and expected occupancy rates.

The Fund is currently working on several value-enhancing initiatives at the Properties. At Spectra South, the Fund is in the process of painting the exterior of the buildings and is expecting to complete this project during the three months ended March 31, 2018. The Fund plans to complete the following additional projects at Spectra South during the first half of 2018: the repair and upgrade of the parking lot and entryway; the upgrade of the clubhouse and fitness centre; and the refinishing of the pool including additional pool furniture. In addition, the Fund has commenced the suite upgrade program that includes new plank flooring, upgraded lighting, kitchen faucets, cabinets, bathroom lighting, bathroom hardware and painting.

At The Landing, the Fund is in the process of renovating the main clubhouse including the relocation of the leasing office, the addition of a Wi-Fi café, renovation of the conference room, introduction of a package locker system and the repurposing of the movie theatre and games room. The clubhouse renovation project is expected to be completed during the second quarter of 2018. The Fund also plans to complete the following additional projects in the near term: exterior upgrades including exterior painting; enhancement of the pool including pool deck redesign and new pool furniture; landscape upgrades; and creation of a games area and barbeque grilling centre. The Fund has completed the design for a suite upgrade program that includes new plank flooring, stainless steel appliances, upgraded lighting, refinished kitchen cabinets, kitchen plumbing, quartz countertops in kitchens and bathrooms and upgraded bathroom sinks and faucets, lighting and hardware. The planned suite upgrades at both Properties are expected to generate significant increases in rental rates and provide attractive returns on the capital invested.

The Fund recorded a fair value increase on its investment properties of \$5,678 for the period from April 24, 2017 to December 31, 2017.

The following table summarizes the change in investment properties held by the Fund for the period.

	Amount
Opening Balance at April 24, 2017	\$ -
Acquisition of Properties	154,115
Capital additions	1,148
Fair value adjustment	5,678
IFRIC 21 realty tax liability adjustment	201
Balance as at December 31, 2017	\$ 161,142

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

	As at December 31, 2017
Cost	\$ 155,263
Cumulative fair value adjustment	5,678
IFRIC 21 realty tax liability adjustment	201
Balance as at December 31, 2017	\$ 161,142

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The key assumptions for investment properties held by the Fund are set out in the following table:

	As at December 31, 2017
Capitalization rates - range	4.64% to 5.27%
Capitalization rate - weighted average	5.02%

The fair values of the Fund’s investment properties are sensitive to changes in the key valuation assumptions. Changes in the weighted average capitalization rates would result in a change to the fair value of the Fund’s investment properties as set out in the following table:

Key assumptions	Change	As at December 31, 2017
Weighted average:		
Capitalization rate	10-basis-point increase	\$ (3,187)
Capitalization rate	10-basis-point decrease	\$ 3,316

The impact of a 1% change in NOI used to value the investment properties as at December 31, 2017 would affect the fair value by approximately \$1,633.

INCOME TAXES - CURRENT

The Fund’s current income taxes for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 were \$8 and \$17, respectively (Forecast - \$8 and \$17, respectively) relating to Texas franchise taxes in respect of The Landing.

INCOME TAXES - DEFERRED

The Fund recognized a \$699 deferred tax recovery for the three months ended December 31, 2017 as a result of the approved U.S. tax reform (December 22, 2017) which resulted in a reduction of the Fund’s estimated all-in corporate tax rate from 38% to 24%. The Fund’s deferred tax amount relates to timing differences between the Fund’s fair value of investment properties and the tax basis of the investment properties. For the period from April 24, 2017 to December 31, 2017, the Fund has recorded a deferred tax charge of \$1,964. The deferred tax charge is the result of the Fund recognizing a fair value increase on its investment properties of \$5,678 during the period from April 24, 2017 to December 31, 2017 as well as tax depreciation on the investment properties creating a timing difference between the accounting and tax amounts.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

NON-IFRS FINANCIAL MEASURES – FFO AND AFFO

Non-IFRS financial measures have been prepared for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 with a comparison to Forecast.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Reconciliation of net income (loss) and comprehensive income (loss), determined in accordance with IFRS to FFO and AFFO is presented below for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 with a comparison to the Forecast.

	Three months ended December 31, 2017		Period from April 24, 2017 to December 31, 2017	
		Forecast		Forecast
Net income (loss) and comprehensive income (loss)	\$ 527	\$ (429)	\$ 3,514	\$ (756)
Add / (Deduct):				
Deferred taxes	(699)	448	1,964	966
Distributions to Unitholders	1,004	845	2,024	1,690
Unrealized foreign exchange loss	-	-	3	-
Fair value adjustment on derivative financial instruments	(54)	-	(54)	-
Fair value adjustment of the Properties	-	-	(5,678)	-
FFO	\$ 778	\$ 864	\$ 1,773	\$ 1,900
Add / (Deduct):				
Amortization of financing costs	\$ 61	\$ 57	\$ 132	\$ 123
Sustaining capital expenditures and suite renovation reserves	(59)	(59)	(128)	(128)
AFFO	\$ 780	\$ 862	\$ 1,777	\$ 1,895
FFO per unit - basic and diluted	\$0.10	\$0.12	\$0.22	\$0.25
FFO payout ratio	129.0%	97.8%	114.2%	88.9%
Normalized FFO payout ratio ⁽¹⁾	108.6%	97.8%	95.3%	88.9%
AFFO per unit - basic and diluted	\$0.10	\$0.12	\$0.22	\$0.25
AFFO payout ratio	128.7%	98.0%	113.9%	89.2%
Normalized AFFO payout ratio ⁽¹⁾	108.3%	98.0%	95.1%	89.2%
Distributions declared	\$ 1,004	\$ 845	\$ 2,024	\$ 1,690
Weighted average units outstanding:				
Basic and diluted - class A, C, D, E, F, H & U - (000s)	8,181	7,457	8,180	7,457
(1) Normalized payout ratios eliminate distributions paid on Offering proceeds that were not deployed as at December 31, 2017.				

Basic and diluted FFO and FFO per unit for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 were \$778 and \$0.10 and \$1,773 and \$0.22, respectively (Forecast - \$864 and \$0.12 and \$1,900 and \$0.25). FFO was \$86 lower than the Forecast during the three months ended December 31, 2017, primarily due to the NOI decrease of \$78 and higher Fund and trust expenses of \$30 being partially offset by lower finance costs of \$18 (after excluding the adjustment on derivative financial instrument). FFO was \$127 lower than the Forecast during the period from April 24, 2017 to December 31, 2017 primarily due to the NOI decrease of \$132.

Basic and diluted AFFO and AFFO per unit for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 were \$780 and \$0.10 and \$1,777 and \$0.22, respectively (Forecast - \$862 and \$0.12 and \$1,895 and \$0.25). AFFO was \$82 lower than in the Forecast during the three months ended December 31, 2017 and \$118 lower than in the Forecast during the period from April 24, 2017 to December 31, 2017. The reductions in AFFO were due to the lower NOI and higher Fund and trust expenses being partly offset by lower finance costs.

FFO and AFFO payout ratios for the three months ended December 31, 2017 were 129.0% and 128.7% respectively (Forecast 97.8% and 98.0%). The payout ratios in the Forecast assumed the Fund had fully deployed the equity raised as at the time of the Offering with distributions of \$845 quarterly. The Fund incurred distributions of approximately \$159 on the Offering but not deployed during the three months ended December 31, 2017. Excluding these distributions, the FFO and AFFO payout ratios for the three months ended December 31, 2017 would have been 108.6% and 108.3%, respectively.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FFO and AFFO payout ratios for the period from April 24, 2017 to December 31, 2017 were 114.2% and 113.9%, respectively (Forecast 88.9% and 89.2%). The Forecast payout ratios assumed the Fund had fully deployed the equity raised for the entire period commencing June 16, 2017 and distributions were assumed to be \$845 quarterly. Had the Fund raised only the minimum required to close on the Properties, the FFO and AFFO payout ratios for the period from April 24, 2017 to December 31, 2017 would have been 95.3% and 95.1%, respectively.

Sustaining capital expenditures and suite renovations reserves for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 were \$59 and \$128 respectively, in comparison to actual amounts incurred of \$85 and \$144, respectively.

The Fund's distributions paid and declared for the period from April 24, 2017 to December 31, 2017 per unit were as follows:

Class A	Class C	Class D	Class E	Class F	Class H	Class U
C\$0.30000	C\$0.30000	C\$0.30000	0.30000	C\$0.30000	C\$0.10000	0.30000

Reconciliation of cash provided by operating activities determined in accordance with IFRS to AFFO for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 is provided below:

	For the three months ended December 31, 2017	Period from April 24, 2017 to December 31, 2017
Cash (used in) provided by operating activities	\$ -	\$ 1,913
Less: interest paid	(886)	(1,878)
Cash used in operating activities - including interest paid	\$ (886)	\$ 35
Add / (Deduct):		
Change in non-cash operating working capital	3,510	2,269
Change in restricted cash	(1,156)	(404)
Fair value adjustment of investment properties relating to IFRIC 21	(629)	2
Unrealized foreign exchange loss	-	3
Sustaining capital expenditures and suite renovation reserves	(59)	(128)
AFFO	\$ 780	\$ 1,777

Cash used in operating activities – including interest paid was (\$866) and \$35, for the three months ended December 31, 2017 and the period from April 24, 2017 to December 31, 2017. During these periods the Fund made distributions of \$1,004 and \$2,024, respectively (representing shortfalls of \$1,890 and \$1,989, respectively, to cash used in operating activities – including interest paid). Cash used in operating activities for the three months and period ended December 31, 2017 was significantly impacted by the Fund making acquisition related deposits of \$1,300 and the Fund paying the approved withholding tax to the Internal Revenue Service of \$1,876 on behalf of the seller of Spectra South. Excluding these amounts cash provided by operating activities including interest paid for the three months ended and period from April 24, 2017 to December 31, 2017 would have been \$2,290 and \$3,211, respectively. The Fund distributed approximately \$159 during the three months ended December 31, 2017 and \$334 during the period from April 24, 2017 to December 31, 2017 relating to equity raised from the Offering which had not been fully deployed by December 31, 2017. See Subsequent Events. The Fund had access to additional sources of cash during the period from April 24, 2017 to December 31, 2017 in the form of the remaining proceeds from the Offering as well as access to funding available for value-add capital expenditures. The Fund does not consider there to be an issue with the sustainability of future distributions to Unitholders following the deployment of the remaining equity from the Offering. See Subsequent Events.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The Fund expects to be able to meet all its obligations, including distributions to Unitholders and property maintenance and capital expenditure commitments as they become due. The Fund has financing sources to fulfill its commitments including cash flow from its operating activities and mortgage debt secured by investment properties including availability of future funding to assist with value-enhancing initiatives. As at December 31, 2017, the Fund was in compliance with all of its financial covenants.

CASH FLOWS

Cash flow provided by operating activities represents the primary source of liquidity to fund distributions, debt service and capital improvements. The Fund’s cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, the level of operating and other expenses and other factors. Material changes in these factors may adversely affect the Fund’s net cash flow from operating activities and liquidity. A more detailed discussion of these risks is found under the “Risks and Uncertainties” section.

The following table details the changes in cash for the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017:

	For the three months ended December 31, 2017		Period from April 24, 2017 to December 31, 2017
Cash provided by (used in) operating activities	\$	-	\$ 1,913
Cash (used in) provided by financing activities		(1,889)	161,958
Cash used in investing activities		(739)	(156,478)
Increase (decrease) in cash		(2,628)	7,393
Cash, beginning of period		10,021	-
Cash, end of period	\$	7,393	\$ 7,393

Cash on hand as at December 31, 2017 was \$7,393.

Cash used in operating activities for the three months ended December 31, 2017 was (\$nil) with cash generated by Property operations being offset by an increase in non-cash working capital.

Cash provided by operating activities for the period from April 24, 2017 to December 31, 2017 was \$1,913, and related to cash generated by Property operations as well as changes in non-cash working capital.

Cash used in financing activities for the three months ended December 31, 2017 was \$1,889 including \$886 for interest on mortgages payables and \$1,004 in distributions to Unitholders.

Cash provided by financing activities for the period from April 24, 2017 to December 31, 2017 was \$161,958 and included proceeds from the issuance of units net of issuance costs of \$61,648 and proceeds from new financing of \$104,211. These inflows were partially offset by finance costs paid of \$1,877 and distributions to Unitholders of \$2,024.

Cash used in investing activities for the three months ended December 31, 2017 was \$739 relating predominately to capital additions to the investment properties.

Cash used in investing activities for the period April 24, 2017 to December 31, 2017 was \$156,478 related to the acquisition of the Properties for \$155,330 and \$1,148 relating to capital additions to the investment properties.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The Fund’s capital is the aggregate of Indebtedness and net liabilities attributable to Unitholders. The Fund’s capital management is designed to maintain a level of capital that allows it to implement its business strategy while complying with investment and debt restrictions as well as existing debt covenants, as the Fund continues to build Unitholder value and maintain sufficient capital contingency amounts.

As at December 31, 2017, the total capital of the Fund was as follows:

As at December 31, 2017		
Mortgages payable	\$	104,950
Net liabilities attributable to Unitholders		65,162
Total capital	\$	170,112

DEBT PROFILE

As at December 31, 2017, the overall leverage, as represented by the ratio of Indebtedness to Gross Book Value was 65.1%. The maximum allowable ratio under the Fund’s first amended and restated limited partnership agreement dated as of June 12, 2017 is 75%. The weighted average mortgage interest rate for the Fund, as at December 31, 2017 was 3.41% and the weighted average term to maturity of the mortgage portfolio was 2.50 years.

The following table summarizes key liquidity metrics:

As at December 31, 2017		
Indebtedness to Gross Book Value		65.13%
Weighted average interest rate - mortgages		3.41%
Weighted average term to maturity - mortgages		2.50 years
		For the three months ended
		December 31, 2017
		Period from April 24, 2017 to
		December 31, 2017
Interest Coverage Ratio	2.01 x	2.04 x
Indebtedness Coverage Ratio	2.01 x	2.04 x

The Interest Coverage Ratio and the Indebtedness Coverage Ratio for the three months ended December 31, 2017 was 2.01x and 2.01x respectively, and for the period from April 24, 2017 to December 31, 2017 was 2.04x and 2.04x respectively.

The Fund’s objective in managing interest rate risk is to minimize the volatility of the Fund’s income. The Fund has the option to enter into interest rate cap agreements for all its floating rate mortgages. Loan agreements in respect of the Properties may require the Fund to enter into interest rate cap agreements once 30-day U.S. LIBOR reaches stipulated levels.

MORTGAGES PAYABLE

The following table sets out scheduled principal and interest payments and amounts maturing on the mortgages over each of the next three fiscal years and the weighted average interest rate of maturing mortgages based on the Fund’s consolidated financial statements as at December 31, 2017:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing mortgages	Scheduled interest payments
2018	\$ -	\$ -	\$ -	0.00%	0.00%	3,579
2019	-	-	-	0.00%	0.00%	3,579
2020	-	104,950	104,950	100.00%	3.41%	1,789
	\$ -	\$ 104,950	\$ 104,950	100.00%	3.41%	\$ 8,947
Unamortized financing costs			(607)			
			\$ 104,343			

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In addition to the mortgages payable of \$104,950, which partly funded the acquisitions of Spectra South and The Landing, the loan agreements allow for future advances of up to \$7,200 to fund the planned value enhancing initiatives at the Properties. As at December 31, 2017 the Fund had yet to draw down on the available future funding for either Property.

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the Fund may be involved in litigation and claims in relation to its investment properties. As at the date hereof, in the opinion of management, none of the litigation or claims, individually or in aggregate, would result in 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 directors and officers of the Fund and its subsidiaries.

NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS

The Fund is authorized to issue an unlimited number of units. The beneficial interest in the net income and comprehensive income of the Fund is divided into seven classes of units: class A units; class C units; class D units; class E units; class F units; class H units; and class U units. Below is a summary by class of the net liabilities attributable to Unitholders for the period from April 24, 2017 to December 31, 2017:

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Net liabilities attributable to Unitholders, April 24, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Changes during the period								
Units issued pursuant to the Offering, net of issue costs	12,918	12,061	9,994	9,305	13,118	1,338	2,914	61,648
Re-allocation due to unit conversions	(931)	-	2,418	782	(149)	(1,338)	(782)	-
Net income and comprehensive income	683	687	708	576	739	-	121	3,514
Net liabilities attributable to Unitholders, December 31, 2017	\$ 12,670	\$ 12,748	\$ 13,120	\$ 10,663	\$ 13,708	\$ -	\$ 2,253	\$ 65,162

UNITS

The following table summarizes the changes in units outstanding for the period from April 24, 2017 to December 31, 2017:

(in thousands of units)	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Outstanding as at April 24, 2017	-	-	-	-	-	-	-	-
Units issued pursuant to the Offering, completed, June 16, 2017	1,834	1,623	1,419	997	1,805	190	312	8,180
Unit conversions	(132)	-	343	84	(20)	(190)	(84)	1
Outstanding, as at December 31, 2017	1,702	1,623	1,762	1,081	1,785	-	228	8,181

As at December 31, 2017, there were 8,180,566 units issued and outstanding, comprised of 1,701,906 class A units, 1,622,500 class C units, 1,762,400 class D units, 1,080,500 class E units, 1,784,980 class F units, nil class H units and 228,280 class U units.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

ARRANGEMENTS WITH STARLIGHT

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

- (a) Pursuant to the management agreement dated June 16, 2017 (the “Management Agreement”), the Manager is to perform asset management services for annual fees equal to 0.35% of the sum of:
- I. the historical purchase price of the Properties acquired in U.S. dollars; and
 - II. the cost of any capital expenditures in respect of the Properties since the date of acquisition by the Fund in U.S. dollars.

For the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017 asset management fees of \$136 and \$295, respectively, were charged to Fund and trust expenses. The amount payable to the Manager as at December 31, 2017 was \$46.

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

For the three months ended December 31, 2017 and for the period from April 24, 2017 to December 31, 2017, the Fund incurred acquisition fees of \$nil and \$1,535, respectively under the Management Agreement. Acquisition fees are paid at the time of acquisition and are initially capitalized to Properties on acquisition. The acquisition fee for Spectra South was \$580 which was acquired from an affiliated entity of the Manager. The purchase price was based on an independent, third party valuation.

In addition, the Fund reimburses the Manager for all reasonable and necessary actual out-of-pocket costs and expenses incurred by the Manager in connection with the performance of the services described in the Management Agreement or such other services which the Fund and the Manager agree in writing are to be provided from time to time by the Manager.

The Management Agreement expires on the winding-up or dissolution of the Fund, unless and until the Management Agreement is terminated in accordance with the termination provisions.

CARRIED INTEREST

The partners of Starlight Investments Value-Add Partnership (“SIVAP”) currently being the Manager and the President of Starlight GP, through SIVAP’s indirect interest in the Starlight U.S. Multi-Family (No. 1) Value-Add Holding LP (“Holding LP”), a 99.99% owned subsidiary of the Fund, are entitled to 25% of the total of all amounts each of which is the amount, if any, by which (i) the aggregate amount of distributions which would have been paid on all units of the Fund of a particular class if all Distributable Cash (as defined in the Prospectus) of the Holding LP were received by the Fund (through Starlight U.S. Multi-Family (No. 1) Value-Add Investment LP (“Investment LP”), a 100% owned subsidiary of the Fund and Starlight U.S. Multi-Family (No. 1) Value-Add Investment GP, Inc., a 100% owned subsidiary of the Fund, together with all other amounts distributable by the Fund, and distributed by the Fund (net of any amounts required to provide for expenses and determined without reference to any applicable U.S. taxes payable by or on behalf of the Investment LP) to Unitholders of the Fund in accordance with the Fund’s amended and restated limited partnership agreement, exceeds (ii) the aggregate Minimum Return (as defined in the Prospectus) in respect of such class of Units of the Fund (the calculation of which, for greater clarity includes the amount of the Investors Capital Return Base (as defined in the Prospectus), each such excess, if any, to be calculated in U.S. dollars and, in the case of Canadian Dollar Units, based on the applicable exchange rate on the date of distribution for actual distributions paid by the Fund and

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

otherwise on the date of the applicable distribution from the Holding LP to the Investment LP and by the Investment LP to, directly or indirectly, the Fund, provided that, to the extent that the aggregate amount of distributions which would have been paid on all units of the Fund of a particular class pursuant to the foregoing exceed the Minimum Return for such class, the partners of SIVAP, through SIVAP’s indirect interest in the Holding LP, will be entitled to 50% of each such excess amount (i.e., a catch-up) until the excess, if any, which would have been distributed in respect of such class in excess of the Investors Capital Return Base (as defined in the Prospectus) is equal to three times (i.e., 75%/25%) the catch-up payment receivable by the Manager in respect of such class.

As at December 31, 2017, the Fund had not recognized a liability to SIVAP in relation to the carried interest.

AUDIT COMMITTEE

AUDIT COMMITTEE CHARTER

The Board has adopted a written charter for the audit committee which sets out the audit committee’s responsibility in accordance with applicable laws including reviewing the financial statements of the Fund and public disclosure documents containing financial information and reporting on such review to the Board, oversight of the work and review of the independence of the external auditors of the Fund and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. A copy of the audit committee charter is attached to this MD&A as “Schedule A”.

COMPOSITION OF THE AUDIT COMMITTEE

The audit committee of the Fund is comprised of Daniel Drimmer, Harry Rosenbaum and Graham Rosenberg (Chair). Harry Rosenbaum and Graham Rosenberg are “independent” within the meaning of National Instrument 52-110 – *Audit Committees* (“NI 52-110”). As a “venture issuer” under applicable securities laws, the Fund is permitted to have an audit committee not comprised exclusively of independent directors and the Fund is relying on such an exemption in Section 6.1 of NI 52-110. Each of Daniel Drimmer, Harry Rosenbaum and Graham Rosenberg are financially literate within the meaning of applicable securities laws. Each of the audit committee members has an understanding of the accounting principles used to prepare the Fund’s financial statements and possesses the ability to assess the general application of such principles in connection with the Fund’s accounting for estimates, accruals and provisions. In addition, each audit committee member has experience preparing, auditing, analyzing, evaluating or actively supervising, comparable financial statements with the breadth and complexity of the Fund’s financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

The biographies of each of Daniel Drimmer, Harry Rosenbaum and Graham Rosenberg are set out below which provide a description of the experience that is relevant to the performance of their responsibilities as audit committee members.

DANIEL DRIMMER

Daniel Drimmer is the founder, President and Chief Executive Officer of the Manager, a Canadian real estate asset management company focused on the acquisition, ownership and management of residential and commercial properties across Canada and the U.S., with a portfolio of approximately 35,000 suites and over 5,000,000 square feet in commercial properties. In addition to the formation of the Manager, Daniel Drimmer established and is the Chairman of the Board of True North Commercial Real Estate Investment Trust and founded TransGlobe Investment Management Ltd., TransGlobe Property Management Services Ltd. and TransGlobe Apartment Real Estate Investment Trust (“TransGlobe Apartment REIT” and, collectively, “TransGlobe”) and was TransGlobe’s President from November 1996 to August 2011. Under Mr. Drimmer’s guidance, TransGlobe expanded its original portfolio of seven properties to a portfolio exceeding 30,000 residential suites (including those owned by TransGlobe Apartment REIT, as at September 1, 2011), and approximately one million square feet of gross leasable area of commercial space. Daniel Drimmer also served as TransGlobe Apartment REIT’s Chairman and trustee from May 2010 to August 2011. Mr. Drimmer is currently a director of the Fund and a director of the general partner of Starlight U.S. Multi-Family (No. 5) Core Fund, as well as a trustee of True North Commercial Real Estate Investment Trust, a trustee of Northview Apartment Real Estate Investment Trust which acquired True North Apartment Real Estate Investment Trust, founded by Mr. Drimmer. Mr. Drimmer was formerly a director of Fund No.1, Fund No.2, Fund No.3, and Fund No.4. Over the last ten years, Mr. Drimmer has sourced, acquired and financed in excess of 85,000 suites. Over the last seven years, Daniel Drimmer has led more than C\$15 billion in real estate transactions, including four initial public offerings. Daniel Drimmer was born and raised in Berlin, Germany and is the third generation of the Drimmer family to be involved in real estate. He obtained a Bachelor of Arts degree from the University of Western Ontario, and a Master of Business Administration degree and a Masters’ degree

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

in Contemporary European Policy Making from European University in Geneva, Switzerland.

HARRY ROSENBAUM

Harry Rosenbaum is a founding principal of the Great Gulf Group of Companies, one of North America’s premier real estate conglomerates. He has been instrumental in manifesting such iconic projects as One Bloor East, Toronto, Ontario. Mr. Rosenbaum is a principal of Ashton Woods Homes, one of the largest private homebuilders in the United States and was formerly a director 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, and Starlight U.S. Multi-Family (No. 4) Core Fund, as well formerly being a trustee of WPT Industrial Real Estate Investment Trust. Mr. Rosenbaum is currently a director of the general partner of Starlight U.S. Multi-Family (No. 5) Core Fund. Prior to the creation of Great Gulf Group in 1983, Mr. Rosenbaum practiced commercial and real estate law at a Toronto law firm. Mr. Rosenbaum is active as a board member of various charitable organizations including the ACL (Advocates for Civil Liberties) and Sunnybrook Hospital Foundation. Mr. Rosenbaum attended Osgoode Hall Law School, graduating in 1974. He also holds a degree in Economics from York University, completed in 1971.

GRAHAM ROSENBERG

Graham Rosenberg is the Co-Chief Executive Officer and President of Dental Corporation of Canada Inc., a company that he founded in 2011 to acquire and partner with dental practices across Canada. Mr. Rosenberg is a trustee of Northview Apartment Real Estate Investment Trust and a member of the audit committee. Mr. Rosenberg is currently a director of the general partner of Starlight U.S. Multi-Family (No. 5) Core Fund. Prior to founding Dental Corporation of Canada Inc., Mr. Rosenberg founded and was the President of BCM Bancorp Inc., a boutique merchant bank providing mid-market North American companies with strategic and financial resources to accelerate growth and maximize value. Previously, Mr. Rosenberg was a Managing Director of MDC Partners Inc., a marketing and communications firm listed on the TSX and NASDAQ, from 2003 to 2009, holding various senior executive positions within the firm, and a former trustee and audit committee member of TransGlobe Apartment REIT. Mr. Rosenberg is qualified as a Chartered Professional Accountant.

PRE-APPROVAL OF NON AUDIT SERVICES

In accordance with the independence standards for auditors, the Fund is restricted from engaging its external auditors to provide certain non-audit services to the Fund, including bookkeeping or other services related to the accounting records or financial statements, financial information systems design and implementation, valuation services, actuarial services, internal audit services, corporate finance services, management functions, human resources functions, legal services and expert services unrelated to the audit.

The Fund may engage its external auditors from time to time, to provide certain non-audit services other than the restricted services. The Audit committee reviews and approves the nature of and fees for any non-audit service performed by the Fund’s external auditors in accordance with applicable requirements and board of directors of Starlight GP (the “Board” or “Directors”) approved policies and procedures.

EXTERNAL AUDITOR SERVICE FEES

The following table sets forth the approximate amounts of fees paid and accrued to the Fund’s auditor, BDO Canada LLP, for services rendered for the period from April 24, 2017 to December 31, 2017:

Fee Category	April 24, 2017 to December 31, 2017
Audit fees	\$41
Audit-related fees ⁽¹⁾	\$155
Tax fees ⁽²⁾	\$20
Total	<u>\$216</u>

Notes:

- (1) “Audit related fees” include fees paid and accrued in connection with the Prospectus, including carve-out audit fees for the Properties.
- (2) “Tax fees” include fees paid and accrued for tax compliance, tax planning and tax advisory services, including the review and preparation of tax returns.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

REMUNERATION OF MANAGEMENT OF THE FUND

OVERVIEW

As at the date hereof, the Fund, through Starlight GP, does not directly employ any persons who would be considered a named executive officer (“NEO”) of the Fund as such term is defined in Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers* in National Instrument 51-102 - *Continuous Disclosure Obligations*. The services of Messrs. Daniel Drimmer, Evan Kirsh and Martin Liddell, as Chief Executive Officer, President and Chief Financial Officer, respectively, are provided by Starlight. No compensation is paid by the Fund or its subsidiaries to those persons provided by Starlight as officers of the Fund, and the compensation received by such persons from Starlight is not within or subject to the discretion of the Board. The compensation paid by the Fund or its subsidiaries to Starlight for services rendered is calculated in accordance with the Management Agreement. See “Related Party Transactions and Arrangements – Arrangements with Starlight”. Starlight provides such administrative, executive and management personnel as may be reasonably necessary to perform its obligations by using its own employees and consultants and is therefore responsible for all matters with respect to such employees and consultants. All references to the officers of the Fund named in the “Summary Compensation Table” below, namely Messrs. Daniel Drimmer, Evan Kirsh and Martin Liddell, are references to officers of, or consultants to, Starlight GP, in its capacity as general partner of the Fund, and are either officers or employees of, or consultants to, Starlight.

COMPENSATION DISCUSSION AND ANALYSIS

The Fund’s executive team is employed by Starlight. The Fund is obligated to pay Starlight certain amounts pursuant to terms of the Management Agreement, as discussed in “Related Party Transactions and Arrangements – Arrangements with Starlight”. As such, any variability in compensation paid by Starlight to the NEOs does not impact the Fund’s financial obligations. The Board may hire officers and employees, but such hiring, if not of Starlight officers, consultants or employees, would be at the sole expense of the Fund. Further, any officer that is an officer, consultant or employee provided by Starlight may be removed from such position with the Fund, at the discretion of the Board. The Fund is not responsible for any change of control, severance, termination or constructive dismissal payments that may be provided, or required to be provided, by Starlight to the NEOs.

The following discussion is intended to describe the portion of the compensation of the NEOs that is attributable to time spent on the activities of the Fund, and supplements the more detailed information concerning compensation that appears in the table below and the accompanying narrative that follows.

PRINCIPAL ELEMENTS OF COMPENSATION

As a private company, Starlight’s process for determining executive compensation is straightforward, with no specific formula for determining the amount of each element of compensation, and no formal approach applied by Starlight for determining how one element of compensation fits into the overall compensation objectives in respect of the activities of the Fund. Objectives and performance measures may vary from year to year as determined to be appropriate by Starlight without reference to any formal benchmarking.

The compensation of the NEOs includes two major elements: (i) base salary; and (ii) an annual cash bonus. The Fund does not have any long-term equity incentive plans, such as a Unit option plan, pursuant to which cash or non-cash compensation has been or will be paid or distributed to any NEO or Director. In addition, the Fund does not have any stock appreciation rights, incentive plans, medium term incentives or pension plans. Perquisites and personal benefits are not a significant element of compensation of the NEOs.

These two principal elements of compensation are described below.

Base Salaries. Base salaries are intended to provide an appropriate level of fixed compensation that will assist in retention and recruitment. Base salaries are determined on an individual basis, taking into consideration the past, current and potential contribution to the success of the Fund, the position and responsibilities of the NEOs and competitive industry pay practices for other real estate funds, real estate investment trusts and corporations of comparable size. Starlight does not benchmark compensation to a specific peer group. Increases in base salary are at the sole discretion of Starlight. The Board may review the compensation payable to its officers by Starlight and provide recommendations to Starlight, which are considered in good faith by Starlight, but are not binding upon Starlight.

Annual Cash Bonuses. Annual cash bonuses are discretionary and are not awarded pursuant to a formal incentive plan. Annual cash bonuses are awarded based on qualitative and quantitative performance standards, and reward performance of the Fund or the NEO individually. The determination of the performance of the Fund may vary from year

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

to year depending on economic conditions and conditions in the real estate industry and may be based on measures such as Unit price performance, the meeting of financial targets against budget, the meeting of acquisition objectives and balance sheet performance. Individual performance factors vary and may include completion of specific projects or transactions and the execution of day-to-day management responsibilities. The Board may review the bonuses payable to its officers by Starlight, and provide recommendations to Starlight, which are considered in good faith by Starlight but are not binding upon Starlight.

TABLE OF COMPENSATION EXCLUDING COMPENSATION SECURITIES

The following table sets out compensation information concerning the persons determined to be NEOs of the Fund pursuant to applicable securities laws. All amounts below are set out in Canadian dollars.

Name and position	Year⁽¹⁾	Salary, consulting fee, retainer or commission⁽²⁾ (C\$)	Bonus (C\$)	Committee or meeting fees (C\$)	Value of perquisites⁽³⁾ (C\$)	Value of all other compensation (C\$)	Total compensation (C\$)
Daniel Drimmer ⁽⁴⁾ , <i>Chief Executive Officer, Director</i>	2017	Nil	Nil	Nil	Nil	Nil	Nil
Evan Kirsh ⁽⁵⁾ , <i>President</i>	2017	Nil ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil ⁽⁶⁾
Martin Liddell ⁽⁷⁾⁽⁸⁾ , <i>Chief Financial Officer</i>	2017	20,000	10,000	Nil	Nil	Nil	30,000 ⁽⁶⁾
Graham Rosenberg ⁽⁹⁾ , <i>Director</i>	2017	6,250	Nil	Nil	Nil	Nil	6,250
Harry Rosenbaum ⁽⁹⁾ , <i>Director</i>	2017	6,250	Nil	Nil	Nil	Nil	6,250

- (1) The Fund was established on April 24, 2017 and accordingly, information is presented only for the nine months period ended December 31, 2017 and is not presented with respect to prior years.
- (2) On an annualized basis, salaries, consulting fees, retainers or commissions paid to the NEOs and Directors for the period ended December 31, 2017 would have been as follows: Daniel Drimmer, Nil; Martin Liddell, C\$40,000; Graham Rosenberg, C\$12,500; and Harry Rosenbaum C\$12,500. See also Note 5.
- (3) None of the NEOs or the Board of Directors are entitled to perquisites, which, in the aggregate, are more than C\$15,000.
- (4) Daniel Drimmer is not compensated by the Fund for serving as a Director and is not compensated by Starlight for providing services as the Chief Executive Officer or as a member of the Board of Directors of the Fund. Mr. Drimmer is the principal of Starlight. See “Related Party Transactions and Arrangements – Arrangements with Starlight”.
- (5) Evan Kirsh serves as the President of Starlight GP. A corporation controlled by Evan Kirsh (the “Service Provider”) receives compensation from Starlight for services provided to the Fund pursuant to the terms of a fee agreement (the “Fee Agreement”) among Starlight, Evan Kirsh and the Service Provider. The Fee Agreement provides that commencing on June 16, 2017 in consideration for, among other things, providing the services of Mr. Kirsh to act as President of the Fund, Starlight pays the Service Provider a fee. Pursuant to the Fee Agreement, the Service Provider is entitled to receive the aggregate of: (i) an agreed percentage of the gross asset management fees paid by the Fund to Starlight pursuant to the management agreement; (ii) an agreed percentage of the gross acquisition fees paid by the Fund to Starlight pursuant to the management agreement; and (iii) an agreed percentage of the gross disposition transaction fees paid by the Fund to Starlight pursuant to the management agreement. Starlight (and not the Fund) is responsible for any such amounts payable to the Service Provider. Also see Related Party Transactions and Arrangements – Arrangements with Starlight” for amounts paid or payable to Starlight for the period June 16, 2017 to December 31, 2017.
- (6) Compensation is paid by Starlight and there is no charge back to the Fund for such compensation.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

- (7) Martin Liddell is the Chief Financial Officer of Starlight GP. Mr. Liddell receives compensation from Starlight for services provided to the Fund. In addition, pursuant to an agreement between Mr. Liddell and Starlight, Mr. Liddell is entitled to a portion of the amount received by Starlight from or in respect of its holdings of class B partnership units of SIVAP. Starlight (and not the Fund) is responsible for any such amounts payable to Mr. Liddell. See “Related Party Transactions and Arrangements – Arrangements with Starlight”, specifically the carried interest section.
- (8) The amounts allocated in the table represent the portion of Martin Liddell’s compensation that is attributable to the activities of the Fund and was determined by Starlight solely for the purposes of this table, based on the role, responsibility and time spent by Mr. Liddell to fulfill the requirements of the office of Chief Financial Officer of the Fund.
- (9) Director compensation is determined by the Board of Directors of Starlight GP. The Fund pays its independent directors annual compensation in the amount of C\$12,500 per annum which amount was set on establishment of the Fund is reviewed annually by the Board of Directors or Starlight GP and is expected to be unchanged for the duration of the Fund. See also Note 4.

REMUNERATION OF THE DIRECTORS OF STARLIGHT GP

REMUNERATION OF DIRECTORS

Any Director who is an officer of, or is otherwise employed by Starlight, is not entitled to any remuneration from the Fund for serving as a Director (including as Chair of the Board, or as the Chair or as a member of the audit committee). Each Director, other than Daniel Drimmer, receives an annualized base retainer from the Fund in the amount for C\$12,500 for services provided during 2017. There were no fees paid or payable for each day on which a Director attended a meeting of the Board, whether in person or by telephone, and the members of the audit committee did not receive any fees for services provided.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies is provided in Note 2 to the audited consolidated financial statements of the Fund. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at each financial statement date, and revenues and expenses for the periods indicated. Actual results could differ from those estimates.

CRITICAL JUDGMENTS AND ESTIMATES

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that it believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements.

The estimates used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INVESTMENT PROPERTIES

The estimates used when determining the fair value of investment properties are capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property.

The stabilized future cash flows of each investment property based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

FINANCIAL INSTRUMENTS

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

LEASES

The Fund makes judgments in determining whether certain leases, in particular tenant leases are accounted for under IFRS as either operating or finance leases. The Fund has determined that all its leases are operating leases.

INCOME TAXES

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

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

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

Should the Fund’s liquidating event occur through a sale of the Fund’s limited partnership interests, the estimated deferred taxes would not be incurred by the Fund.

CONSOLIDATION

The Fund has determined that it controls all of its subsidiaries, including the Significant Subsidiaries as defined in the Fund’s audited consolidated financial statements for the period from April 24, 2017 (date of formation) to December 31, 2017. In making this determination it considered the relationships between the Fund, the Manager, and the Significant Subsidiaries including ownership interests, voting rights and management agreements. Through this analysis it was determined that the Manager is an agent of the Fund.

CARRIED INTEREST

The determination by the Fund as at each Statement of Financial Position date as to whether a provision for carried interest should be recognized to holders of the class B limited partnership units of SIVAP is based, among other criteria, on the Fund’s analysis of the net liabilities attributable to Unitholders, distributions paid to Unitholders since the formation of the Fund and the Fund’s ability to meet the requirement to return the initial investment amount contributed from the limited partners of the Fund and the Minimum Return.

FUTURE ACCOUNTING POLICY CHANGES

The future accounting policy changes are discussed in the Fund’s audited consolidated financial statements for the period from April 24, 2017 (date of formation) to December 31, 2017.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RISKS AND UNCERTAINTIES

The ownership of units involves a number of risk factors. The risks described below are not the only risks and readers should carefully review the risks and uncertainties disclosed in the Prospectus, under the heading “Risk Factors”, at www.sedar.com. If any of the following risks or those outlined in the Prospectus occur, or if others occur, the Fund’s business, operating results and financial condition could be seriously harmed and investors may lose all of their investment. Risks affecting the Fund will affect its ability to make distributions on its units. Some of these risk factors are described below:

- (a) *Acquisition Risk* – The Manager intends to recommend properties for acquisition by the Fund or its subsidiaries selectively. The acquisition of properties entails risks that investments will fail to perform in accordance with expectations. In undertaking such acquisitions, the Fund or its subsidiaries will incur certain risks, including the expenditure of funds, including non-refundable deposits, due diligence costs and inspection fees, and the devotion of the Manager’s time to transactions that may not come to fruition. The operation of properties may not generate sufficient funds to make the payments of principal and interest due on the mortgage loans and, upon default, one or more lenders could exercise their rights including foreclosure or the sale of Properties.
- (b) *Capital Expenditure Program* – If the in-suite or common area capital expenditure program for any one or more Properties is not completed as expected or at all, monthly rents may decrease, remain unchanged or not increase as expected and expected returns on the disposition of such Properties may be lower than anticipated.

In addition, the costs associated with any capital expenditure program may reduce the funds available to pay distributions or result in an inability to pay distributions. If the cost to complete a capital expenditure program for one or more Properties exceeds the anticipated amount, the cash available for distributions may be decreased, and/or the expected value of a Property upon disposition may be less than modelled and/or the expected returns may be lower than anticipated.

- (c) *Experience of Directors and Officers* – While the officers of the Fund and the Directors have significant experience in multi-family real estate in Canada, their direct experience in multi-family real estate in the U.S. is more limited. Investors are cautioned that the experience of the officers of the Fund and the directors of its general partner may not be relevant to the acquisition of multi-family real estate in the U.S. or to their achievement of the investment objectives of the Fund.
- (d) *General Real Estate Ownership Risks* – All real property investments are subject to a degree of risk and uncertainty. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The Properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant suites in the Properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the Properties becomes vacant and cannot be re-leased on economically favourable terms, the Properties may not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, and distributable cash will be adversely affected.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a Property is producing any income. Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit the Fund’s ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Fund were to be required to quickly liquidate its real property investments, the proceeds might be significantly less than the aggregate carrying value of the Properties or less than what could be expected to be realized under normal circumstances. The Fund may, in the future, be exposed to a general decline of demand by tenants for space in the Properties. As well, certain of the leases of the Properties held by the Fund or its Subsidiaries may have early termination provisions, which, if exercised, would reduce the average lease term.

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the Properties or revenues to be derived therefrom. There can be no assurance that, upon the expiry or

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

termination of existing leases or completion of suite renovations, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the Fund due to internal and external limitations on its ability to charge these new market-based rents in the short-term.

- (e) *Co-investment/Joint Ventures* – The Fund may, on advice from the Manager, invest in, or be a participant in, directly or indirectly, joint ventures and partnerships with third parties in respect of the Properties. A joint venture or partnership involves certain additional risks, including:
- I. the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with the Fund’s or take actions contrary to the Manager’s instructions or requests or to the Manager’s policies or objectives with respect to the Properties;
 - II. the co-venturer/partner may have control over all of the day to day and fundamental decisions relating to a property;
 - III. the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such properties or repay the co-venturers’/partners’ share of property debt guaranteed by the Fund or its subsidiaries or for which the Fund or its subsidiaries will be liable and/or result in the Fund suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions;
 - IV. the risk that such co-venturers/partners may, through their activities on behalf of or in the name of the ventures or partnerships, expose or subject the Fund or its subsidiaries to liability; and
 - V. the need to obtain co-venturers’/partners’ consents with respect to certain major decisions or inability to have any decision-making authority, including the decision to distribute cash generated from such properties or to refinance or sell a property.

In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to certain requirements, such as rights of first refusal, rights of first offer or drag-along rights, and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may inhibit the Fund’s ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis the Manager desires. Additionally, drag-along rights may be triggered at a time when the Manager may not advise the Fund to sell its interest in a property, but the Fund may be forced to do so at a time when it would not otherwise be in its best interest.

- (f) *Inability to Dispose of Properties or Geographical Diversify* – The Fund may be unable to reduce its exposure in any one of the Primary Markets by disposing of certain Properties during the term of the Fund and by replacing such Properties with new properties in Primary Markets having greater potential NOI growth and value, or to achieve further geographical diversification of the Fund’s overall portfolio or a more balanced distribution of Properties within Primary Markets through dispositions and acquisitions of Properties in the Primary Markets. As a result, the Fund may face exposure to downturns in any one of the Primary Markets or from a lack of geographical diversification or an unbalanced distribution of properties within Primary Markets.
- (g) *Substitutions for Residential Rental Suites* – Demand for rental suites in the Properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. Notwithstanding recent increases in interest rates in the U.S., interest rates offered by financial institutions for financing home ownership have been at historically low levels. If the interest rates offered by financial institutions for home ownership financing remain low or fail to rise, demand for rental suites may be adversely affected. A reduction in the demand for rental suites may have an adverse effect on the Fund’s ability to lease suites in the Properties and on the rents charged.
- (h) *Government Regulation* – Certain states in the U.S. have enacted residential tenancy legislation, which may impose, among other things, rent control guidelines that limit the Fund’s ability to raise rental rates at the Properties. Limits on the Fund’s ability to raise rental rates at the Properties may adversely affect the Fund’s ability to increase income from the Properties. The Primary Markets have not currently enacted residential tenancy

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

legislation that imposes rent control guidelines that could limit the Fund’s ability to raise rental rates at its Properties.

In addition to limiting the Fund’s ability to raise rental rates, residential tenancy legislation in such states may provide certain rights to tenants, while imposing obligations upon landlords. Certain states may also prescribe procedures, which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective judicial or administrative body governing residential tenancies as appointed under a state’s residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant’s rent is in arrears.

Further, residential tenancy legislation in certain states may provide tenants with the right to bring certain claims to the respective judicial or administrative body seeking an order to, among other things, compel landlords to comply with health, safety, housing and maintenance standards. As a result, the Fund may, in the future, incur capital expenditures, which may not be fully recoverable from tenants.

Residential tenancy legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner, which will materially adversely affect the ability of the Fund to maintain the historical level of earnings of the Properties.

- (i) *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 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.
- (j) *Financing Risks* – There is no assurance that the Manager will be able to obtain sufficient mortgage loans to finance the acquisition of properties, or, if available, that the Manager will be able to obtain mortgage loans on commercially acceptable terms. Further, there is no assurance or guarantee that any mortgage loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of properties, which the Fund is able, to purchase will decrease and the return from the ownership of properties (and ultimately the return on an investment in units) will be reduced.
- (k) *Interest Rate Fluctuations* – The Fund’s mortgage loans may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Fund’s cost of borrowing.
- (l) *Environmental Matters* – Under various environmental and ecological laws, the Fund or its subsidiaries could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in one or more of the Properties or disposed of at other locations. The failure to deal effectively with such substances may adversely affect the Manager’s ability to sell such property or to borrow using the property as collateral, and could potentially also result in claims against the Fund or its subsidiaries by third parties.
- (m) *Uninsured Losses* – The Fund and its subsidiaries have comprehensive insurance, including fire, liability and extended coverage, of the type and in the amounts customarily obtained for the Properties similar to those to be owned by the Fund or its subsidiaries and also has obtained coverage where warranted against earthquakes and floods. However, in many cases certain types of losses (generally of a catastrophic nature) are either uninsurable or not economically insurable. Should such a disaster occur with respect to any of the Properties, the Fund could suffer a loss of capital invested and not realize any profits, which might be anticipated from the disposition of such properties.
- (n) *Reliance on Third Party Property Management* – The Manager may rely upon independent management companies to perform property management functions in respect of each of the Properties. To the extent the Manager relies upon such management companies, the employees of such management companies will devote as much of their time to the management of the Properties as in their judgment is reasonably required and may have conflicts of interest in allocating management time, services and functions among the Properties and their other development, investment and/or management activities.
- (o) *Competition for Real Property Investments or Tenants* – The Manager competes for suitable real property investments with individuals, corporations, real estate investment trusts and similar vehicles and institutions (both Canadian, U.S. and foreign) which are presently seeking or which may seek in the future real property investments

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

or tenants similar to those sought by the Manager. Such competition could have an impact on the Fund’s ability to lease suites in the Properties and on the rents charged. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

- (p) *Holding Entity Structure* – As a holding entity the Fund’s ability to meet its obligations, including payment of interest, other operating expenses and distributions, and to complete current or desirable future enhancement opportunities or acquisitions generally depends on the receipt by the Fund of dividends, distributions and / or interest payments from its subsidiaries as the principal source of cash flow to pay distributions on the units. As a result, the Fund’s cash flow and ability to pay distributions, including on the units, are dependent upon earnings of its subsidiaries and the distribution of those earnings and other funds by its subsidiaries to it. The payment of interest, dividends and / or distributions by certain of the Fund’s subsidiaries may be subject to restrictions set out in relevant corporate laws and regulations, constating documents or other governing provisions, which may require that certain subsidiaries remain solvent following payment of any such interest, dividend and/or distributions. Substantially all of the Fund’s business is currently conducted through its subsidiaries, and the Fund expects this to continue.
- (q) *Revenue Shortfalls* – Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the mortgage loans or to fund changes in the variable rates of interest charged in respect of such loans.
- (r) *Fluctuations in Capitalization Rates* – As interest rates fluctuate in the lending market, generally capitalization rates will as well, which affects the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.
- (s) *Reliance on the Manager* – Prospective investors assessing the risks and rewards of this investment will, in large part, be relying on the expertise of the Manager, its principal, Daniel Drimmer, and certain of its executives. In particular, prospective investors will have to rely on the discretion and ability of the Manager in determining the composition of the portfolio of Properties, and in negotiating the pricing and other terms of the agreements leading to the acquisition and disposition of Properties, and implementing a capital expenditure program for each Property. The ability of the Manager to successfully implement the Fund’s investment strategy will depend in large part on the continued employment of Daniel Drimmer, Evan Kirsh, Martin Liddell and/or David Hanick. If the Manager loses the services of Daniel Drimmer, Evan Kirsh, Martin Liddell and/or David Hanick, the business, financial condition and results of operations of the Fund may be materially adversely affected.
- (t) *Distributions May be Reduced or Suspended* – Although the Fund intends to distribute its available cash to Unitholders, such cash distributions may be reduced or suspended. The ability of the Fund to pay Unitholders a targeted annual pre-tax distribution yield of 6% across all unit classes and the actual amount distributed or paid to Unitholders on termination of the Fund will vary as between the classes of units based on the proportionate entitlements of each class of unit, applicable unit class expenses and any unhedged exposure to Canadian/U.S. dollar exchange rates, and will depend on the ability of the Fund to fully deploy the net proceeds of the Offering and any concurrent private placements to indirectly acquire the Properties, create value through value-add initiatives and capital improvements, and manage the ongoing operations of the Properties. The Minimum Return is a preferred return, but is not guaranteed and may not be paid on a current basis in each year or at all. As a result, the cash distributions payable to Unitholders may not be paid on a current basis in each year or at all. The return on an investment in the Units is not comparable to the return on an investment in a fixed income security. Cash distributions, including a return of a Unitholder’s original investment, are not guaranteed and their recovery by an investor is at risk and the anticipated return on investment is based upon many performance assumptions. It is important for Purchasers to consider the particular risk factors that may affect the real estate investment markets generally and therefore the availability and stability of the distributions to Unitholders.
- (u) *Possible Loss of Limited Liability of Limited Partners* – Unitholders may lose their limited liability in certain circumstances, including by taking part in the control of the Fund’s business. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province, but carrying on business in another jurisdiction, have not been authoritatively established. If limited liability is lost, there is a risk that Unitholders may be liable beyond their contribution and

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

share of the Fund’s undistributed net income in the event of judgment on a claim in an amount exceeding the sum of the General Partner’s net assets and the Fund’s net assets. A transferee of a unit will become a Unitholder and shall be subject to the obligations and entitled to the rights of Unitholders under the Fund’s limited partnership agreement on the date on which the Fund’s record of Unitholders is amended to reflect that the transferee is a Unitholder or at such time as the general partner of the Fund,, in its sole discretion, recognizes the transferee as a Unitholder.

- (v) *Payment of the Minimum Return and Carried Interest* – The amounts calculated as being distributable to Unitholders pursuant to the carried interest are not the same as the amounts that will be distributed to Unitholders pursuant to the Fund LP Agreement. It is possible that the persons entitled to the carried interest will receive amounts even if one or more classes of units have not received the Minimum Return.
- (w) *Same Management Group for Various Entities* – The services of the Manager as manager of the Fund are not exclusive to the Fund. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or administration of other investment portfolios and realty trusts in similar asset classes, including Starlight U.S. Multi-Family (No. 5) Core Fund. Accordingly, the Manager may face conflicts of interest in the day-to-day operations, selection of real estate investments, and allocation of investment opportunities. In such circumstances, there is a risk that conflicts may arise regarding the allocation of properties among the various entities managed by the Manager and in connection with the exit from those properties. While the Manager owes fiduciary, legal and financial duties to the Fund and its Unitholders, these duties may from time to time conflict with the duties owed to the Manager’s other real estate joint ventures and funds, including Starlight U.S. Multi-Family (No. 5) Core Fund.
- (x) *Degree of Leverage* – The Fund’s degree of leverage could have important consequences to Unitholders. For example, the degree of leverage could affect the Fund’s ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general fund purposes, making the Fund more vulnerable to a downturn in business or the economy in general. Under the Fund LP Agreement, total indebtedness of the Fund can be no more than 75% of the Investable Funds (as defined in the Prospectus) provided that, if approved by the General Partner, the appraised value of the Properties may be used instead of Investable Funds (as defined in the Prospectus) for the purposes of this determination.
- (y) *General Litigation Risks* – In the normal course of the Fund’s operations, whether directly or indirectly, it may become involved in, named as a part to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relation to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Fund and as a result, could have a material adverse effect of the Fund’s assets, liabilities, business, financial condition and results of operations. Even if the Fund prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Fund’s business operations, which could have a material adverse effect on the Fund’s business, cash flows, financial condition and results of operations and ability to make distributions to Unitholders. This risk may be heightened for the Fund as compared to other Canadian companies and entities without properties located in the United States because the legal climate in the United States, in comparison to that in Canada, tends to give rise to a greater number of claims and larger damages awards.
- (z) *Cyber-security* – A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the Fund’s information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. The Fund’s primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation and damage to the Fund’s business relationships with its tenants. The Fund has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Fund maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that management’s assumptions and judgements may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Based on their evaluations, the Chief Executive Officer and the Chief Financial Officer have concluded that the Fund’s internal controls over financial reporting were effective and do not contain any material weaknesses, as at December 31, 2017.

SUBSEQUENT EVENTS

On January 9, 2018, the Fund announced it had acquired a 50% interest in Landmark at Coventry Pointe, a 250-suite value-add property located in Atlanta, Georgia for \$17,563. The remaining 50% interest in the property was indirectly acquired by Daniel Drimmer, a Director and Chief Executive Officer of the General Partner and the principal of the Fund’s Manager. All decision making in respect of Landmark at Coventry Pointe, including day-to-day material decisions, will be jointly made by Mr. Drimmer and the Fund through established governance practices.

The Fund’s share of the acquisition price was partly financed by the Fund’s share of a first mortgage of \$12,070 with the balance provided by cash proceeds from the Fund’s Offering. As part of the Fund’s business plan, the Property will be repositioned to a modern standard with upgraded suite finishes and attractive common areas and amenity spaces. The terms of the mortgage provide for an additional \$3,648 to fund value-add initiatives at the Property.

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

FUTURE OUTLOOK

Starlight believes that the Properties will benefit from stable demand for residential rental accommodation. The Primary Markets exhibit sustained job and population growth and benefit from the continued shift away from home ownership, including because of lifestyle choices. The supply of comparable, multi-suite residential properties continues to be at reasonable levels given the strength of the demand drivers. The strong economic performance across the U.S. and in the Primary Markets is supportive for multi-family real estate fundamentals.

The Fund has initiated its value-enhancing capital expenditure program at the Properties which combined with active asset management initiatives is anticipated to drive strong occupancy, rental and NOI growth. The Fund expects to produce consistent investment returns for Unitholders while carrying out its value enhancing capital initiatives.

QUARTERLY INFORMATION

	For the three months ended December 31, 2017		For the three months ended September 30, 2017		Period from April 24, 2017 to June 30, 2017 ⁽¹⁾
Revenue from property operations	\$	3,380	\$	3,505	\$ 586
Property operating costs		875		895	135
Income from property operations	\$	2,505		2,610	451
Finance costs		(893)		(918)	(145)
Distributions to Unitholders		(1,004)		(1,020)	-
Fund and trust expenses		(218)		(207)	(71)
Unrealized foreign exchange gain		-		(6)	3
Fair value adjustment on Properties		-		5,678	-
Fair value adjustment IFRIC 21		(554)		(614)	(102)
Income taxes:					
Current		(8)		(8)	(1)
Deferred		699		(2,591)	(72)
Net income and comprehensive income	\$	527	\$	2,924	\$ 63
FFO		\$778		\$863	\$132
AFFO		\$780		\$865	\$132
FFO per Unit - basic and diluted		\$0.10		\$0.10	\$0.02
AFFO per Unit - basic and diluted		\$0.10		\$0.10	\$0.02
Distributions per Unit ⁽²⁾		\$0.12		\$0.12	\$0.00
Notes:					
(1)	Represents the 15-day operating period commencing the date the Initial Properties were acquired to June 30, 2017.				
(2)	Distributions per unit for each period are based on the total distributions per weighted average unit outstanding during the period.				

Additional information relating to the Fund can be found on SEDAR at www.sedar.com.

Dated: March 7, 2018

Toronto, Ontario, Canada

SCHEDULE A – AUDIT COMMITTEE CHARTER

1. PURPOSE

- 1.1 Starlight U.S. Multi-Family (No. 1) Value-Add GP, Inc. as the general partner of the Fund (the “General Partner”) shall appoint an audit committee (the “Committee”) to assist the board of directors (the “Board”) of the General Partner in fulfilling its responsibilities. The overall purpose of the Committee of the Fund is to monitor the Fund’s system of internal financial controls, to evaluate and report on the integrity of the financial statements of the Fund, to enhance the independence of the Fund’s external auditors and to oversee the financial reporting process of the Fund.

2. PRIMARY DUTIES AND RESPONSIBILITIES

- 2.1 The Committee’s primary duties and responsibilities are to:
- (a) serve as an objective party to monitor the Fund’s financial reporting and internal control system and review the Fund’s financial statements;
 - (b) review the performance of the Fund’s external auditors; and
 - (c) provide an open avenue of communication among the Fund’s external auditors, the Board and senior management of Starlight Group Property Holdings Inc., in its capacity as manager of the Fund (the “Manager”).

3. COMPOSITION, PROCEDURES AND ORGANIZATION

- 3.1 The Committee shall be comprised of at least three directors of the Fund as determined by the Board, two of whom shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.
- 3.2 At least one member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of this Audit Committee Charter, the definition of “financially literate” is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Fund’s financial statements.
- 3.3 The General Partner shall appoint the members of the Committee. The General Partner may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a director of the Fund shall cease to be a member of the Committee.
- 3.4 Unless a chair is elected by the Board, the members of the Committee shall elect a chair from among their number (the “Chair”). The Chair shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings and reporting to the Board.
- 3.5 The Committee, through its Chair, shall have access to such officers and employees of the Fund and the Manager and to the Fund’s external auditors and its legal counsel, and to such information respecting the Fund as it considers to be necessary or advisable in order to perform its duties.
- 3.6 Notice of every meeting shall be given to the external auditors, who shall, at the expense of the Fund, be entitled to attend and to be heard thereat.
- 3.7 Meetings of the Committee shall be conducted as follows:
- (a) the Committee shall meet four times annually, or more frequently as circumstances dictate, at such times and at such locations as the Chair shall determine;
 - (b) the external auditors or any member of the Committee may call a meeting of the Committee;
 - (c) any director of the Fund may request the Chair to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the Chair; and

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

- (d) the external auditors and the Manager shall, when required by the Committee, attend any meeting of the Committee.
- 3.8 The external auditors shall be entitled to communicate directly with the Chair and may meet separately with the Committee. The Committee, through the Chair, may contact directly any employee in the Manager as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
- 3.9 Compensation to members of the Committee shall be limited to directors’ fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the Fund.
- 3.10 The Committee is granted the authority to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Fund. The Committee has the power to engage and determine funding for outside and independent counsel or other experts or advisors as the Committee deems necessary for these purposes and as otherwise necessary or appropriate to carry out its duties and to set Committee members compensation. The Committee is further granted the authority to communicate directly with internal and external auditors.

4. DUTIES

- 4.1 The overall duties of the Committee shall be to:
 - (a) assist the Board in the discharge of their duties relating to the Fund’s accounting policies and practices, reporting practices and internal controls and the Fund’s compliance with legal and regulatory requirements;
 - (b) establish and maintain a direct line of communication with the Fund’s external auditors and assess their performance and oversee the co-ordination of the activities of the external auditors; and
 - (c) be aware of the risks of the business and ensure the Manager has adequate processes in place to assess, monitor, manage and mitigate these risks as they arise.
- 4.2 The Committee shall be directly responsible for overseeing the work of the external auditor, who shall report directly to the Committee, engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund, including the resolution of disagreements between the Manager and the external auditors and the overall scope and plans for the audit, and in carrying out such oversight, the Committee’s duties shall include:
 - (a) recommending to the Board the selection and compensation and, where applicable, the replacement of the external auditor nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Fund;
 - (b) reviewing, where there is to be a change of external auditors, all issues related to the change, including the information to be included in the notice of change of auditor called for under NI 51-102 or any successor legislation, and the planned steps for an orderly transition;
 - (c) reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102 or any successor legislation, on a routine basis, whether or not there is to be a change of external auditor;
 - (d) reviewing and pre-approving all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Fund’s external auditors to the Fund or any subsidiary entities;
 - (e) reviewing the engagement letters of the external auditors, both for audit and non-audit services;
 - (f) consulting with the external auditor, without the presence of the Manager about the quality of the Fund’s accounting principles, internal controls and the completeness and accuracy of the Fund’s financial statements;
 - (g) reviewing annually the performance of the external auditors, who shall be ultimately accountable to the Board and the Committee as representatives of the Unitholders of the Fund, including the fee, scope and

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

- timing of the audit and other related services and any non-audit services provided by the external auditors; and
- (h) reviewing and approving the nature of and fees for any non-audit services performed for the REIT by the external auditors and consider whether the nature and extent of such services could detract from the firm’s independence in carrying out the audit function.
- 4.3 The duties of the Committee as they relate to document and reports reviews shall be to:
- (a) review the Fund’s financial statements, management’s discussion and analysis of financial results (“MD&A”) and any financial press releases before the Fund publicly discloses this information; and
- (b) review and periodically assess the adequacy of procedures in place for the review of the Fund’s public disclosure of financial information extracted or derived from the Fund’s financial statements, other than the Fund’s financial statements, MD&A and financial press releases.
- 4.4 The duties of the Committee as they relate to audits and financial reporting shall be to:
- (a) in consultation with the external auditor, review with the Manager the integrity of the Fund’s financial reporting process, both internal and external, and approve, if appropriate, changes to the Fund’s auditing and accounting practices;
- (b) review the audit plan with the external auditor and the Manager;
- (c) review with the external auditor and the Manager any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of the Manager that may in any such case be material to financial reporting;
- (d) review the contents of the audit report;
- (e) question the external auditor and the Manager regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (f) review the scope and quality of the audit work performed;
- (g) review the adequacy of the General Partner’s financial and auditing personnel;
- (h) review the co-operation received by the external auditor from the Manager’s and the General Partner’s personnel during the audit, any problems encountered by the external auditors and any restrictions on the external auditor’s work;
- (i) review the internal resources used;
- (j) review the evaluation of internal controls by the internal auditor (or persons performing the internal audit function) and the external auditors, together with the Manager’s response to the recommendations, including subsequent follow-up of any identified weaknesses;
- (k) review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) of the General Partner and any key financial executives involved in the financial reporting process;
- (l) review and approve the Fund’s annual audited financial statements and those of any subsidiaries in conjunction with the report of the external auditors thereon, and obtain an explanation from the Manager of all significant variances between comparative reporting periods before release to the public;
- (m) establish procedures for (A) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and (B) the confidential, anonymous submission of concerns regarding questionable accounting or auditing matters; and
- (n) review the terms of reference for an internal auditor or internal audit function.
- 4.5 The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:
- (a) review changes to accounting principles of the Canadian Institute of Chartered Accountants which would have a significant impact on the Fund’s financial reporting as reported to the Committee by the Manager and the external auditors;

STARLIGHT U.S. MULTI-FAMILY (NO. 1) VALUE-ADD FUND – MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

- (b) review the appropriateness of the accounting policies used in the preparation of the Fund’s financial statements and consider recommendations for any material change to such policies;
 - (c) review the status of material contingent liabilities as reported to the Committee by the Manager or the external auditors;
 - (d) review the status of income tax returns and potentially significant tax problems as reported to the Committee by the Manager;
 - (e) review any errors or omissions in the current or prior year’s financial statements;
 - (f) review, and approve before their release, all public disclosure documents containing audited or unaudited financial information including all earnings, press releases, MD&A, prospectuses, annual reports to Unitholders and annual information forms, as applicable; and
 - (g) oversee and review all financial information and earnings guidance provided to analysts and rating agencies.
- 4.6 The other duties of the Committee shall include:
- (a) reviewing any related-party transactions not in the ordinary course of business;
 - (b) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
 - (c) formulating clear hiring policies for partners, employees or former partners and employees of the Fund’s external auditors;
 - (d) reviewing annual operating and capital budgets;
 - (e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies, which are likely to have a significant financial impact;
 - (f) inquiring of Manager and the external auditors as to any activities that may be or may appear to be illegal or unethical;
 - (g) ensuring procedures are in place for the receipt, retention and treatment of complaints and employee concerns received regarding accounting or auditing matters and the confidential, anonymous submission by employees of the Fund of concerns regarding such; and
 - (h) reviewing any other questions or matters referred to it by the Board.