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

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

For the three and six months ended June 30, 2019 and 2018
(Unaudited)

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

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

	Note		June 30, 2019		December 31, 2018
ASSETS					
Non-current assets:					
Investment properties	5	$	232,920	$	228,490
Derivative financial instruments	7		15		55
Utility deposits			90		91
Total non-current assets			233,025		228,636
Current assets:					
Tenant and other receivables	8		483		388
Prepaid expenses and other assets	9		201		312
Restricted cash	10		2,053		2,751
Cash			1,380		1,638
Total current assets			4,117		5,089
TOTAL ASSETS		**$**	**237,142**	**$**	**233,725**
LIABILITIES					
Non-current liabilities:					
Mortgages payable	11	$	144,297	$	140,240
Preferred shares – U.S. REIT series A	12		125		125
Provision for carried interest	13		8,063		3,875
Deferred income tax			10,597		8,868
Total non-current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests			163,082		153,108
Current liabilities:					
Derivative financial instruments	7		—		79
Tenant rental deposits			285		278
Accounts payable and accrued liabilities	14		3,043		3,449
Finance costs payable			370		364
Distributions payable			328		317
Total current liabilities excluding net liabilities attributable to Unitholders and non-controlling interests			4,026		4,487
TOTAL LIABILITIES		**$**	**167,108**	**$**	**157,595**
Net liabilities attributable to Unitholders	13		70,034		74,727
Non-controlling interests	20		—		1,403
TOTAL LIABILITIES, NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS AND NON-CONTROLLING INTERESTS		**$**	**237,142**	**$**	**233,725**

Commitments and contingencies (note 21).

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Directors of Starlight U.S. Multi-Family (No. 1) Value-Add GP, Inc., as general partner for Starlight U.S. Multi-Family (No. 1) Value-Add Fund on August 13, 2019, and signed on its behalf:

Graham Rosenberg Director *Harry Rosenbaum* Director

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

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

		Three months ended		Six months ended	
	Note	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue from property operations		$ 4,690	$ 3,597	$ 9,306	$ 6,932
Expenses:					
Property operating costs		1,216	1,007	2,364	1,840
Property taxes		—	—	3,129	2,645
Income from rental operations		3,474	2,590	3,813	2,447
Share of net loss (income) in joint venture	6	—	128	—	(960)
Finance costs	18	1,935	1,539	3,572	2,596
Distributions to Unitholders		966	1,021	1,938	2,027
Dividends to Preferred Shareholders – U.S. REIT series A		4	4	8	8
Fund and trust expenses	15	259	247	529	532
Unrealized foreign exchange (gain) loss		8	—	8	(1)
Realized foreign exchange loss		1	—	7	—
Fair value adjustment investment properties	5	(1,068)	(1,098)	(1,960)	(10,762)
Fair value adjustment IFRIC 21		782	678	(1,565)	(1,306)
Provision for carried interest	13	2,072	(76)	4,188	1,737
(Loss) income before income taxes		(1,485)	147	(2,912)	8,576
Income taxes: - current		13	7	20	14
- deferred		611	1,162	1,729	4,058
Total income taxes		624	1,169	1,749	4,072
Net (loss) income and comprehensive (loss) income		**$ (2,109)**	**$ (1,022)**	**$ (4,661)**	**$ 4,504**
Net income (loss) attributable to:					
Unitholders		(2,105)	(1,029)	(4,693)	4,497
Non-controlling interests	20	(4)	7	32	7
Net (loss) income and comprehensive (loss) income		**$ (2,109)**	**$ (1,022)**	**$ (4,661)**	**$ 4,504**

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statement of Changes in Net Liabilities Attributable to Unitholders
Six months ended June 30, 2019 and 2018
(In thousands of U.S. dollars)
(Unaudited)

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Balance, December 31, 2018	$ 14,789	$ 14,619	$ 15,212	$ 12,678	$ 15,296	$ —	$ 2,133	$ 74,727
Changes during the period:								
Re-allocation due to unit conversions	(62)	—	169	(424)	(107)	—	424	—
Net loss and comprehensive loss	(925)	(918)	(967)	(770)	(953)	—	(160)	(4,693)
Balance, June 30, 2019	**$ 13,802**	**$ 13,701**	**$ 14,414**	**$ 11,484**	**$ 14,236**	**$ —**	**$ 2,397**	**$ 70,034**

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Balance, December 31, 2017	$ 12,670	$ 12,748	$ 13,120	$ 10,663	$ 13,708	$ —	$ 2,253	$ 65,162
Changes during the period:								
Re-allocation due to unit conversions	387	—	(104)	339	(283)	—	(339)	—
Net income and comprehensive income	901	880	897	759	928	—	132	4,497
Balance, June 30, 2018	**$ 13,958**	**$ 13,628**	**$ 13,913**	**$ 11,761**	**$ 14,353**	**$ —**	**$ 2,046**	**$ 69,659**

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statement of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

		Three months ended		Six months ended	
	Note	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Operating activities:					
Net (loss) income and comprehensive (loss) income		(2,109)	(1,022)	(4,661)	4,504
Adjustments for financing activities included in net (loss) income and comprehensive (loss) income:					
Finance costs	18	1,935	1,539	3,572	2,596
Distributions to Unitholders		966	1,021	1,938	2,027
Dividends to Preferred Shareholders – U.S. REIT series A		4	4	8	8
Adjustments for items not involving cash:					
Share of net loss (income) in joint venture	6	—	128	—	(960)
Fair value adjustment of investment properties		(1,068)	(1,098)	(1,960)	(10,762)
Unrealized foreign exchange loss		8	—	8	—
Provision for carried interest	13	2,072	(76)	4,188	1,737
Change in non-cash operating working capital	19	883	795	(383)	636
Change in restricted cash		(603)	(737)	699	951
Deferred tax		611	1,162	1,729	4,058
Cash provided by operating activities		2,699	1,716	5,138	4,795
Financing activities:					
Mortgages payable:					
Draw downs on existing loans		115	57	1,196	819
Proceeds from refinancing		2,694	8,300	2,694	8,300
Proceeds from issuance of Preferred shares – U.S REIT series A	12	—	—	—	125
Finance costs paid		(2,001)	(1,551)	(3,571)	(2,492)
Distributions paid to Unitholders		(964)	(1,021)	(1,927)	(2,027)
Dividends to Preferred Shareholders – U.S. REIT series A	12	(4)	(4)	(8)	(8)
Cash (used in) provided by financing activities		(160)	5,781	(1,616)	4,717
Investing activities:					
Acquisitions of investment properties	4	—	(5,643)	—	(5,643)
Acquisition of non-controlling interest	20	(1,310)	—	(1,310)	—
Non-controlling interests	4	—	1,125	—	1,125
Capital additions to investment properties	5	(1,487)	(1,517)	(2,470)	(2,574)
Investment in joint venture	6	—	5,812	—	—
Transferred in from joint venture	6	—	(6,612)	—	(6,612)
Contributions to joint venture	6	—	—	—	(85)
Distributions from joint venture	6	—	112	—	245
Cash used in investing activities		(2,797)	(6,723)	(3,780)	(13,544)
Increase (decrease) in cash		(258)	774	(258)	(4,032)
Cash, beginning of period		1,638	2,587	1,638	7,393
Cash, end of period		$ 1,380	$ 3,361	$ 1,380	$ 3,361

See accompanying notes to the condensed consolidated interim financial statements.

Starlight U.S. Multi-Family (No. 1) Value-Add Fund (the "Fund") is a limited partnership formed under and governed by the laws of the Province of Ontario. The term of the Fund is targeted to be three years, with two one-year extensions available subject to approval by Starlight U.S. Multi-Family (No. 1) Value-Add GP, Inc. (the "General Partner"). The Fund may be extended beyond five years by a special resolution of the unitholders of the Fund ("Unitholders"). The Fund was established for the purpose of investing in value-add, income-producing, multi-family properties in the U.S. multi-family real estate market that can achieve significant increases in rental rates as a result of undertaking high return, light value-add capital expenditures and active asset management, that are located primarily in the States of Arizona, Colorado, Florida, Georgia, Nevada, North Carolina, Tennessee and Texas.

Following completion of the initial public offering (the "Offering"), the Fund acquired two multi-family residential properties comprising a total of 943 suites located in the States of Arizona and Texas in the markets of Phoenix and Austin, respectively. The balance of the net proceeds of the Offering was used to subsequently acquire a 50% interest in one additional value-add income-producing, multi-family property in Atlanta, Georgia. On June 12, 2018, the Fund acquired an additional ownership interest in the Atlanta, Georgia property of 41.49295% resulting in a total controlling interest of 91.49295%. On April 12, 2019, the Fund acquired the remaining 8.50705% interest in the Atlanta, Georgia property (note 20).

During the period, the Fund was managed by Starlight Investments US AM Group LP (the "Manager") which is a wholly owned subsidiary of Starlight Group Property Holdings Inc. ("Starlight") and a related party. As at June 30, 2019, the Fund's property portfolio consisted of interests in three properties totaling 1,193 suites.

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

On May 23, 2019, the value-add income-producing, multi-family property in Atlanta, Georgia, previously referred to as "Landmark at Coventry Pointe", was renamed to "The Veranda".

1. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the Fund have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the Fund since the last audited consolidated financial statements as at and for the year ended December 31, 2018. Certain information and note disclosures normally included in the annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

1. Basis of presentation (continued):

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in U.S. dollars, which is the functional currency of the Fund and its subsidiaries and all amounts have been rounded to the nearest thousand except when otherwise indicated.

Transactions in currencies other than U.S. dollars are translated at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into U.S. dollars at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into U.S. dollars at the exchange rate at the date that the fair value was determined.

Foreign currency gains or losses arising from settlement of transactions or translations are included in the condensed consolidated interim statement of net income (loss) and comprehensive income (loss). Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

2. Significant accounting policies:

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in the Fund's year ended December 31, 2018 audited consolidated financial statements. These accounting policies are based on the IFRS applicable at that time. The condensed consolidated interim financial statements do not include all of the disclosures included in the year ended December 31, 2018 audited consolidated financial statements and accordingly, should be read in conjunction with the year ended December 31, 2018 audited consolidated financial statements and notes thereto.

3. Adoption of accounting standards:

(a) Accounting standards implemented:

Certain new standards, interpretations and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") and implemented by the Fund for the six months ended June 30, 2019. The new standards that were implemented are the following:

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

The Fund adopted IFRS 16 on January 1, 2019, which supersedes IAS 17 Leases, IFRS Interpretations Committee 4 Determining whether an Arrangement contains a Lease, Standards Interpretation Committee ("SIC") - 15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases requirements. The Fund has assessed the impact of the new standard and there were no significant changes as a result of the adoption of IFRS 16 to the condensed consolidated interim financial statements.

(ii) IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23"):

The Fund adopted IFRIC 23 on January 1, 2019, which provides interpretation on how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments. The Fund has assessed the impact of the new standard and there were no significant changes as a result of the adoption of IFRIC 23 to the condensed consolidated interim financial statements.

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

4. Acquisitions:

On April 12, 2019, the Fund acquired the remaining 8.50705% interest in The Veranda from an affiliate entity of the Manager for $1,310 (note 20).

The following asset acquisition was completed during the year ended December 31, 2018. The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition as follows:

			The Veranda (i)
Acquisition date:			12-June
Units			250
City, State			Atlanta, Georgia
Investment properties		$	37,740
Add:			
Utility deposits			6
Tenant and other receivables			70
Prepaid expenses and other assets			19
Restricted cash			261
Deduct:			
Tenant rental deposits			55
Accounts payable and accrued liabilities			341
Finance cost payable			11
Assumed mortgage (net of finance costs of $223)			24,309
Net asset acquired		$	13,380
Consideration funded by:			
Assumed from joint venture (note 6)	50.0%	$	6,612
Non-controlling interests (note 20)	8.5%		1,125
Cash paid	41.5%		5,643
		$	13,380

(i) The Fund acquired an additional interest of 41.49295% in The Veranda from an affiliated entity of the Manager, resulting in an increase in its ownership of a controlling interest of 91.49295%.

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

5. Investment properties:

The following table summarizes the change in the investment properties for the six months ended June 30, 2019 and year ended December 31, 2018:

Balance, December 31, 2017	$	163,506
Acquisitions of investment properties (note 4)		37,588
Capital additions		5,635
Fair value adjustment		21,761
Balance, December 31, 2018	$	228,490
Capital additions		2,470
Fair value adjustment		1,960
Balance, June 30, 2019	**$**	**232,920**

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

		June 30, 2019		December 31, 2018
Cost	$	203,521	$	201,051
Cumulative fair value adjustment		29,399		27,439
Fair Value	**$**	**232,920**	**$**	**228,490**

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

	June 30, 2019	December 31, 2018
Capitalization rate - range	4.50% to 4.50%	4.50% to 4.75%
Capitalization rate - weighted average	4.50%	4.61%

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

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

5. Investment properties (continued):

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

Weighted average	Change		June 30, 2019		December 31, 2018
Capitalization rate	10 basis-point increase	$	(5,063)	$	(4,848)
Capitalization rate	10 basis-point decrease	$	5,294	$	5,063

The impact of a one percent change in the net operating income used to value the investment properties as at June 30, 2019 would affect the fair value by approximately $2,329 (December 31, 2018 - $2,285).

Investment properties are considered as Level 3 financial instruments due to the extent of assumptions required beyond observable market data to derive the fair values.

6. Investment in joint venture:

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

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

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

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

On June 12, 2018, the Fund acquired an additional ownership interest of 41.49295% in The Veranda from an affiliate of the Manager, resulting in a total controlling interest of 91.49295% (note 4). The Fund assumed $6,612 of net assets from the joint venture, and subsequently reports the investment on a consolidated basis in the condensed consolidated interim financial statements as at June 30, 2019 (note 20). On April 12, 2019, the Fund acquired the remaining 8.50705% interest in The Veranda from an affiliate entity of the Manager for $1,310 (note 20).

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

6. Investment in joint venture (continued):

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

		Period from January 9 to June 11, 2018
Revenue from property operations	$	1,533
Property operating costs		(486)
Finance costs		(425)
Fair value adjustment on investment property		1,434
Fair value adjustment IFRIC 21		(137)
Net income		1,919
Share of net income in joint venture	$	960

7. Derivative financial instruments:

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

		June 30, 2019		December 31, 2018
Variable Rate Collar (a)	$	14	$	—
Interest Rate Cap (b)		1		55
Balance, end of the period	$	15	$	55

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

		June 30, 2019		December 31, 2018
Variable Rate Collar (a)	$	—	$	79
Interest Rate Cap (b)		—		—
Balance, end of the period	$	—	$	79

(a) Variable rate collar:

The Fund utilizes variable rate collar contracts that allows the Fund to exchange U.S. dollar funds each month to provide the holders of Canadian dollar units with some protection against the weakening of the U.S. dollar up to the date of declaration of distributions. The following table represents the variable rate collars of the Fund:

Contract Start Date	Contract Maturity	Monthly Notional Amount (C$)	Collar Floor	Collar Ceiling		June 30, 2019		December 31, 2018
November 27, 2017	November 9, 2018	$345	C$1.2680	C$1.3400	$	—	$	—
November 8, 2018	December 10, 2019	$345	C$1.3125	C$1.3725		14		(79)
Asset/(Liability)					$	14	$	(79)

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

7. Derivative financial instruments (continued):

(a) Variable rate collar (continued):

The fair value of the contract as at June 30, 2019 was $14 (December 31, 2018 - ($79)), resulting in an unrealized gain of $24 and $93 for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – unrealized loss of $15 and $73), respectively.

(b) Interest Rate Cap:

The Fund utilizes interest rate cap agreements to protect its interest costs on its variable rate mortgages as required by the applicable lenders. For the mortgages on The Landing at Round Rock ("The Landing") and Spectra South, the Fund purchased interest rate caps for $207 and $114, respectively. On April 12, 2019, the Fund refinanced the mortgage at The Veranda and purchased an interest rate cap for $5 related to the additional proceeds, as required by the lender (note 11).

As the Fund has elected not to use hedge accounting, an unrealized fair value loss of $10 and $59 was recorded in finance costs in the condensed consolidated interim statement of net income (loss) and comprehensive income (loss) for three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - $nil), respectively.

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

				Carrying Value and Fair Value as at	
	Notional Amount	Maturity Date	LIBOR Strike	June 30, 2019	December 31, 2018
The Landing - Interest rate cap	$ 78,100	10-Jul-20	3.00%	$ —	$ 36
Spectra South - Interest rate cap	42,350	10-Jul-20	3.00%	—	19
The Veranda - Interest rate cap	28,550	10-Jan-21	3.25%	1	—
Asset	$ 120,450			$ 1	$ 55

8. Tenant and other receivables:

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

	June 30, 2019	December 31, 2018
Tenant receivables, net	$ 172	$ 205
Other receivables	311	183
	$ 483	$ 388

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

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

9. Prepaid expenses and other assets:

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

	June 30, 2019	December 31, 2018
Prepaid insurance	$ 124	$ 274
Prepaid expenses	77	38
	$ 201	$ 312

10. Restricted cash:

The following table presents details of the restricted cash balance:

	June 30, 2019	December 31, 2018
Escrowed funds:		
Property taxes (i)	$ 1,529	$ 2,386
Property insurance (i)	148	—
Restricted cash:		
Security deposit (ii)	76	65
Cash collateral – variable rate collar	300	300
	$ 2,053	$ 2,751

(i) Restricted cash includes cumulative amounts that are funded monthly into escrow to the Fund’s lender. These amounts are used to pay property taxes and property insurance obligations coming due within a 12-month period.

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

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

11. Mortgages payable:

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

Property Name	Payment Terms	Maturity Date	Interest Rate	June 30, 2019	December 31, 2018
The Landing(i)	Interest only until July 2020	July 2020, with two one-year extension options	LIBOR + 2.00%	$ 75,084	$ 74,823
Spectra South(ii)	Interest only until July 2020	July 2020, with two one-year extension options	LIBOR + 2.00%	40,941	40,393
The Veranda(iii)	Interest only until January 2021	January 2021, with two one-year extension options	LIBOR + 2.00%	28,554	25,473
Face value				144,579	140,689
Unamortized financing costs				(282)	(449)
Carrying value				$ 144,297	$ 140,240

(i) On June 11, 2018, the Fund refinanced The Landing and generated additional proceeds of $8,097, net of $203 in finance costs. The Landing mortgage allows the Fund to draw an additional $5,100 for approved capital expenditures. As at June 30, 2019, the Fund had drawn $2,084 on this additional available funding.

(ii) The Spectra South mortgage allows the Fund to draw an additional $2,100 for approved capital expenditures. As at June 30, 2019, the Fund had drawn $690 on this available funding.

(iii) On April 12, 2019, the Fund refinanced the mortgage at The Veranda for net proceeds of $2,694 (the "Refinancing"). After completion of the Refinancing, the property's mortgage payable was $28,554 and allows the Fund to draw an additional $3,800 for approved capital expenditures. As at June 30, 2019, the Fund had drawn $nil on this additional available funding.

As part of the Refinancing, the Fund purchased an interest rate cap for $5 as required by the lender to protect against increases in interest costs.

All of the Fund's mortgages payable are non-current as at June 30, 2019. Future principal payments on mortgages payable are as follows:

	Principal payments	Balloon payments	Total
2019	$ —	$ —	$ —
2020	—	116,025	$ 116,025
2021	—	28,554	$ 28,554
Total	$ —	$ 144,579	$ 144,579

12. Preferred shares – U.S. Real Estate Investment Trust ("REIT") series A:

The U.S. REIT has a total of 125 series A, preferred shares issued and outstanding that are held by U.S. residents. The preferred shares were issued January 1, 2018 and are redeemable at the option of the U.S. REIT, at a redemption value of $1 per share. The preferred shares pay a cumulative dividend at 12.5% per annum, semi-annually on June 30 and December 31. The preferred shares have no voting rights.

13. Net liabilities attributable to Unitholders:

The beneficial limited partnership interest in the net liabilities and net income (loss) and comprehensive income (loss) of the Fund is held in seven classes of units: class A, C, D, E, F, H and U. The Fund is authorized to issue an unlimited number of units in the classes as described above.

Each Unitholder is entitled to one vote for each limited partnership unit held. Each class of units entitles the holder to the same rights as a Unitholder in another class of unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of units' rights. As there are varying economic values per class of units, the net liabilities attributable to Unitholders will be distributed disproportionately on a per unit basis upon liquidation.

	Units (000's)	Value
Units issued, December 31, 2018	8,182	$ 74,727
Additional units on conversion	—	—
Net loss and comprehensive loss	—	(4,693)
Units as at June 30, 2019	8,182	$ 70,034

As at June 30, 2019, the Fund had 8,182,469 limited partnership units that were issued and outstanding comprised of 1,724,993 class A units, 1,622,500 class C units, 1,801,486 class D units, 1,082,800 class E units, 1,724,710 class F units and 225,980 class U units. There were no class H units outstanding.

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

	Class A	Class C	Class D	Class E	Class F	Class H	Class U	Total
Units outstanding, as at December 31, 2018	1,732	1,623	1,781	1,121	1,737	—	188	8,182
Units reallocated due to conversions	(7)	(1)	20	(38)	(12)	—	38	—
Units outstanding, as at June 30, 2018	1,725	1,622	1,801	1,083	1,725	—	226	8,182

13. Net liabilities attributable to Unitholders (continued):

Carried Interest:

The partners of Starlight Investments Value-Add Partnership ("SIVAP") currently being an affiliate of 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 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 of June 30, 2019, the Fund had recognized a provision for carried interest after taking into account the Minimum Return to Unitholders of $8,063 (December 31, 2018 – $3,875), resulting in an expense of $2,072 and $4,188 during the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 – recovery of $(76) and expense of $1,737).

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

14. Accounts payable and accrued liabilities:

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

	June 30, 2019	December 31, 2018
Tenant prepayments	$ 76	$ 258
Operating payables	604	143
Accrued realty taxes	1,469	2,290
Accrued property management fees, utilities, payroll, other	585	586
Accrued asset management fees (note 17)	59	58
Deferred revenue (i)	250	114
	$ 3,043	$ 3,449

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

15. Fund and trust expenses:

Fund and trust expenses consist of the following:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Asset management fees (note 17)	$ 175	$ 161	$ 349	$ 312
General and administrative expenses	84	86	180	220
	$ 259	$ 247	$ 529	$ 532

16. Segmented disclosure:

All of the Fund's assets and liabilities are in, and its revenues are derived from, the U.S. real estate industry segment. The Fund's investment properties are, therefore, considered by management to have similar economic characteristics. No single tenant accounts for 10% or more of the Fund's rental revenue.

17. Transactions with related parties:

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

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

17. Transactions with related parties (continued):

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

Included in Fund and trust expenses is $175 and $349 in asset management fees charged by the Manager (note 15) for the three and six months ended June 30, 2019, respectively (2018 - $161 and $312). The amount payable to the Manager as at June 30, 2019 was $59 (December 31, 2018 - $58) (note 14).

(b) Pursuant to the Management Agreement, as assigned, the Manager is entitled to receive an acquisition fee in respect of properties acquired, directly or indirectly, by the Fund as a result of such properties having been presented to the Fund by the Manager calculated as follows:

i. 1.0% of the purchase price of a property, on the first $150,000 of properties acquired in each calendar year;

ii. 0.75% of the purchase price of a property, on the next $150,000 of properties acquired in each calendar year; and

iii. 0.50% of the purchase price on properties in excess of $300,000 of properties acquired in each calendar year.

For the three and six months ended June 30, 2019, the Fund incurred acquisition fees of $37 and $37, respectively, relating to the acquisition of the remaining 8.50705% interest in The Veranda on April 12, 2019 from an affiliate of the Manager (note 20). Comparatively, the Fund incurred $177 and $333 of acquisition fees during the three and six months ended June 30, 2018, relating to the acquisition of interests in The Veranda. Acquisition fees are paid at the time of acquisition and are initially capitalized to investment properties on acquisition. There are no ongoing contractual commitments with the related party as a result of the interest acquired in The Veranda.

(c) Pursuant to the Management Agreement, in the event that the Manager is required by the lenders of the Fund to provide a financing guarantee in connection with the amount borrowed by the Fund or its wholly owned subsidiaries to indirectly acquire an interest in the investment properties, the Fund and the U.S. REIT will, in consideration for providing such guarantee, in aggregate, pay the Manager a guarantee fee represented by an annual amount equal to 0.15% of the then-outstanding amount of such guaranteed funds. This fee is calculated and payable in arrears on the first day of each month. As of June 30, 2019, $nil guarantee fees have been paid or are payable (June 30, 2018 – $nil).

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

18. Finance costs:

Finance costs consist of the following:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest on mortgages payable	$ 1,635	$ 1,118	$ 3,224	$ 2,057
Amortization of financing costs	62	61	130	121
Loss on early extinguishment of debt	156	345	156	345
Fair value loss on derivative financial instrument (note 7)	(14)	15	(34)	73
Special distribution on Refinancing (i)	221	—	221	—
Gain on acquisition of non-controlling interest (note 20)	(125)	—	(125)	—
	$ 1,935	$ 1,539	$ 3,572	$ 2,596

(i) The Fund paid a special distribution of $221 to the non-controlling interest representing its share of the net proceeds from the Refinancing which has been included in finance costs during the three and six months ended June 30, 2019.

19. Change in non-cash operating working capital:

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

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Utility deposits	$ —	$ (7)	$ —	$ (7)
Prepaid expenses and other	114	43	110	1,348
Tenant and other receivables	(153)	(339)	(94)	(322)
Tenant rental deposits	2	47	7	46
Accounts payable and accrued liabilities	920	961	(406)	(530)
Finance cost payable	—	100	—	108
Distribution payable	—	(10)	—	(7)
	$ 883	$ 795	$ (383)	$ 636

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

20. Non-controlling interests:

The following table summarizes the change in non-controlling interests for the period from June 12, 2018 June 30, 2019:

Non-controlling interest at June 12, 2018 of The Veranda - 8.50705% (i)	$	1,125
Net income attributable to non-controlling interests		278
Balance, December 31, 2018	$	1,403
Net Income attributable to non-controlling interest (ii)		32
Balance, April 11, 2019	**$**	**1,435**
Acquisition of non-controlling interest of The Veranda - 8.50705% (i)	$	(1,310)
Gain on acquisition of non-controlling interest	$	(125)
Balance, June 30, 2019	**$**	**—**

(i) On June 12, 2018, the Fund acquired an additional ownership of 41.49295% in The Veranda from an affiliate of the Manager, resulting in a total and controlling interest of 91.49295%. All decision making in respect of the The Veranda, including day-to-day and material decisions are made exclusively by the Fund through its established governance practices in accordance with the limited liability agreement of Coventry Pointe Multi-Family Holding LLC and Starlight Investments Acquisition (No. 6) Partnership. Accordingly, the Fund has control over The Veranda and has wholly consolidated its financial position and results of operations. The Veranda was valued at $37,588 as of June 12, 2018 and had mortgages payable of $24,309, net of finance costs of $223. The Veranda had total assets of $38,096 and liabilities of $24,716 on acquisition (note 4).

On April 12, 2019, the Fund acquired the remaining approximate 8.5% interest in The Veranda from an affiliated entity of the Manager for $1,310. Upon closing of the acquisition, the Fund owned 100% of The Veranda. The total purchase price of this property was based on a third party appraisal and the amount was representative of the fair value of the net assets acquired. There are no ongoing contractual commitments with the related party as a result of the interest acquired in The Veranda. For the three and six months ended June 30, 2019, a gain of $125 (three and six months ended June 30, 2018 - $nil) was realized on the acquisition of the non-controlling interest given the amount paid was less than the carrying value of the non-controlling interest.

(ii) For The Veranda's non-controlling interests of 8.50705% for the period ending April 11, 2019, revenues from property operations were $89, with property operating expenses of $42, finance costs of $35, fund and trust expenses of $4 and a fair value adjustment of investment properties of $24. Net income and comprehensive income for the period ending April 11, 2019 was $32.

21. Commitments and contingencies:

At June 30, 2019, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of June 30, 2019 expire within 12 months. The Fund holds commitments to provide for carried interest when applicable and to distribute excess cash to Unitholders.

The Fund may be involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in the recognition of a liability that would have a significant adverse effect on the financial position of the Fund. The Fund has agreed to indemnify, in certain circumstances, the trustees and officers of the Fund and its subsidiaries.

22. Capital management:

The Fund's capital management objectives and policies are to maintain a strong capital base so as to support ongoing operations, maintain creditor and market confidence and to sustain future development of the business. Capital consists of mortgages payable and net liabilities attributable to Unitholders. The Fund monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also distributing appropriate amounts to the Unitholders on a regular basis.

The Fund was in compliance with all financial covenants as at June 30, 2019.

23. Risk management:

The Fund's activities expose it to credit risk, market risk liquidity risk and currency risk. These risks and the actions taken to manage them are as follows:

(a) Credit risk:

Credit risk is the risk that: (i) counterparties to contractual financial obligations will default; and (ii) the possibility that the residents may experience financial difficulty and be unable to meet their rental obligations. The properties mitigate the risk of credit loss with respect to residents by evaluating creditworthiness of new residents, obtaining security deposits wherever permitted by legislation, utilizing third party collection agencies for longstanding balances due from tenants and geographically diversifying the location of the properties. The Fund monitors its collection experience on monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. Subsequent recoveries of amounts previously written-off are credited in the consolidated statements of net income and comprehensive income.

23. Risk management (continued):

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. The investment properties are subject to the risks associated with debt financing, including the risk that mortgages will not be refinanced on terms as favourable as those of the existing indebtedness.

The Fund’s objective in managing interest rate risk is to minimize the volatility of the Fund’s income. The Fund has the ability to enter into interest rate cap agreements for all its variable rate mortgages once LIBOR reaches stipulated levels. For the six months ended June 30, 2019, all else being equal, an increase or decrease of ten basis points in LIBOR would impact net income and comprehensive income by $71 (six months ended June 30, 2018 - $69).

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the Fund staggered the maturity dates of its mortgage portfolio over a number of years and has options to extend certain mortgages.

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

(d) Currency risk:

Currency risk is the risk that the Fund encounters from fluctuations in the Canadian/U.S. dollar exchange rate. The revenues and expenses of the investment properties are denominated in U.S. dollars and distributions made to Fund Unitholders are in both Canadian and U.S. dollars. The Fund converts such distribution amounts into Canadian dollars, as applicable, before distributions are paid to Unitholders. As a consequence, distributions are impacted by the prevailing exchange rates.

The Fund utilizes variable rate collar arrangements to provide some protection against the impact of changes in the Canadian/U.S. dollar exchange rate on the Fund’s monthly distributions on Canadian dollar units (note 7).

24. Fair value measurement of financial instruments:

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

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating fair values of the Fund's financial instruments:

(i) The fair value of the Fund's financial assets, which include utility deposits, tenant and other receivables, restricted cash and cash, as well as financial liabilities, which include tenant rental deposits, accounts payable and accrued liabilities and finance cost payable, approximate their carrying amounts due to their short-term nature (Level 1).

(ii) Derivative financial instruments are considered as Level 2 financial instruments.

(iii) The fair value of mortgages payable is estimated based on the current market rates for debt with similar terms and conditions (Level 2). The fair value of the Fund's mortgages payable as at June 30, 2019 approximated their carrying value.

(iv) Preferred shares – U.S. REIT's series A, provision for carried interest and net liabilities attributable to Unitholders are considered as Level 3 financial instruments due to the extent of assumptions required beyond observable market data to derive the fair values.

25. Comparative figures:

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