

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

STARLIGHT U.S. MULTI-FAMILY (NO. 2)
CORE PLUS FUND

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of Starlight U.S. Multi-Family (No. 2) Core Plus Fund have been prepared by and are the responsibility of Starlight U.S. Multi-Family (No. 2) Core Plus Fund's management.

Starlight U.S. Multi-Family (No. 2) Core Plus Fund's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

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

	Note	June 30, 2023	December 31, 2022
ASSETS			
Non-current assets:			
Investment properties	6	\$ 339,000	\$ 355,500
Derivative financial instruments	7	5,411	6,706
Utility deposits		28	28
Total non-current assets		344,439	362,234
Current assets:			
Resident receivables	8	511	442
Prepaid expenses and other assets	9	565	107
Restricted cash	10	3,862	1,915
Cash		2,732	4,229
Total current assets		7,670	6,693
TOTAL ASSETS		\$ 352,109	\$ 368,927
LIABILITIES			
Non-current liabilities:			
Loans payable	11	\$ 235,567	\$ 234,333
Preferred shares – U.S. REIT series A	12	125	125
Provision for carried interest	13(b)	4,668	9,932
Deferred income tax		11,008	15,007
Total non-current liabilities excluding net liabilities attributable to Unitholders		251,368	259,397
Current liabilities:			
Loans payable	11	8,980	6,919
Resident rental deposits		388	386
Accounts payable and accrued liabilities	14	2,875	2,004
Finance costs payable		1,035	1,366
Total current liabilities excluding net liabilities attributable to Unitholders		13,278	10,675
TOTAL LIABILITIES		\$ 264,646	\$ 270,072
Net liabilities attributable to Unitholders	13(a)	87,463	98,855
TOTAL LIABILITIES AND NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		\$ 352,109	\$ 368,927

Commitments and contingencies (note 20).

Subsequent events (note 24)

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Directors of Starlight U.S. Multi-Family (No. 2) Core Plus GP, Inc., as general partner of Starlight U.S. Multi-Family (No. 2) Core Plus Fund, on August 9, 2023, and signed on its behalf:

Kelly Smith Director Harry Rosenbaum Director

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

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

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue from property operations		\$ 5,251	\$ 4,565	\$ 10,530	\$ 8,018
Expenses:					
Property operating costs		1,386	1,087	2,803	1,878
Property taxes		—	—	2,365	1,467
Income from rental operations		3,865	3,478	5,362	4,673
Finance costs	18	3,579	1,332	8,154	777
Distributions to Unitholders	13(a)	—	837	—	1,681
Dividends to preferred shareholders – U.S. REIT series A	12	4	5	8	9
Fund and trust expenses	15	381	326	733	590
Unrealized foreign exchange loss (gain)		—	27	(6)	26
Realized foreign exchange gain		—	(3)	—	(1)
Fair value loss (gain) on investment properties	6	18,285	—	18,285	(12,648)
Fair value adjustment IFRIC 21		563	449	(1,211)	(651)
Provision for carried interest	13(b)	(5,264)	—	(5,264)	3,102
(Loss) Income before income taxes		(13,683)	505	(15,337)	11,788
Income tax expense (recovery):					
- current		54	—	54	—
- deferred		(4,217)	325	(3,999)	2,788
Net (loss) income and comprehensive (loss) income		\$ (9,520)	\$ 180	\$ (11,392)	\$ 9,000

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

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

	Class A	Class C	Class D	Class E	Class F	Class G	Class U	Total
Balance, January 1, 2023	\$24,345	\$23,286	\$22,326	\$ 2,205	\$16,649	\$ 6,064	\$ 3,980	\$ 98,855
Changes during the period:								
Re-allocation due to Unit conversions	(278)	—	514	(16)	(236)	131	(115)	—
Net loss and comprehensive loss	(2,641)	(2,687)	(2,778)	(251)	(1,875)	(719)	(441)	(11,392)
Balance, June 30, 2023	\$21,426	\$20,599	\$20,062	\$ 1,938	\$14,538	\$ 5,476	\$ 3,424	\$ 87,463

	Class A	Class C	Class D	Class E	Class F	Class G	Class U	Total
Balance, January 1, 2022	\$29,508	\$24,752	\$19,807	\$ 2,353	\$17,984	\$ 6,399	\$ 4,266	\$ 105,069
Changes during the period:								
Re-allocation due to Unit conversions	644	—	(431)	—	(213)	(47)	47	—
Net income and comprehensive income	2,599	2,123	1,648	201	1,516	543	370	9,000
Balance, June 30, 2022	\$32,751	\$26,875	\$21,024	\$ 2,554	\$19,287	\$ 6,895	\$ 4,683	\$ 114,069

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

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

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Operating activities:					
Net (loss) income and comprehensive (loss) income		\$ (9,520)	\$ 180	\$ (11,392)	\$ 9,000
Adjustments for financing activities included in net (loss) income and comprehensive (loss) income:					
Finance costs	18	3,579	1,332	8,154	777
Distributions to Unitholders	13(a)	—	837	—	1,681
Dividends to preferred shareholders – U.S. REIT series A	12	4	5	8	9
Adjustments for items not involving cash:					
Fair value loss (gain) on investment properties	6	18,285	—	18,285	(12,648)
Unrealized foreign exchange gain (loss)		—	27	(6)	26
Deferred income tax (recovery) expense		(4,217)	325	(3,999)	2,788
Provision for carried interest	13(b)	(5,264)	—	(5,264)	3,102
Change in non-cash operating working capital	19(a)	193	1,851	347	236
Change in restricted cash		(970)	(576)	(1,946)	(722)
Cash provided by operating activities		2,090	3,981	4,187	4,249
Financing activities:					
Loans payable:					
Proceeds from new financing	10	—	81,500	—	81,500
Repayment of existing loans	10	—	(39,063)	—	(39,063)
Proceeds from refinancing	10	—	67,000	—	67,000
Draw downs on existing loans		369	—	2,811	—
Finance costs paid	19(b)	(3,424)	(4,725)	(6,708)	(5,542)
Distributions paid to Unitholders	13(a)	—	(837)	—	(1,681)
Dividends to preferred shareholders – U.S. REIT series A	12	(4)	(5)	(8)	(9)
Cash (used in) provided by financing activities		(3,059)	103,870	(3,905)	102,205
Investing activities:					
Acquisition of investment properties		—	(107,964)	—	(107,964)
Capital additions to investment properties	6	(812)	(508)	(1,785)	(744)
Cash used in investing activities		(812)	(108,472)	(1,785)	(108,708)
(Decrease) increase in cash		(1,781)	(621)	(1,503)	(2,254)
Cash, beginning of period		4,513	4,813	4,229	6,445
Change in cash due to foreign exchange		—	(27)	6	(26)
Cash, end of period		\$ 2,732	\$ 4,165	\$ 2,732	\$ 4,165

See accompanying notes to the condensed consolidated interim financial statements.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

1. Nature of business:

Starlight U.S. Multi-Family (No. 2) Core Plus Fund (the "Fund") is a "closed-end" 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. 2) Core Plus GP, Inc. (the "General Partner") (see note 24). The Fund was established for the purpose of indirectly investing in income-producing multi-family properties in the United States ("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, California, Colorado, Florida, Georgia, Idaho, Nevada, North Carolina, Oregon, South Carolina, Tennessee, Texas, Utah and Washington.

The Fund completed its initial public offering (the "Offering") on March 31, 2021 and raised gross proceeds of \$85,408 and issued the following limited partnership units ("Units"): 2,862,819 class A Units, 2,436,500 class C Units, 2,095,700 class D Units and 1,959,606 class F Units at a price of \$10 Canadian dollars ("C\$") and 236,840 class E Units, 535,300 class G Units and 299,120 class U Units, at a price of \$10.00. The class A and class U Units distributed under the Offering are listed on the TSX Venture Exchange under the symbol SCPT.A and SCPT.U, respectively. Class A, C, D and F are Canadian dollar denominated Units and class E, G and U are U.S. dollar denominated Units. Conversions can be made between certain classes of Units based on conversion ratios calculated consistent with the Fund's amended and restated limited partnership agreement (the "Conversion Ratios"). The weighted average class A equivalent Units outstanding as at June 30, 2023 was 10,901,915 (assumes all outstanding Units were converted to class A equivalent Units based on the Conversion Ratios).

Following completion of the Offering, the Fund acquired two class "A" institutional quality multi-family properties comprising a total of 675 suites, Montane Apartments ("Montane") and Hudson at east ("Hudson"), located in the States of Colorado and Florida, in the Denver and Orlando metropolitan areas, respectively ("Initial Portfolio"). During the six months ended June 30, 2022, the Fund acquired Summermill at Falls River ("Summermill"), a class "A" institutional quality multi-family property comprising 320 suites in Raleigh, North Carolina.

The Fund is managed by Starlight Investments US AM Group LP (the "Manager") which is a wholly owned subsidiary of Starlight Group Property Holdings Inc. and a related party. As at June 30, 2023, the Fund's property portfolio consisted of interests in three multi-family properties ("Properties" or individually, a "Property") totaling 995 suites (December 31, 2022 - 995 suites).

The registered office of the Fund is located at 3280 Bloor Street West, Centre Tower, Suite 1400, Toronto Ontario M8X 2X3.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
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(Unaudited)

2. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the Fund have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and using the accounting policies described herein.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

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

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

3. Significant accounting policies:

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

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

4. Adoption of accounting standards:

(a) Accounting standards implemented:

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

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

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

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

(b) Future accounting policy changes:

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

This amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date. The amendment also clarifies the situations that are considered a settlement of a liability. The amendment is effective for annual periods beginning on or after January 1, 2024 with early application permitted. The Fund is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the Fund as a result of the amendments to IAS 1.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
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(Unaudited)

5. Acquisitions:

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

The following acquisition was completed by the Fund during the six months ended June 30, 2022. The property was acquired indirectly through the Fund's subsidiary entities. The acquisition was treated as an asset acquisition, and as a result, 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:

		Summerville
Acquisition date		April 27, 2022
Suites		320
City, State		Raleigh, NC
Investment properties ⁽ⁱ⁾	\$	107,303
Add:		
Utility deposits		24
Prepaid expenses and other assets		92
Restricted cash		856
Deduct:		
Accounts payable and accrued liabilities		(175)
Resident rental deposits		(136)
Net assets acquired	\$	107,964
Consideration funded by:		
New loans payable ⁽ⁱⁱ⁾		75,383
Cash paid		32,581
Total consideration	\$	107,964

(i) Investment properties includes acquisition costs capitalized to investment properties amounting to \$1,303.

(ii) New loans payable are net of finance costs incurred amounting to \$1,117.

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

6. Investment properties:

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

Balance, January 1, 2022	\$	255,200
Acquisition of investment properties		107,303
Capital additions		2,686
Fair value adjustment		(9,689)
Balance, December 31, 2022	\$	355,500
Capital additions		1,785
Fair value adjustment		(18,285)
Balance, June 30, 2023	\$	339,000

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

		June 30, 2023	December 31, 2022
Cost	\$	317,530	\$ 315,745
Cumulative fair value adjustment		21,470	39,755
Fair Value	\$	339,000	\$ 355,500

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

	June 30, 2023	December 31, 2022
Capitalization rate - range	4.50%	4.00% - 4.25%
Capitalization rate - weighted average	4.50%	4.08 %

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

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

Weighted average	Change	June 30, 2023	December 31, 2022
Capitalization rate	10 basis-point increase	\$ (7,370)	\$ (8,505)
Capitalization rate	10 basis-point decrease	\$ 7,705	\$ 8,932

The impact of a one percent change in the net operating income used to value the investment properties as at June 30, 2023 would affect the fair value by approximately \$3,177 (December 31, 2022 - \$3,688).

The Properties are considered as Level 3 assets under IFRS 13 - Fair Value Measurement due to the extent of assumptions required beyond observable market data to derive the fair values (note 22(b)).

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
(In thousands of U.S. dollars, unless otherwise noted)
(Unaudited)

7. Derivative financial instruments:

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

		June 30, 2023	December 31, 2022
Interest rate caps (a)	\$	5,411	\$ 6,759
Variable rate collar (b)		—	(53)
	\$	5,411	\$ 6,706

(a) Interest rate caps:

The Fund utilizes interest rate cap agreements to protect its interest costs on its variable rate loans as required by applicable lenders. The interest rate caps typically carry a notional amount equal to the amount of the loan outstanding at inception and a maturity date which generally coincides with the term of the loan (note 11). As the Fund has elected not to use hedge accounting, an unrealized fair value gain of \$3 and loss of \$1,348 were recorded in finance costs in the condensed consolidated interim financial statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2023 (June 30, 2022 - gain of \$636 and \$2,074) (note 18), respectively. A summary of the Fund's interest rate caps is presented below:

Property Name	Maturity Date	Index ⁽¹⁾	Strike Rate	Notional Amount
Montane	November 1, 2024	NY SOFR	2.07%	\$ 92,000
Hudson ⁽²⁾	November 7, 2023	Term SOFR	3.00%	67,000
Summermill	November 7, 2023	Term SOFR	3.00%	\$ 82,895

⁽¹⁾The interest rate caps provide protection against from increases in the index rates above stipulated levels as noted above. The index rates applicable are 30-day New York Federal Reserve Secured Overnight Financing Rate ("NY SOFR") or one-month term Secured Overnight Financing Rate ("Term SOFR").

⁽²⁾As part of the conversion of the Hudson loan payable to a fixed rate loan (note 11b), the Fund was required to sell the interest rate cap and deposit proceeds from the sale of the cap into a reserve account with the lender (note 24). The escrowed funds will be returned to the Fund under certain conditions or upon repayment of the associated loan payable. In addition, the Fund is no longer required to purchase replacement interest rate cap for Hudson in November 2023, which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.

(b) Variable rate collar:

The Fund entered into a variable rate collar contract on December 16, 2021, which allowed the Fund to establish a guaranteed monthly exchange rate between the conversion of U.S. dollar funds to Canadian dollar funds amounting to \$312 (Canadian dollars) per month. The contract was entered into, and subsequently amended, to protect against the potential impact of any weakening of the U.S. dollar on potential amounts required to fund any monthly Canadian dollar distributions. Under the terms of the amended contract, monthly settlements occur each month during the contract term on or about the 12th day of each month until April 10, 2024. The monthly exchange rate is determined based on the Canadian to U.S. dollar spot exchange rate on the date of settlement, but provides for a minimum exchange rate of \$1.3000 and a maximum exchange rate of \$1.3925. The variable rate collar contract was terminated by the Fund on June 23, 2023.

Realized fair value gains of \$31 and \$53 were recorded in finance costs in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2023 (June 30, 2022 - unrealized losses of \$5 and gains of \$8) (note 18).

STARLIGHT U.S. MULTI-FAMILY (NO. 2) CORE PLUS FUND

Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
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8. Resident receivables:

The following table presents details of the resident receivables balance:

	June 30, 2023	December 31, 2022
Resident receivables ⁽ⁱ⁾	\$ 439	\$ 300
Other receivables ⁽ⁱ⁾	72	142
	\$ 511	\$ 442

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

9. Prepaid expenses and other assets:

The following table presents details of the prepaid expenses balance:

	June 30, 2023	December 31, 2022
Prepaid insurance	\$ 412	\$ 3
Prepaid expenses	153	104
	\$ 565	\$ 107

10. Restricted cash:

The following table presents details of the restricted cash balance:

	June 30, 2023	December 31, 2022
Escrowed funds:		
Property taxes ⁽ⁱ⁾	\$ 1,171	\$ 513
Replacement and repairs ⁽ⁱ⁾	112	100
Interest reserve ⁽ⁱⁱ⁾	485	485
Interest rate cap reserve ⁽ⁱⁱⁱ⁾	1,864	585
Restricted cash:		
Security deposits ^(iv)	230	232
	\$ 3,862	\$ 1,915

(i) Escrowed funds include cumulative amounts that are funded on a monthly basis into escrow with the Fund's lenders. These amounts are used to pay property taxes and property repairs coming due within a 12-month period.

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

(iii) Interest rate cap reserve includes amounts funded into escrow with certain of the Fund's lenders which may be used to purchase replacement interest rate caps upon the expiry of an existing interest rate cap, as required under certain of the Fund's loans payable. The lender of loans for which these escrows are applicable regularly review the amounts required to fund into escrow at which point, additional cash may be required to be funded into such escrow on a monthly basis. See note 7 for a further description of the interest rate caps used by the Fund.

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

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Notes to the Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023 and June 30, 2022
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11. Loans payable:

Loans payable are secured against the applicable investment properties to which the loan relates and typically require interest only ("IO") payments until a specified date. The loans bear interest at variable index rates based on NY SOFR or Term SOFR plus an interest rate spread. Under certain loans, the Fund has purchased an interest rate cap which provides for a maximum interest rate payable in the event the variable index rate is above the strike rate of the cap. Certain of the Fund's loans payable also have capital lines available to fund eligible future capital expenditures incurred at the applicable Property. A summary of the Fund's loans payable is presented below:

Property Name	Payment Terms	Maturity Date	Extension Options	Interest Rate ⁽ⁱ⁾	Max Interest Rate ⁽ⁱ⁾	June 30, 2023		December 31, 2022	
						Capital Line Available	Principal Outstanding	Capital Line available	Principal Outstanding
Montane	IO until Nov. 2024	November 1, 2028	N/A	NY SOFR + 2.43%	4.50%	\$ —	\$ 92,000	\$ —	\$ 92,000
Hudson (b)	IO	May 7, 2025	Two 1-year	Term SOFR + 2.70%	5.70%	—	67,000		67,000
Summermill	IO	May 7, 2025	Two 1-year	Term SOFR + 2.95%	5.95%	4,401	78,494	\$ 5,211	77,684
Unsecured loan (a)	IO	December 1, 2023	N/A	9.0%	9.0%	—	9,000		7,000
Face value						\$ 4,401	\$ 246,494	\$ 5,211	\$ 243,684
Unamortized financing costs							(1,947)		(2,432)
Carrying value							\$ 244,547		\$ 241,252
Breakdown of current versus non-current portion of carrying value:									
Current							\$ 8,980		\$ 6,919
Non-current							\$ 235,567		\$ 234,333

(i) The Fund utilizes interest rate cap agreements to protect its interest costs on variable rate loans as required by certain lenders. In the event the strike rate of the interest rate cap is below the variable index rate (Term SOFR or NY SOFR) at a monthly settlement date, the Fund's maximum interest rate payable would be equal to the credit spread plus the strike rate on the interest rate cap for each applicable loan. The terms of the applicable interest rate caps for the Fund are outlined in note 7(a).

(a) On February 23, 2023, the Fund drew an additional \$2,000 on the Fund's unsecured credit facility bringing the total principal outstanding to \$9,000.

(b) On July 26, 2023, the Fund amended the existing loan payable to modify the Hudson loan to a fixed rate loan bearing interest only ("IO") payments at 5.75% from the date of the amendment to the initial maturity date of May 7, 2025 (note 4). After May 7, 2025, during the extension periods available under the loan, the loan will convert back to a variable rate loan bearing IO payments at Term SOFR + 2.70%. As part of such amendment, the Fund discharged its obligation to purchase a replacement interest rate cap in November 2023, which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.

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11. Loans payable (continued):

As at June 30, 2023, the Fund's loans had a weighted average term to maturity of 3.11 years (December 31, 2022 - 3.63 years) and a weighted average interest rate of 5.45% (December 31, 2022 - 5.42%).

Future principal payments on loans payable are as follows:

	Principal payments	Balloon payments	Total
2023	\$ —	\$ 9,000	\$ 9,000
2024	332	—	332
2025	2,021	145,494	147,515
2026	2,077	—	2,077
2027	2,134	—	2,134
Thereafter	1,823	83,613	85,436
Total	\$ 8,387	\$ 238,107	\$ 246,494

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 on July 2, 2021 and are redeemable at the option of the U.S. REIT, at a redemption value of \$1 per share, subject to prepayment penalties under certain conditions. The preferred shares pay a cumulative dividend at 12% per annum, semi-annually on June 30 and December 31. The preferred shares have no voting rights and the U.S. REIT incurs a penalty if redeemed before December 31, 2023.

13. Net liabilities attributable to Unitholders:

(a) Composition of net liabilities attributable to Unitholders and beneficial ownership of the Fund:

The beneficial limited partnership interest in the net liabilities and net (loss) income and comprehensive (loss) income of the Fund is held in seven classes of Units: A, C, D, E, F, G 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 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 are distributed disproportionately on a per unit basis upon liquidation. Accordingly, these Units have been classified as a liability in the condensed consolidated interim statement of financial position and any distributions paid on each class of Units is presented in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income. For the three and six months ended June 30, 2023, there were no distributions declared and recorded to distribution expense (June 30, 2022 - \$837 and \$1,681). On November 25, 2022, the Fund announced its intention to pause monthly distributions for all classes of Units, effective with the November 2022 distribution, which would have been payable on December 15, 2022. The reduction in the distributions will be retained by the Fund for general Fund purposes and amounts to approximately \$3,300 per annum.

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13. Net liabilities attributable to Unitholders (continued):

(a) Composition of net liabilities attributable to Unitholders and beneficial ownership of the Fund (continued):

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

	Number of Units Outstanding (000's)								Net Liabilities attributable to Unitholders (\$)
	Class A	Class C	Class D	Class E	Class F	Class G	Class U	Total Units	
Outstanding as at January 1, 2023	2,564	2,436	2,590	188	1,770	535	349	10,432	\$ 98,855
Units reallocated due to conversions	(37)	—	68	(2)	(31)	14	(12)	—	—
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(11,392)
Outstanding as at June 30, 2023	2,527	2,436	2,658	186	1,739	549	337	10,432	\$ 87,463

(b) Carried interest:

The partners of Starlight Investments (No. 2) Core Plus Partnership ("SICPP"), currently being an affiliate of the Manager and the President of the General Partner, through SICPP's indirect interest in Starlight U.S. Multi-Family (No. 2) Core Plus Holding L.P. ("Holding L.P."), 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 a particular class if all distributable cash (as defined in the Fund's final long form prospectus dated March 19, 2021 (the "Prospectus")) of the Holding L.P. was received by the Fund through Starlight U.S. Multi-Family Investment L.P. ("Investment L.P."), a 100% owned subsidiary of the Fund and Starlight U.S. Multi-Family (No. 2) Core Plus 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 L.P.) to Unitholders in accordance with the Fund's amended and restated limited partnership agreement, exceeds (ii) the aggregate minimum return. ("Minimum Return", as defined in the Prospectus) in respect of such class of Units (the calculation of which 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 class A Units, class C Units, class D Units and class F 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 Holding L.P. to Investment L.P. and by Investment L.P. to, directly or indirectly, the Fund, provided that, to the extent that the aggregate amount of distributions which would have been paid on all Units of a particular class pursuant to the foregoing exceed the Minimum Return for such class, the partners of SICPP, through SICPP's indirect interest in Holding L.P., are 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 June 30, 2023, the Fund had recognized a provision for carried interest of \$4,668, resulting in a recovery of \$5,264 for the three and six months ended June 30, 2023 (June 30, 2022 - \$nil and expense of \$3,102).

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14. Accounts payable and accrued liabilities:

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

	June 30, 2023	December 31, 2022
Resident prepayments	\$ 53	\$ 56
Operating payables	1,563	1,147
Accrued property taxes ⁽ⁱ⁾	1,101	658
Accrued asset management fees (note 17)	92	91
Excise tax and franchise tax payable	66	52
	\$ 2,875	\$ 2,004

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

15. Fund and trust expenses:

Fund and trust expenses consist of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Asset management fees (note 17)	\$ 274	\$ 244	\$ 548	\$ 423
General and administrative expenses	107	82	185	167
	\$ 381	\$ 326	\$ 733	\$ 590

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. The Fund’s investment properties are, therefore, considered by management to have similar economic characteristics. No single resident 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 Manager is a related party to the Fund as the Manager is owned and controlled by Daniel Drimmer, a director and President and Chief Executive Officer of the General Partner and Unitholder of the Fund. The Fund engaged the Manager to perform certain management services, as outlined below:

- Pursuant to the management agreement dated March 31, 2021 (the “Management Agreement”), the Manager is to perform asset management services for fees equal to 0.35% of the sum of: the historical purchase price of the properties acquired in U.S. dollars and the cost of any capital expenditures in respect of the Fund’s properties since the date of acquisition by the Fund. Included in Fund and trust expenses is \$274 and \$548 in asset management fees charged by the Manager (note 15) for the three and six months ended June 30, 2023 (June 30, 2022 - \$244 and \$423). The amount payable to the Manager as at June 30, 2023 was \$92 (December 31, 2022 - \$91) (note 14).

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17. Transactions with related parties (continued):

- (b) Pursuant to the Management Agreement, the Manager is entitled to receive an acquisition fee in respect of properties acquired, directly or indirectly, by the Fund as a result of such properties having been presented to the Fund by the Manager calculated as 1.0% of the purchase price of a property acquired in each calendar year.

For the three and six months ended June 30, 2023, the Fund did not incur acquisition fees (June 30, 2022 - \$1,060).

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

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

18. Finance costs:

Finance costs consist of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest expense on loans payable	\$ 3,367	\$ 1,791	\$ 6,355	\$ 2,611
Amortization of deferred financing costs	246	172	504	248
Unrealized fair value (gain) loss on interest rate caps (note 7)	(3)	(636)	1,348	(2,074)
Realized fair value (gain) loss on variable rate collar (note 7)	(31)	5	(53)	(8)
	\$ 3,579	\$ 1,332	\$ 8,154	\$ 777

19. Supplemental cash flow information:

- (a) Changes in non-cash operating working capital:

The following table presents the changes in non-cash operating working capital presented within the condensed consolidated interim statement of cash flows:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Utility deposits	\$ —	\$ 24	\$ —	\$ 24
Resident and other receivables	17	(33)	(70)	(61)
Prepaid expenses and other assets	258	1,084	(458)	(334)
Resident rental deposits	6	(6)	2	14
Accounts payable and accrued liabilities	(88)	790	873	597
Distributions payable	—	(8)	—	(4)
Total change in non-cash operating working capital	\$ 193	\$ 1,851	\$ 347	\$ 236

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19. Supplemental cash flow information (continued):

(b) Finance costs paid:

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest expense paid	\$ (3,403)	\$ (1,327)	\$ (6,687)	\$ (2,141)
Financing costs incurred on loans payable	(21)	(3,398)	(21)	(3,401)
Total finance costs paid	\$ (3,424)	\$ (4,725)	\$ (6,708)	\$ (5,542)

20. Commitments and contingencies:

As at June 30, 2023, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases. All future leases as of June 30, 2023 expire within 12 months. The Fund holds commitments to provide for carried interest when applicable and to distribute excess cash to Unitholders.

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

21. Capital management:

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

The Fund was in compliance with all financial covenants as at June 30, 2023.

22. Risk management:

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

(a) Credit risk:

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

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22. Risk management (continued):

(a) Credit risk (continued):

At June 30, 2023, the Fund had accrued no allowance for uncollectible amounts as such amounts are written off directly against revenues at that time. During the three and six months ended June 30, 2023, the Fund recorded \$56 and \$39 of bad debts against revenues in the condensed consolidated interim statement of net (loss) income and comprehensive (loss) income (June 30, 2022 - \$13 and \$43).

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

(b) Market risk:

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices. The investment properties are subject to the risks associated with debt financing, including the risk that certain loans may not be refinanced on terms as favourable as those of the existing indebtedness, in the event that such refinancings occur in future periods. As at June 30, 2023, the investment properties have been reported at fair value which reflects the Fund's best estimate of future cash flows and capitalization rates applicable to the investment properties.

The fair values are based on capitalization rates that are reflective of third-party appraisals as well as consideration of comparable sales transactions for similar properties and overall changes in the investment market for multi-family properties up to June 30, 2023. Although the valuations utilize the best available information to determine the capitalization rates used for purposes of the valuations of the Fund's investment properties as at June 30, 2023, the period leading up to June 30, 2023 experienced limited comparable sales for the appraisers to rely on as a result of broader market conditions, including certain owners of multi-family properties delaying sales as a result of market uncertainty and concerns relating to rising interest rates. The Manager will continue to evaluate comparable sales transactions as additional comparable sales data occurs under current market conditions.

The Fund's objective in managing interest rate risk is to minimize the volatility of the Fund's income. The Fund has the ability to enter into interest rate cap agreements for the variable rate loans which protect the Fund from increases in NY SOFR or Term SOFR index rates beyond stipulated levels. In certain instances and typically in the event no existing interest rate cap is in place for such loan payable, the Fund is required to purchase an interest rate cap if NY SOFR or Term SOFR index rates increase above certain levels in accordance with terms in the loan agreements. In addition, if existing in place interest rate caps have an expiry date prior to the maturity date of the applicable loan payable to which it relates, the Fund may be required to purchase a replacement interest rate cap for the duration such loan remains outstanding, subject to certain conditions in each applicable loan agreement (see note 7). Typically, such interest rate caps would be required to be purchased on or before the expiry of the existing interest rate cap, if applicable. For the three and six months ended June 30, 2023, all else being equal, a change of ten basis points in NY SOFR or Term SOFR index rates would impact net (loss) income and comprehensive (loss) income by \$nil (three and six months ended June 30, 2022 - \$60 and \$120).

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22. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the Fund staggered the maturity dates of its loan portfolio and has options to extend certain loans. All of the Fund's current liabilities have contractual maturities of less than 12 months and are subject to normal trade terms. On November 25, 2022, the Fund announced its intention to pause monthly distributions for all classes of Units, commencing with the November 2022 distribution, which would have been payable on December 15, 2022. The reduction in the distributions will be retained by the Fund for general Fund purposes and amounts to approximately \$3,300 per annum.

(d) Currency risk:

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

23. Fair value measurement of financial instruments:

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

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

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

- The fair value of the Fund's financial assets, which include utility deposits, resident and other receivables, restricted cash and cash, as well as financial liabilities, which include resident rental deposits, accounts payable and accrued liabilities, finance cost payable and distributions payable, approximate their carrying amounts due to their short-term nature (Level 1);
- Derivative financial instruments are considered as Level 2 financial instruments;
- The fair value of loans payable is estimated based on the current market rates for debt with similar terms and conditions (Level 2). The fair value of the Fund's loans payable as at June 30, 2023 approximated their carrying value; and
- Provision for carried interest and net liabilities attributable to Unitholders are considered as Level 3 financial instruments due to the extent of assumptions required beyond observable market data to derive the fair values.

24. Subsequent events:

On July 26, 2023, the Fund amended the existing loan payable to modify the Hudson loan to a fixed rate loan bearing IO payments at 5.75% from the date of the amendment to the initial maturity date of May 7, 2025. After May 7, 2025, during the extension periods available under the loan, the loan will convert back to a variable rate loan bearing IO payments at Term SOFR + 2.70%. As part of such amendment, the Fund discharged its obligation to purchase a replacement interest rate cap in November 2023, which is expected to allow the Fund to retain substantial liquidity that otherwise would have been utilized for the purchase of a replacement interest rate cap.

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24. Subsequent events (continued):

On August 9, 2023, the General Partner approved a one-year extension of the Fund's term to January 8, 2025 to provide the Fund with the opportunity to capitalize on more robust market dynamics.