

Consolidated Financial Statements
(In thousands of Canadian dollars)

STARLIGHT WESTERN CANADA MULTI- FAMILY (NO. 2) FUND

For the year ended December 31, 2022 and for the period from November 12,
2021 (date of formation) to December 31, 2021



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Independent Auditor's Report

To the Unitholders of Starlight Western Canada Multi-Family (No.2) Fund

Opinion

We have audited the consolidated financial statements of Starlight Western Canada Multi-Family (No.2) Fund and its subsidiaries (the "Fund"), which comprise the consolidated statement of financial position as at December 31, 2022 and 2021, and the consolidated statements of net income and comprehensive income, changes in net liabilities attributable to unitholders and cash flows for the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Fair Value of Investment Properties

Refer to Note 6 - Investment Properties

Description of the key audit matter

As at December 31, 2022, the carrying value of the Fund investment properties of \$350 million accounted for 92% of the Fund's total assets.

The valuation of investment properties was a key audit matter due to the significant judgement in the key inputs used in valuation techniques and the sensitivity of assumptions. These key inputs including capitalisation rates are dependent on the class of each investment property and the prevailing market conditions.



How the key audit matter was addressed in the audit

Our audit procedures included, but not limited to, the following:

- assessed the competence, capabilities, and objectivity of the Fund's management involved in the valuation process;
- obtained an understanding of the techniques used by management and external appraiser in determining the valuation of investment properties;
- confirmed independence of external appraiser;
- assessed management's review and approval process for valuations;
- performed an assessment of the significant underlying assumptions such as capitalization rates and net operating incomes and compared the significant underlying assumptions to the market;
- engaged BDO Canada's valuation experts in evaluating the fair value methodology used by management;
- evaluated the adequacy of the disclosures included in the consolidated financial statements relating to the fair value of investment properties.

Because of the subjectivity involved in determining fair value for individual investment properties and the existence of alternative assumptions and valuation methods, we determined a range of fair values that were considered reasonable and compared to managements estimation to determine if the fair values are within the expected range.

Other Information

Management is responsible for the other information. The other information comprises the information, included in the Management's Discussion and Analysis of Results of Operations and Financial Condition filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis of Results of Operations and Financial Condition prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jennifer Agro.

A handwritten signature in black ink that reads "BDO Canada LLP". The letters are written in a cursive, flowing style.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2023

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Consolidated Statement of Financial Position
As at December 31
(In thousands of Canadian dollars)

	Note	2022	2021
			(note 22)
ASSETS			
Non-current assets:			
Investment properties	6	\$ 350,400	\$ —
Total non-current assets		350,400	—
Current assets:			
Resident and other receivables	7	69	—
Prepaid expenses and other assets	8	896	—
Restricted cash	9	1,109	—
Cash		30,105	—
Total current assets		32,179	—
TOTAL ASSETS		\$ 382,579	\$ —
LIABILITIES			
Non-current liabilities:			
Loans payable	10	\$ 187,669	\$ —
Provision for carried interest	11(b)	3,408	—
Total non-current liabilities excluding net liabilities attributable to Unitholders		191,077	—
Current liabilities:			
Loans payable	10	53,120	—
Resident rental deposits		1,109	—
Accounts payable and accrued liabilities	12	1,289	—
Finance costs payable	10	320	—
Distributions payable	11(a)	333	—
Total current liabilities excluding net liabilities attributable to Unitholders		56,171	—
TOTAL LIABILITIES		\$ 247,248	\$ —
Net liabilities attributable to Unitholders	11	135,331	—
TOTAL LIABILITIES, NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		\$ 382,579	\$ —

Commitments and contingencies (note 18).

Subsequent events (note 23).

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees of Starlight Western Canada Multi-Family (No. 2) Fund, on March 8, 2023, and signed on its behalf:

Denim Smith

Trustee

Lawrence D. Wilder

Trustee

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Consolidated Statement of Net income and Comprehensive Income

For the year ended December 31, 2022

(In thousands of Canadian dollars)

	Note	2022
Revenue from property operations	\$	13,722
Expenses:		
Property operating costs		2,789
Property taxes	8	910
Income from rental operations	\$	10,023
Finance costs	16	7,667
Distributions to Unitholders	11(a)	3,413
Fund and trust expenses	13	1,585
Fair value adjustment on investment properties	6	(16,468)
Provision for carried interest	11(b)	3,408
Net income and comprehensive income	\$	10,418

See accompanying notes to the consolidated financial statements.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Consolidated Statement of Changes in Net Liabilities Attributable to Unitholders

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars)

	Class A	Class B	Class C	Total
Balance, January 1, 2022 (note 22)	\$ —	\$ —	\$ —	\$ —
Changes during the year:				
Units issued on initial public offering (February 22, 2022), net of issuance costs (note 11(a))	40,428	51,934	32,551	124,913
Net income and comprehensive income	3,372	4,331	2,715	10,418
Balance, December 31, 2022	\$ 43,800	\$ 56,265	\$ 35,266	\$ 135,331

See accompanying notes to the consolidated financial statements.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Consolidated Statement of Cash Flows
For the year ended December 31, 2022
(In thousands of Canadian dollars)

	Note	2022
Operating activities:		
Net income and comprehensive income	\$	10,418
Adjustments for financing activities included in net income and comprehensive income:		
Finance costs	16	7,667
Distributions to Unitholders	11(a)	3,413
Adjustments for items not involving cash:		
Fair value adjustment on investment properties	6	(16,468)
Provision for carried interest	11(b)	3,408
Changes in non-cash working capital	17(a)	216
Change in restricted cash	9	(1,109)
Cash provided by operating activities		7,545
Financing activities:		
Proceeds from the issuance of Units, net of issuance costs		124,913
Proceeds from new loans		—
Loans payable:		
Proceeds from new financing	10	165,662
Proceeds from assumed financing	10	80,584
Loans principal repayments	10	(2,019)
Finance costs paid	17(b)	(11,198)
Distributions paid to Unitholders	11(a)	(3,081)
Cash provided by financing activities		354,861
Investing activities:		
Acquisitions of investment properties	5,6	(331,939)
Capital additions to investment properties	6	(362)
Cash used in investing activities		(332,301)
Increase in cash		30,105
Cash, beginning of year		—
Cash, end of year	\$	30,105

See accompanying notes to the consolidated financial statements.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

1. Nature of business:

Starlight Western Canada Multi-Family (No. 2) Fund (the "Fund") is a "closed-end fund" established pursuant to an initial declaration of trust dated as of November 12, 2021, as amended and restated on January 27, 2022 (the "Declaration of Trust"), and governed by the laws of the Province of Ontario. The term of the Fund is three years, with two one-year extensions available at the option of the Fund's board of trustees ("Board of Trustees") and may be further extended by special resolution of the unitholders ("Unitholders") of the Fund. The Fund was established for the primary purpose of directly or indirectly acquiring, owning, operating and stabilizing a portfolio composed of income-producing multi-family real estate properties in western Canada that demonstrate value based on pricing and local supply and demand trends to achieve the Fund's target metrics by increasing in-place rents to market rents, revenue enhancement through ancillary income opportunities and operating expense reductions as a result of active asset management, and are located primarily on Vancouver Island and the mainland of the Province of British Columbia.

The Fund completed its initial public offering (the "Offering") on February 22, 2022 and raised aggregate gross subscription proceeds of \$130,000. The Fund achieved the maximum offering allowable and issued the following trust units ("Units"): 4,207,395 Class A Units, 5,404,905 Class B Units and 3,387,700 Class C Units at a price of \$10.00 per Unit. Class A, B and C Units are Canadian dollar denominated.

Following completion of the Offering, the Fund acquired five institutional quality multi-family properties (the "Initial Portfolio") comprising a total of 495 suites located in Nanaimo, Langford and Vernon in the Province of British Columbia. Subsequent to the Offering, the Fund acquired three additional multi-family properties comprising 166 suites located in Langford, British Columbia, 57 suites located in Langley, British Columbia and 120 suites located in Nanaimo, British Columbia during year ended December 31, 2022 ("Subsequent Acquisitions"). The Initial Portfolio and Subsequent Acquisitions are collectively referred to as the "Properties".

The Fund is managed by Starlight Investments CDN AM Group LP (the "Manager") which is a wholly owned subsidiary of Starlight Group Property Holdings Inc. and a related party. As at December 31, 2022, the Fund's property portfolio consisted of interests in eight multi-family properties totaling 838 suites.

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

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

2. Basis of presentation:

(a) Statement of compliance:

These consolidated 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. These consolidated financial statements were approved by the Board of Trustees of the Fund and authorized for issue on March 8, 2023.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis except for investment properties, 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) Comparatives:

The Fund was established on November 12, 2021. The Offering was completed on February 22, 2022 and the acquisition of the Initial Portfolio occurred on February 23, 2022 and as a result, there were no operating activities between November 12, 2021 and February 22, 2022. Accordingly, no comparatives have been presented in the consolidated statement of net income and comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in net liabilities attributable to Unitholders or the related notes therein.

(d) Functional and presentation currency:

These consolidated financial statements are presented in Canadian 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.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Fund and its subsidiaries. All intercompany transactions and account balances have been eliminated upon consolidation.

When the Fund is exposed to or has rights to variable returns from its involvement with an investee and has the ability to affect those returns through its power over such investee, the investee is considered a subsidiary. The existence and effect of potential substantive voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and are de-consolidated from the date control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the Fund using consistent accounting policies.

The following significant entities operate as wholly owned subsidiaries of the Fund:

- Starlight Western Canada Multi-Family (No. 2) GP, Inc. ("Holding GP"); and
- Starlight Western Canada Multi-Family (No. 2) Holding LP ("Holding LP").

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued):

(b) Critical accounting estimates and judgments:

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that it believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

(i) Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed (including fair values of loans assumed, if any) constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business, and the Fund obtains control of the business. The Fund's acquisitions are generally determined to be asset purchases as the Fund does not acquire an integrated set of activities that together significantly contribute to the ability to create outputs as part of the acquisition transaction.

(ii) Financial Instruments:

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

(iii) Investment properties:

The estimates used when determining the fair value of investment properties are capitalization rates and future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each investment property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Fund determines fair value internally utilizing financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals. In addition, the Fund obtains valuations from third-party appraisers at least once annually for each Property.

(iv) Carried Interest:

The determination by the Fund as at each Statement of Financial Position date as to whether a provision for carried interest should be recognized to the partners of the Holding LP is based, among other criteria, on the Fund's analysis of the net liabilities attributable to Unitholders, distributions paid to Unitholders since the formation of the Fund and the Fund's ability to meet the requirement to return the initial investment amount contributed from the limited partners of the Fund. The calculation of the carried interest is outlined in Note 11(b).

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued):

(c) Investment properties:

The Fund selected the fair value method to account for real estate classified as investment property under International Accounting Standard ("IAS") 40, Investment Property. A property is determined to be an investment property when it is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment properties include land and building structures, as well as residential suites situated on the properties. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated statement of net income and comprehensive income in the period in which they arise.

Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Fund determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. Gains and losses arising from changes in the fair value or disposal of investment properties are included in the consolidated statement of net income and comprehensive income in the period in which they arise. Subsequent capital expenditures are added to the carrying value of investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably.

(d) Cash and restricted cash:

Cash includes unrestricted cash and balances held in the Fund's bank accounts. Restricted cash includes cash on hand which can only be used for specified purposes. The Fund's restricted cash is comprised of resident security deposits. The Fund may also internally restrict cash, if necessary.

(e) Revenue recognition:

The Fund has retained substantially all the risks and benefits of ownership of its investment properties and as a result accounts for its leases with residents as operating leases.

Revenue from property operations includes all rental income earned from the property, including resident rental income, parking income and all other incidental income paid by the residents and other vendors under the terms of their existing leases and contracts. Revenue recognition under a lease commences when a resident has a right to use the leased asset and collection is reasonably assured. Revenue is recognized pursuant to the terms of the lease agreement.

Amounts collected from residents are recognized as income when due, which, due to the short-term nature of the leases, approximates straight-line revenue recognition. Lease incentives granted are recognized as an integral part of the total rental revenue over the term of the leases. All other incidental income is recognized as revenue upon provision of goods and services when collectability is reasonably assured.

The Fund uses an allowance for uncollectible amounts to recognize the inability of residents to meet the contractual obligations under their lease agreements. Under this method, all receivables from past residents and resident receivable balances exceeding 90 days are provided for as bad debt expense in the statement of net income and comprehensive income.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued):

(f) Finance costs:

Finance costs consist of interest on loans payable, amortization of financing costs related to loans payable and guarantee fees. Distributions to Unitholders are separately presented on the consolidated statement of net income and comprehensive income.

(g) Financial instruments:

Financial assets are classified and measured based on one of the following three categories: (i) amortized cost; (ii) fair value through profit and loss ("FVTPL"); and (iii) fair value through other comprehensive income. Financial liabilities are classified and measured based on one of the following two categories: (i) amortized cost; and (ii) FVTPL. Financial instruments are recognized initially at fair value.

	<u>Classification / Measurement</u>
<u>Financial assets:</u>	
Resident and other receivables	Amortized cost
Restricted cash	Amortized cost
Cash	Amortized cost
<u>Financial liabilities:</u>	
Loans payable	Amortized cost
Provision for carried interest	FVTPL
Resident rental deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Finance costs payable	Amortized cost
Distributions payable	Amortized cost
Net liabilities attributable to Unitholders	Amortized cost

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate ("EIR") over the anticipated life of the related instrument. Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Fund recognizes an impairment loss for financial assets carried at amortized cost as follows: the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original EIR. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

The Fund's net liabilities attributable to Unitholders have been classified as financial liabilities under IAS 32, Financial Instruments - Presentation.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Financial liabilities are discharged when the contractual obligations are discharged, canceled or expired.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

3. Significant accounting policies (continued):

(h) Income taxes:

The Fund qualifies as a mutual fund trust for Canadian income tax purposes pursuant to the *Income Tax Act (Canada)* (the “Tax Act”). In accordance with the terms of the Declaration of Trust, the Fund intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Tax Act. The Fund is eligible to claim a tax deduction for distributions paid and intends to continue to meet the requirements under the Tax Act. Accordingly, no provision for income taxes payable is required or has been made. Income tax obligations relating to distributions of the Fund are the obligations of the Unitholders.

The Tax Act also contains Specified Investment Flow-through (“SIFT”) rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the “SIFT Measures”). A “SIFT partnership” (as defined in the Tax Act) will be subject to SIFT tax under Part IX.1 on its “taxable non-portfolio earnings” (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations.

The “taxable non-portfolio earnings” less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholders for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any “non-portfolio property” (as defined in the Tax Act) throughout the taxation year of the partnership.

The Fund believes that it does not hold any “non-portfolio property” and is not a SIFT partnership and therefore not subject to the SIFT Measures. Additionally, the partnership agreement explicitly prohibits, at any time, the partnership from owning any “non-portfolio property”. Accordingly, no provision has been made for tax under the SIFT Measures. The Fund intends to continue to operate the Fund in such a manner so as to remain exempt from the SIFT Measures on a continuous basis in the future. However, the Fund’s continued exemption will depend upon meeting, through actual operating results, various conditions imposed by the SIFT Measures. If the Fund becomes a SIFT partnership, it will be generally subject to income taxes at regular Canadian corporate rates on its taxable non-portfolio earnings, if any.

(i) Provisions:

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value for the expenditures expected to settle the obligation using a discount rate that reflects current market assessment considering the time value of money and the risks specific to the obligation. Provisions are re-measured at each statement of financial position date using the current discount rate. The increase in the provision due to the passage of time is recognized as a finance cost.

4. Adoption of accounting standards:

(a) Accounting standards implemented:

(i) Amendment to IFRS 3

The Fund adopted this amendment on January 1, 2022. The amendments update references in IFRS 3 to refer to the 2018 Conceptual Framework instead of the 1989 Framework and otherwise do not significantly change the requirements of the standard. This amendment had no impact on the consolidated financial statements of the Fund.

STARLIGHT WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from November 12, 2021 (date of formation) to December 31, 2021

(In thousands of Canadian dollars, unless otherwise noted)

4. Adoption of accounting standards (continued):

(a) Accounting standards implemented (continued):

(ii) Amendment to IAS 37 Onerous Contracts

The Fund adopted this amendment on January 1, 2022. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. This amendment had no impact on the consolidated financial statements of the Fund.

(b) Future accounting policy changes:

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

The amendments clarify 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 amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after January 1, 2023 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.

(ii) Amendment to IAS 8 Definition of Accounting Estimates ("IAS 8"):

The amendments introduce a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are effective for annual periods beginning on or after January 1, 2023 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 8.

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

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. The amendments are effective for annual periods beginning on or after January 1, 2023 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 and IFRS Practice Statement 2.

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5. Acquisitions:

The following acquisitions were completed by the Fund during the year ended December 31, 2022. The Properties were acquired by purchasing the legal entities which owned such Properties. These acquisitions were treated as asset acquisitions 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:

	Nanaimo	Langford	Vernon	Vernon 2	Langford 2	Langford 3	Langley	Nanaimo 2	Total ⁽ⁱ⁾
Acquisition date	23-Feb	23-Feb	23-Feb	23-Feb	23-Feb	01-Mar	07-Jun	29-Aug	
Suites	251	60	60	43	81	166	57	120	838
City, Province	Nanaimo, BC	Langford, BC	Vernon, BC	Vernon, BC	Langford, BC	Langford, BC	Langley, BC	Nanaimo, BC	
Investment properties ⁽ⁱⁱ⁾	\$ 106,313	\$ 25,191	\$ 18,536	\$ 13,312	\$ 33,366	\$ 67,152	\$ 23,681	\$ 46,019	\$ 333,570
Add:									
Prepaid expenses and other assets	204	57	38	29	—	—	—	33	361
Deduct:									
Accounts payable and accrued liabilities	(6)	(9)	(24)	(25)	(41)	(65)	(42)	—	(212)
Resident rental deposits	(540)	(102)	(88)	(67)	(129)	(459)	(132)	(172)	(1,689)
Finance cost payable	—	(27)	(18)	(10)	(36)	—	—	—	(91)
Net assets acquired	\$ 105,971	\$ 25,110	\$ 18,444	\$ 13,239	\$ 33,160	\$ 66,628	\$ 23,507	\$ 45,880	\$ 331,939

Consideration funded by:

New loans payable ⁽ⁱⁱⁱ⁾	\$ 75,550	\$ 6,703	\$ 4,411	\$ 2,513	\$ 10,227	\$ 11,386	\$ 17,350	\$ 33,646	\$ 161,786
Assumed loans payable ⁽ⁱⁱⁱ⁾	—	11,876	9,156	6,791	14,221	37,896	—	—	79,940
Cash paid ^(iv)	30,421	6,531	4,877	3,935	8,712	17,346	6,157	12,234	90,213
Total Consideration	\$ 105,971	\$ 25,110	\$ 18,444	\$ 13,239	\$ 33,160	\$ 66,628	\$ 23,507	\$ 45,880	\$ 331,939

(i) The Properties are located in the province of British Columbia at 6035 Linley Valley Drive and 4800 Uplands Drive, Nanaimo, British Columbia ("Nanaimo"), 733 Goldstream Avenue, Langford, British Columbia ("Langford"), 3400 Centennial Drive, Vernon, British Columbia ("Vernon"), 1803 31A Street, Vernon, British Columbia ("Vernon 2"), 2699 Peatt Road, Langford, British Columbia ("Langford 2"), 1085 Goldstream Avenue, Langford, British Columbia ("Langford 3"), 5477 200 Street, Langley, British Columbia ("Langley") and 4745 Ledgerwood Road, Nanaimo, British Columbia ("Nanaimo 2").

(ii) Investment properties includes acquisition costs capitalized to investment properties amounting to \$1,213, \$290, \$286, \$762, \$466, \$852, \$357 and \$868 for Nanaimo, Langford, Vernon, Vernon 2, Langford 2, Langford 3, Langley, and Nanaimo 2, respectively.

(iii) New and assumed loans payable are net of finance costs incurred amounting to \$3,275, \$107, \$105, \$95, \$174, \$324, \$200 and \$217 for Nanaimo, Langford, Vernon, Vernon 2, Langford 2, Langford 3, Langley and Nanaimo 2, respectively.

(iv) No cash was assumed for the entities acquired by the Fund on the date of acquisition.

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6. Investment properties:

The following table summarizes the change in investment properties for the year ended December 31, 2022:

Balance, January 1, 2022 (note 22)	\$	—
Acquisitions of investment properties (note 5)		333,570
Capital additions		362
Fair value adjustment		16,468
Balance, December 31, 2022	\$	350,400

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

	December 31, 2022	
Cost	\$	333,932
Cumulative fair value adjustment		16,468
Fair Value	\$	350,400

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

	December 31, 2022
Capitalization rate - range	4.00% to 4.50%
Capitalization rate - weighted average	4.28 %

The Fund determined the fair value of each investment property using the direct income capitalization approach. 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 (note 20(b)).

The fair values of the Fund's investment properties are sensitive to changes in the key valuation assumptions. Changes in 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	December 31, 2022
Capitalization rate	10 basis-point increase	\$ (8,000)
Capitalization rate	10 basis-point decrease	\$ 8,383

The impact of a one percent change in the net operating income used to value the investment properties as at December 31, 2022 would affect the fair value by approximately \$3,504.

The Fund's investment properties are considered 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.

7. Resident and other receivables:

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

	December 31, 2022	
Resident receivables, net	\$	20
Other receivables		49
	\$	69

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

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8. Prepaid expenses and other assets:

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

	December 31, 2022
Prepaid property taxes	234
Prepaid expenses	655
Other deposits	7
	\$ 896

9. Restricted cash:

The following table presents details of the restricted cash balance:

	December 31, 2022
Security deposits ⁽ⁱ⁾	\$ 1,109

(i) 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.

10. Loans payable:

Mortgages payable are secured against the applicable investment properties and bear interest at fixed rates. Mortgages payable are classified as current liabilities if they are due and payable within 12 months from the date of the statement of financial position.

The Fund has a non-revolving term credit facility with a Canadian chartered bank with \$94,892 drawn as at December 31, 2022, classified as a non-current liability. The undrawn portion of the credit facility was \$nil as at December 31, 2022. The credit facility is secured by a second charge against Nanaimo, Langford, Vernon, Vernon 2, Langford 2 and Langford 3 and a first charge against the Langley and Nanaimo 2 investment properties. The credit facility is subject to interest at the bank's prime rate plus 1.25% or, at the borrower's option at the time of advance, at the Canadian Dollar Offered Rate ("CDOR") plus 2.25%.

A summary of the Fund's loans payable is presented below:

					December 31, 2022
Property Name	Payment Terms	Maturity Date	Extension Options	Interest Rate	Principal Outstanding
Mortgages:					
Nanaimo	Principal + Interest	March 1, 2027	None	2.80%	\$ 70,053
Langford	Principal + Interest	December 1, 2028	Six months	3.52%	11,774
Vernon	Principal + Interest	August 1, 2029	None	3.34%	9,063
Vernon 2	Principal + Interest	August 1, 2030	None	2.35%	6,729
Langford 2	Principal + Interest	April 1, 2025	None	3.91%	14,102
Langford 3	Principal + Interest	June 1, 2030	One year	1.63%	37,614
Credit Facilities:					
Initial Portfolio	Interest only	February 23, 2024	None	CDOR + 2.25%	32,029
Langford 3	Interest only	March 1, 2024	None	CDOR + 2.25%	11,450
Langley	Interest only	February 15, 2023	None	CDOR + 2.25%	17,550
Nanaimo 2	Interest only	February 15, 2023	None	CDOR + 2.25%	33,863
Face value					\$ 244,227
Unamortized finance costs					(3,438)
Carrying value					\$ 240,789

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10. Loans payable (continued):

Loans payable (net of unamortized finance costs) classified as:

	December 31, 2022
Current (note 23)	\$ 53,120
Non-current	187,669
Total	\$ 240,789

As at December 31, 2022, loans payable had a weighted average term to maturity of 3.44 years and a weighted average interest rate of 4.35%.

During the year ended December 31, 2022, the Fund incurred interest expense on loans payable of \$6,287, which is included in finance costs (note 16).

Future principal payments on loans payable are as follows:

	Principal payments	Balloon payments	Total
2023	\$ 2,661	\$ 51,413	\$ 54,074
2024	2,732	43,479	46,211
2025	2,535	13,332	15,867
2026	2,510	—	2,510
2027	1,749	65,648	67,397
Thereafter	3,163	55,005	58,168
Total	\$ 15,350	\$ 228,877	\$ 244,227

11. Net liabilities attributable to Unitholders:

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

The beneficial interests in the net liabilities and net income and comprehensive income of the Fund are held in three classes of Units: class A; class B; and class C. The Fund is authorized to issue an unlimited number of Units of each class. Each Unitholder is entitled to one vote per Unit held. Each class of Units entitles the holder to the same rights as a Unitholder in any other class of Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder's 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. Accordingly, these Units have been classified as a liability in the consolidated statement of financial position and any distributions paid on each class of Units is presented in the consolidated statement of net income and comprehensive income. For the year ended December 31, 2022, distributions of \$3,413 were declared and recorded to distribution expense.

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

	Number of Units Outstanding (000s)				Net Liabilities Attributable to Unitholders (\$)
	Class A	Class B	Class C	Total Units	
Outstanding as at January 1, 2022 (note 22)	—	—	—	—	\$ —
Issuance from the Offering	4,207	5,405	3,388	13,000	130,000
Issuance costs of the Offering	—	—	—	—	(5,087)
Net income and comprehensive income	—	—	—	—	10,418
Outstanding as at December 31, 2022	4,207	5,405	3,388	13,000	\$ 135,331

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11. Net liabilities attributable to Unitholders (continued):

(b) Carried Interest:

Through D.D. Acquisitions Partnership ("DDAP") (as holder of Holding LP class B limited partnership units), Daniel Drimmer is indirectly entitled to a carried interest, being (i) an aggregate amount equal to 25% of the total of all amounts each of which is the amount, if any, by which (A) the aggregate amount of distributions which would have been paid on all Units of a particular class if all distributable cash of the Holding LP was received by the Fund (including through Holding GP), together with all other amounts distributable by the Fund (including distributable cash generated by investees of the Fund not held through the Holding LP, if any), and distributed by the Fund (net of any amounts required to provide for expenses) to Unitholders in accordance with the Declaration of Trust, exceeds (B) the aggregate minimum return (being 7.0%) in respect of such class of Units (the calculation of which includes the amount of the investors capital return base), 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 exceeds the minimum return for such class, DDAP will first be entitled to an aggregate amount equal to 50% of each such excess amount (i.e., a catch-up) until the amounts, if any, distributable to Unitholders of each class in excess of the investors capital return base is equal to three times (i.e., 75%/25%) the catch-up payment receivable by DDAP in respect of such class, and if more than one series of a class of Units is issued subsequent to the closing date, the foregoing calculations and distributions will be separately determined on the basis of each such series.

As at December 31, 2022, the Fund had recognized a provision for carried interest of \$3,408 resulting in a corresponding expense for the year ended December 31, 2022.

12. Accounts payable and accrued liabilities:

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

	December 31, 2022
Resident prepayments	\$ 190
Operating payables	989
Accrued asset management fees (note 15(a))	110
	<u>\$ 1,289</u>

13. Fund and trust expenses:

Fund and trust expenses consist of the following:

	Year ended December 31, 2022
Asset management fees (note 15(a))	\$ 988
General and administrative expenses	597
	<u>\$ 1,585</u>

14. Segmented disclosure:

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

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15. Transactions with related parties:

The consolidated 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, Founder, Chief Executive Officer and Unitholder of the Fund. The Fund engaged the Manager to perform certain management services, as outlined below.

- (a) Pursuant to the management agreement dated February 22, 2022 (the "Management Agreement"), the Manager is to perform asset management services for fees equal to 0.35% of the fair market value as prescribed by the most recent annual appraisals of the properties ("Gross Asset Value"), with the initial Gross Asset Value being the purchase price of the properties paid or deemed paid by the Fund.

Included in Fund and trust expenses is \$988 in asset management fees charged by the Manager (note 13) for the year ended December 31, 2022. The amount payable to the Manager as at December 31, 2022 was \$110 (note 12).

- (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.

For the year ended December 31, 2022, the Fund incurred acquisition fees of \$3,712, relating to the acquisition of the Properties. The acquisition of Nanaimo and Langford were from affiliate entities of the Manager with the total purchase price of these properties based on third party appraisals and the amounts being representative of the fair value of the net assets acquired.

- (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 subsidiaries relating to a property, the Fund will, in consideration for providing such guarantee, pay the Manager, in the aggregate, 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. Guarantee fees of \$316 were charged by the Manager for the year ended December 31, 2022. The amount payable to the Manager as at December 31, 2022 was \$35.

16. Finance costs:

Finance costs consist of the following:

		Year ended December 31, 2022
Interest expense on loans payable	\$	6,287
Amortization of deferred financing costs		1,059
Other financing costs		321
	\$	7,667

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17. Supplemental cash flow information:

(a) Changes in non-cash working capital:

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

	Year ended December 31, 2022
Resident and other receivables	\$ (69)
Prepaid expenses and other assets	(177)
Resident rental deposits	34
Accounts payable and accrued liabilities	428
Total change in non-cash working capital	\$ 216

(b) Finance costs paid:

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

	Year ended December 31, 2022
Interest expense paid	\$ (6,701)
Financing costs incurred on loans payable	(4,497)
Total finance costs paid	\$ (11,198)

18. Commitments and contingencies:

The Fund had no commitments for future minimum lease payments under non-cancellable operating leases as at December 31, 2022. All future leases as of December 31, 2022 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.

19. 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 December 31, 2022.

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20. Risk management:

The Fund's activities expose it to credit risk, market risk, liquidity 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 and utilizing third party collection agencies for longstanding balances due from residents. The Fund monitors its collection experience on a 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.

As at December 31, 2022, the Fund had an allowance for uncollectible amounts of \$158. Bad debts expensed within property operating costs for the year ended December 31, 2022 were \$159.

The Fund continues to actively monitor the impact of rising interest rates, higher levels of inflation and the potential impact that any continued outbreak of coronavirus (SARS – CoV2) and its variants ("COVID-19") may have on credit risks applicable to the Fund (notes 20(d) and 20(e)).

(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 risks associated with debt financing, including the risk that loans will 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 December 31, 2022, the Fund's 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.

During the year ended December 31, 2022, the Fund has adjusted the capitalization rates in the valuation of its investment properties 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 residential properties up to December 31, 2022. Although the appraisals utilize the best available information to determine the capitalization rates used for purposes of the valuations of the Fund's investment properties as at December 31, 2022, the period leading up to December 31, 2022 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 continues to actively monitor the impact of rising interest rates, higher levels of inflation and the potential impact that any continued outbreak of COVID-19 may have on market risks applicable to the Fund (notes 20(d) and 20(e)).

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20. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may encounter difficulties in meeting its financial obligations as they come due. To mitigate the risk associated with liquidity, management's strategy is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

All of the Property's current liabilities have contractual maturities of less than 12 months and are subject to normal trade terms. The contractual maturity of the loans payable is outlined in note 10.

The Fund continues to actively monitor the impact of rising interest rates, higher levels of inflation and the potential impact that any continued outbreak of COVID-19 may have on liquidity risks applicable to the Fund (notes 20(d) and 20(e)).

(d) Interest rate risk:

Interest rate risk is the risk that the market value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Fund is exposed to interest rate risk on the loans payable. The risk of unfavorable interest rate changes is managed by low floating debt exposure. Floating debt of the Partnership was 38.85% of total debt as at December 31, 2022.

(e) Other risk - COVID-19:

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus.

Any future changes due to COVID-19 could materially impact the financial results of the Fund, which include potential increases in vacancy, decreases in collection rates and increases in bad debts. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments may have on the financial results and condition of the Fund in future periods. Other impacts of COVID-19 may include the Fund's current access to capital on terms consistent with those achieved in the past.

The Fund has undertaken actions to mitigate the effect on the operations of the Fund, with established responses to COVID-19 including various preventative measures and ongoing coordination with on-site property management teams to mitigate the spread of the virus.

21. 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.

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

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

- i. The fair value of the Fund's financial assets, which include 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).
- ii. 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 December 31, 2022 approximated their carrying value.
- iii. 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.

22. Comparative figures:

The Fund was formed on November 12, 2021 and commenced operations on February 23, 2022. One Class C Unit was issued to Starlight Group Property Holdings Inc. for \$10.00 in cash upon the Fund's formation, recorded in net liabilities attributable to Unitholders as at December 31, 2021.

23. Subsequent events:

On December 15, 2022, the Fund secured fixed rate loan commitments of \$33,031 and \$16,226 for Nanaimo 2 and Langley, respectively at the fixed interest rate of 3.89% maturing on June 1, 2033. Subsequent to year end on February 15, 2023, the Nanaimo 2 Credit Facility amount outstanding of \$33,863 was replaced by a fixed rate loan of \$33,031. The Fund expects the Langley Credit Facility to be replaced by a fixed rate loan in the second quarter of 2023.

Subsequent to December 31, 2022, pursuant to the related Offering condition, 1,500 Class A Units of the Fund were redeemed at 95% of Net Assets Value, amounting to a total of \$14.