Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars)

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

For the three and six months ended 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 Western Canada Multi-Family (No. 2) Fund have been prepared by and are the responsibility of Starlight Western Canada Multi-Family (No. 2) Fund's management.

Starlight Western Canada Multi-Family (No. 2) 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 WESTERN CANADA MULTI-FAMILY (NO. 2) FUND

Condensed Consolidated Interim Statement of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	Note		June 30, 2022		December 31, 2021
					(note 22)
ASSETS					
Non-current assets:					
Investment properties	6	$	287,558	$	—
Total non-current assets			287,558		—
Current assets:					
Tenant and other receivables	7		126		—
Prepaid expenses and other assets	8		3,912		—
Restricted cash	9		1,107		—
Cash			41,883		—
Total current assets			47,028		—
TOTAL ASSETS		**$**	**334,586**	**$**	**—**
LIABILITIES					
Non-current liabilities:					
Loans payable	10	$	205,920	$	—
Total non-current liabilities excluding net liabilities attributable to unitholders			205,920		—
Current liabilities:					
Loans payable	10		1,881		—
Tenant rental deposits			953		—
Accounts payable and accrued liabilities	12		984		—
Finance costs payable			317		—
Distributions payable			333		—
Total current liabilities excluding net liabilities attributable to unitholders			4,468		—
TOTAL LIABILITIES		**$**	**210,388**	**$**	**—**
Net liabilities attributable to unitholders	11		124,198		—
TOTAL LIABILITIES, NET LIABILITIES ATTRIBUTABLE TO UNITHOLDERS		**$**	**334,586**	**$**	**—**

Commitments and contingencies (note 18).

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Trustees of Starlight Western Canada Multi-Family (No. 2) Fund, on August 15, 2022, and signed on its behalf:

Denim Smith Trustee *Lawrence D. Wilder* Trustee

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

Condensed Consolidated Interim Statement of Net Loss and Comprehensive Loss
(In thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended June 30, 2022	Six months ended June 30, 2022
Revenue from property operations		$ 3,535	$ 4,946
Expenses:			
Property operating costs		756	981
Property taxes	8	272	348
Income from rental operations		2,507	3,617
Finance costs	16	1,700	2,304
Distributions to unitholders	11(a)	999	1,415
Fund and trust expenses	13	383	559
Net loss and comprehensive loss		**$ (575)**	**$ (661)**

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statement of Changes in Net Liabilities Attributable to Unitholders
Six months ended June 30, 2022
(In thousands of Canadian dollars)
(Unaudited)

	Class A	Class B	Class C	Total
Balance, January 1, 2022 (note 22)	$ —	$ —	$ —	$ —
Changes during the period:				
Units issued on initial public offering (February 22, 2022), net of issuance costs	40,410	51,911	32,538	124,859
Net loss and comprehensive loss	(214)	(275)	(172)	(661)
Balance, June 30, 2022	**$ 40,196**	**$ 51,636**	**$ 32,366**	**$ 124,198**

See accompanying notes to the condensed consolidated interim financial statements.

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

Condensed Consolidated Interim Statement of Cash Flows
(In thousands of Canadian dollars)
(Unaudited)

	Note	Three months ended June 30, 2022	Six months ended June 30, 2022
Operating activities:			
Net loss and comprehensive loss		$ (575)	$ (661)
Adjustments for financing activities included in net loss and comprehensive loss:			
Finance costs	16	1,700	2,304
Distributions to unitholders	11(a)	999	1,415
Adjustments for items not involving cash:			
Change in non-cash working capital	17(a)	(2,972)	(3,371)
Change in restricted cash		(458)	(1,107)
Cash used in operating activities		**(1,306)**	**(1,420)**
Financing activities:			
Proceeds from the issuance of units, net of issuance costs		(31)	124,859
Loans payable:			
Net proceeds from new financing		17,688	131,832
Net (repayments) proceeds from assumed financing		(578)	79,815
Finance costs paid	17(b)	(2,372)	(6,055)
Distributions paid to unitholders		(1,082)	(1,082)
Cash provided by financing activities		**13,625**	**329,369**
Investing activities:			
Acquisitions of investment properties	5	(23,453)	(286,040)
Capital additions to investment properties	6	—	(26)
Cash used in investing activities		**(23,453)**	**(286,066)**
(Decrease) Increase in cash		**(11,134)**	**41,883**
Cash, beginning of period		53,017	—
Cash, end of period		**$ 41,883**	**$ 41,883**

See accompanying notes to the condensed consolidated interim financial statements.

1. Nature of business:

Starlight Western Canada Multi-Family (No. 2) Fund (the "Fund") is a “closed-ended 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 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 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 primarily 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 an additional multi-family property comprising 166 suites located in Langford, British Columbia during the three months ended March 31, 2022 and a multi-family property comprising 57 suites in Langley, British Columbia during the three months ended June 30, 2022 ("Subsequent Acquisitions"). The Initial Portfolio and Subsequent Acquisitions are collectively 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 June 30, 2022, the Fund’s property portfolio consisted of interests in seven mullti-family properties totaling 718 suites.

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

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 Accounting Standards ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the Fund since the last audited consolidated financial statements as at and for the year ended December 31, 2021 and the unaudited consolidated interim financial statements for the three months ended and as at March 31, 2022. Certain information and note disclosures normally included in the annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

(b) Basis of measurement:

These condensed consolidated interim 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 occurred on February 22, 2022 and the acquisition of the Initial Portfolio 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 condensed consolidated interim statement of net loss and comprehensive loss, the condensed consolidated interim statement of cash flows and the condensed consolidated interim statement of changes in net liabilities attributable to Unitholders or the related notes thereto.

(d) Functional and presentation currency:

These condensed consolidated interim 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:

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies included in the Fund's unaudited consolidated interim financial statements for the three months ended and as at March 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 unaudited consolidated interim financial statements for the three months ended and as at March 31, 2022 and accordingly, should be read in conjunction with the unaudited consolidated interim financial statements for the three months ended and as at March 31, 2022 and notes thereto.

4. Adoption of accounting standards:

Certain new accounting standards and interpretations that have been published are either effective and adopted or are not effective as at June 30, 2022 and have not been early adopted in these financial statements.

(a) Effective January 1, 2022

Management has assessed the financial statement impact of adopting the following amendments to existing accounting standards and have determined that the impact is insignificant:

- Proceeds before intended use (Amendments to IAS 16, Property Plant & Equipment);
- Fee in the "10 per cent" test for derecognition of financial liabilities (Amendments to IFRS 9, Financial Instruments);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets); and
- Reference to conceptual framework (Amendments to IFRS 3, Business Combinations).

(b) Effective January 1, 2023

Management is currently assessing the financial statement impact of adopting the following amendments to existing accounting standards:

- Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimate (Amendments to IAS 8); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

(In thousands of Canadian dollars, unless otherwise noted)

5. Acquisitions:

The following acquisitions were completed by the Fund during the six months ended June 30, 2022. The Properties were acquired by purchasing the legal entities which owned such Properties.These 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	Total[i]
Acquisition date	23-Feb	23-Feb	23-Feb	23-Feb	23-Feb	01-Mar	07-Jun	
Units	251	60	60	43	81	166	57	718
City, Province	Nanaimo, BC	Langford, BC	Vernon, BC	Vernon, BC	Langford, BC	Langford, BC	Langley, BC	
Investment properties[ii]	$ 106,313	$ 25,191	$ 18,546	$ 13,322	$ 33,373	$ 67,160	$ 23,627	$ 287,532
Add:								
Prepaid expenses and other assets	204	57	38	29	—	—	—	328
Deduct:								
Accounts payable and accrued liabilities	(6)	(9)	(24)	(25)	(41)	(65)	(42)	(212)
Tenant rental deposits	(540)	(102)	(88)	(67)	(129)	(459)	(132)	(1,517)
Finance cost payable	—	(27)	(18)	(10)	(36)	—	—	(91)
Net asset acquired	**$ 105,971**	**$ 25,110**	**$ 18,454**	**$ 13,249**	**$ 33,167**	**$ 66,636**	**$ 23,453**	**$ 286,040**
Consideration funded by:								
New loans payable[iii][v]	$ 75,548	$ 6,675	$ 4,374	$ 2,437	$ 10,124	$ 11,174	$ 17,293	$ 127,625
Assumed loans payable[iii][v]	—	11,904	9,210	6,845	14,230	38,072	—	80,261
Cash paid[iv]	30,423	6,531	4,870	3,967	8,813	17,390	6,160	78,154
Total Consideration	**$ 105,971**	**$ 25,110**	**$ 18,454**	**$ 13,249**	**$ 33,167**	**$ 66,636**	**$ 23,453**	**$ 286,040**

(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") and 5477 200 Street, Langley, British Columbia ("Langley").

(ii) Investment properties includes acquisition costs capitalized to investment properties amounting to $1,213, $290, $286, $767, $455, $827 and $302 for Nanaimo, Langford, Vernon, Vernon 2, Langford 2, Langford 3 and Langley, respectively.

(iii) New and assumed loans payable are net of finance costs incurred amounting to $3,275, $105, $61, $98, $188, $320 and $101 for Nanaimo, Langford, Vernon, Vernon 2, Langford 2, Langford 3 and Langley, respectively.

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

(v) New and assumed loans payable include $158 held by lenders and third parties to be incurred.

During the three months ended June 30, 2022, the Fund agreed to acquire a 120 unit multi-family building in Nanaimo, British Columbia for the purchase price of $45,150. The acquisition is expected to be closed in August 2022 and financed by mortgage debt and the balance of the purchase price is expected to be settled using a portion of the remaining cash proceeds from the Offering, net of $3,000 deposits (note 8).

(In thousands of Canadian dollars, unless otherwise noted)

6. Investment properties:

The following table summarizes the change in the investment properties for the six months ended June 30, 2022:

Balance, January 1, 2022	$	—
Acquisitions of investment properties (note 5)		287,532
Capital additions		26
Balance, June 30, 2022	**$**	**287,558**

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

		June 30, 2022
Cost	$	287,558
Cumulative fair value adjustment		—
Fair Value	**$**	**287,558**

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

	June 30, 2022
Capitalization rate - range	3.50% to 4.25%
Capitalization rate - weighted average	3.84 %

The Fund determined the fair value of each investment property using the direct income capitalization approach. The capitalized earnings reflect rental income from current leases and assumptions about rental income from future leases and occupancy reflecting market conditions at the reporting date, less future cash outflows in respect of such leases (note 20 (b)).

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

Weighted average	Change		June 30, 2022
Capitalization rate	10 basis-point increase	$	(7,298)
Capitalization rate	10 basis-point decrease	$	7,689

The impact of a one percent change in the net operating income used to value the investment properties as at June 30, 2022 would affect the fair value by approximately $2,876.

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. Tenant and other receivables:

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

		June 30, 2022
Tenant receivables, net	$	44
Other receivables		82
	$	126

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

(In thousands of Canadian dollars, unless otherwise noted)

8. Prepaid expenses and other assets:

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

		June 30, 2022
Prepaid insurance	$	67
Prepaid property taxes		533
Prepaid expenses		312
Acquisition deposits (i)		3,000
	$	3,912

(i) Acquisition deposits represent deposits paid by the Fund for the acquisition of a multi-family property during three months ended June 30, 2022.

9. Restricted cash:

The following table presents details of the restricted cash balance:

		June 30, 2022
Security deposits (i)	$	949
Other deposits (ii)		158
	$	1,107

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

(ii) Other deposits represent amounts held by lenders and third parties to be incurred for investment properties.

(In thousands of Canadian dollars, unless otherwise noted)

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 $61,029 drawn as at June 30, 2022, classified as a non-current liability. The undrawn portion of the credit facility was $nil as at June 30, 2022. The credit facility is secured by a second charge against the applicable 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:

Property Name	Payment Terms	Maturity Date	Extension Options	Interest Rate		June 30, 2022 Principal Outstanding
Mortgages						
Nanaimo	Principal + Interest	March 1, 2027	None	2.80%	$	70,534
Langford	Principal + Interest	December 1, 2028	6 months	3.52%		11,879
Vernon	Principal + Interest	August 1, 2029	None	3.34%		9,167
Vernon 2	Principal + Interest	August 1, 2030	None	2.35%		6,815
Langford 2	Principal + Interest	April 1, 2025	None	3.91%		14,264
Langford 3	Principal + Interest	June 1, 2030	1 year	1.63%		37,976
Credit facility	Interest only	February 23 - June 7, 2024	None	CDOR + 2.25%		61,029
Face value					$	211,664
Unamortized financing costs						(3,863)
Carrying value					$	207,801
Loans payable classified as (net of unamortized financing costs):						
Current					$	1,881
Non-current						205,920
Total					$	207,801

As at June 30, 2022, the loans had a weighted average term to maturity of 4.64 years and a weighted average interest rate of 3.20%.

During the three and six months ended June 30, 2022, the Fund incurred interest expense on loans payable of $1,391 and $1,882, respectively, which is included in finance costs (note 16).

Future principal payments on loans payable are as follows:

		Principal payments		Balloon payments		Total
2022 - remainder of year	$	1,300	$	—	$	1,300
2023		2,661		—		2,661
2024		2,732		61,029		63,761
2025		2,535		13,332		15,867
2026		2,510		—		2,510
Thereafter		4,129		121,436		125,565
Total	$	15,867	$	195,797	$	211,664

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 loss and comprehensive loss of the Fund are held in three classes of Units: Class A, B and 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 another 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 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 and comprehensive loss. For the three and six months ended June 30, 2022, distributions of $999 and $1,415 were declared and recorded to distribution expense, respectively.

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

	Number of Units Outstanding (000's)				
	Class A	**Class B**	**Class C**	**Total Units**	**Net Liabilities Attributable to Unitholders ($)**
Outstanding as at January 1, 2022	—	—	—	—	$ —
Issuance from the Offering	4,207	5,405	3,388	13,000	130,000
Issuance costs of the Offering	—	—	—	—	(5,141)
Net loss and comprehensive loss	—	—	—	—	(661)
Outstanding as at June 30, 2022	**4,207**	**5,405**	**3,388**	**13,000**	**$ 124,198**

(b) Carried Interest:

Through D.D. Acquisitions Partnership (“DDAP”) (as holder of Starlight Western Canada Multi-Family (No. 2) Holding LP (the "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 Starlight Western Canada Multi-Family (No. 2) GP, Inc.), 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 June 30, 2022, the Fund did not recognize a provision for carried interest after taking into account the minimum return to Unitholders.

(In thousands of Canadian dollars, unless otherwise noted)

12. Accounts payable and accrued liabilities:

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

		June 30, 2022
Tenant prepayments	$	130
Operating payables		763
Accrued asset management fees (note 15 (b))		91
	$	984

13. Fund and trust expenses:

Fund and trust expenses consist of the following:

		Three months ended June 30, 2022		Six months ended June 30, 2022
Asset management fees (note 15)	$	262	$	362
General and administrative expenses		121		197
	$	383	$	559

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 tenant accounts for 10% or more of the Fund’s rental revenue.

15. 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, President, 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 $262 and $362 in asset management fees charged by the Manager (note 13) for the three and six months ended June 30, 2022, respectively. The amount payable to the Manager as at June 30, 2022 was $91 (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 three and six months ended June 30, 2022, the Fund incurred acquisition fees of $264 and $3,202, respectively, 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 being based on third party appraisals and the amounts being representative of the fair value of the net assets acquired. There are no ongoing contractual commitments with the related party as a result of the acquisition of the investment properties.

(In thousands of Canadian dollars, unless otherwise noted)

15. Transactions with related parties (continued):

(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 $84 and $116 were charged by the manager for the three and six months ended June 30, 2022, respectively. The amount payable to the Manager as at June 30, 2022 was $29.

16. Finance costs:

Finance costs consist of the following:

		Three months ended June 30, 2022		Six months ended June 30, 2022
Interest expense on loans payable	$	1,391	$	1,882
Amortization of deferred financing costs		225		301
Other financing costs		84		121
	$	1,700	$	2,304

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 condensed consolidated interim statement of cash flows:

		Three months ended June 30, 2022		Six months ended June 30, 2022
Tenant and other receivables	$	(54)	$	(126)
Prepaid expenses and other assets		(2,526)		(3,424)
Tenant rental deposits		400		39
Accounts payable and accrued liabilities		(792)		140
Total change in non-cash working capital	**$**	**(2,972)**	**$**	**(3,371)**

(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, 2022		Six months ended June 30, 2022
Interest expense paid	$	(2,165)	$	(1,909)
Financing costs incurred on loans payable		(207)		(4,146)
Total finance costs paid	**$**	**(2,372)**	**$**	**(6,055)**

18. Commitments and contingencies:

In addition to the commitments related to the proposed acquisition disclosed in note 5, the Fund had no commitments for future minimum lease payments under non-cancellable operating leases as at June 30, 2022. All future leases as of June 30, 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 June 30, 2022.

20. Risk management:

In the normal course of business, 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 tenants. 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 condensed consolidated interim statements of net loss and comprehensive loss.

As at June 30, 2022, the Fund had an allowance for uncollectible amounts of $32. Bad debts expensed within property operating costs for the three and six months ended June 30, 2022 were $19 and $32, respectively.

The Fund is actively monitoring the potential impact on credit risk as a result of the COVID-19 global pandemic (note 20(d)).

20. Risk management (continued):

(b) Market risk:

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

As at June 30, 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. The Fund continues to monitor and review the potential impact COVID-19 may have on the future cash flows of its investment properties. It is not possible at the date of issuance of these condensed consolidated interim financial statements to accurately assess the potential impact that COVID-19 may have on capitalization rates (note 20(d)).

During the three and six months ended June 30, 2022, the Fund has reflected the capitalization rates used in the purchase price valuation of the Properties to ensure the appropriate fair values are reflected as at June 30, 2022. The capitalization rates 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 June 30, 2022.

The Fund is actively monitoring the the potential impact on market risk as a result of the COVID - 19 global pandemic (note 20(d)).

(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 is actively monitoring the potential impact on liquidity risk as a result of the COVID-19 global pandemic (note 20(d)).

(d) Other risk:

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 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 fair value of the investment properties is determined based on internal valuation models incorporating market evidence and management estimates of future earnings (Level 3).

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

i. The fair value of the Fund's financial assets, which include tenant and other receivables, restricted cash and cash, as well as financial liabilities, which include tenant rental deposits, accounts payable and accrued liabilities, 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 June 30, 2022 approximated their carrying value.

iii. 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.

Certain of the comparative figures have been reclassified to conform to the condensed consolidated interim financial statement presentation adopted in the current period.