



**Condensed Consolidated Interim Financial Statements [unaudited]  
For the three months ended March 31, 2021 and 2020**

# Condensed Consolidated Interim Statements of Financial Position

*In thousands of Canadian dollars,  
[unaudited]*

	Note	March 31, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	[3]	\$3,851,766	\$3,741,918
Property and equipment		8,182	8,349
		<b>\$3,859,948</b>	<b>\$3,750,267</b>
<b>Current assets</b>			
Cash		\$3,637	\$2,556
Rent and other receivables		7,013	6,561
Other current assets	[5]	19,349	17,176
		<b>29,999</b>	<b>26,293</b>
<b>TOTAL ASSETS</b>		<b>\$3,889,947</b>	<b>\$3,776,560</b>
<b>EQUITY AND LIABILITIES</b>			
Unitholders' equity	[11]	\$1,784,499	\$1,768,129
Non-controlling interest		131	129
<b>Total Equity</b>		<b>\$1,784,630</b>	<b>\$1,768,258</b>
<b>Non-current liabilities</b>			
Mortgages and loans payable	[6]	\$1,450,083	\$1,430,344
Lease liabilities		9,583	9,573
Exchangeable Units	[10]	75,919	70,177
Deferred income tax	[16]	189,412	184,611
Deferred unit-based compensation	[13]	3,261	4,784
Other non-current liabilities		148	188
		<b>\$1,728,406</b>	<b>\$1,699,677</b>
<b>Current liabilities</b>			
Mortgages and loans payable	[6]	226,079	201,345
Credit facilities	[7]	42,584	7,029
Construction loans	[8]	46,759	41,345
Accounts payable and accrued liabilities	[9]	61,489	58,906
		<b>376,911</b>	<b>308,625</b>
<b>Total Liabilities</b>		<b>\$2,105,317</b>	<b>\$2,008,302</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$3,889,947</b>	<b>\$3,776,560</b>
<b>Commitments and contingencies</b>	[21]		
<b>Financial guarantees</b>	[22]		

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

(signed) "Karine L. MacIndoe"  
Trustee

(signed) "Philip D. Fraser"  
Trustee

# Condensed Consolidated Interim Statements of Income and Comprehensive Income

*In thousands of Canadian dollars,  
[unaudited]*

		Three months ended March 31,	
	Note	2021	2020
<b>Property revenue</b>	[14]	<b>\$67,374</b>	\$63,294
<b>Property operating expenses</b>			
Operating expenses		(11,238)	(9,941)
Utility and fuel expenses		(7,259)	(7,477)
Property taxes		(8,614)	(7,828)
		<b>(27,111)</b>	(25,246)
<b>Net operating income</b>		<b>\$40,263</b>	\$38,048
Other income		237	184
Financing costs	[15]	(12,348)	(12,584)
Depreciation		(133)	(147)
Administration		(3,653)	(3,751)
Fair value adjustment on unit-based compensation	[13]	(211)	500
Fair value adjustment on Exchangeable Units	[10]	(5,742)	13,125
Fair value adjustment on investment properties	[3]	13,809	8
<b>Income before income taxes</b>		<b>32,222</b>	35,383
Deferred tax (expense) recovery	[16]	(4,800)	3,119
<b>Net income</b>		<b>\$27,422</b>	\$38,502
<b>Comprehensive income</b>		<b>\$27,422</b>	\$38,502
<b>Net income attributable to:</b>			
Unitholders		27,420	38,499
Non-controlling interest		2	3
		<b>\$27,422</b>	\$38,502
<b>Comprehensive income attributable to:</b>			
Unitholders		27,420	38,499
Non-controlling interest		2	3
		<b>\$27,422</b>	\$38,502

*See accompanying notes to the unaudited condensed consolidated interim financial statements.*

# Condensed Consolidated Interim Statements of Changes in Equity

*In thousands of Canadian dollars,  
[unaudited]*

Three months ended March 31, 2021	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2021	\$1,097,713	\$795	\$669,621	\$129	\$1,768,258
Distribution reinvestment plan	5,828	—	—	—	5,828
Deferred Unit-based compensation	888	—	—	—	888
Net income	—	—	27,420	2	27,422
Distributions declared and paid	—	—	(11,836)	—	(11,836)
Distributions payable	—	—	(5,930)	—	(5,930)
As at March 31, 2021	\$1,104,429	\$795	\$679,275	\$131	\$1,784,630

Three months ended March 31, 2020	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2020	\$1,009,166	\$795	\$592,293	\$113	\$1,602,367
Distribution reinvestment plan	5,789	—	—	—	5,789
Deferred Unit-based compensation	510	—	—	—	510
Net income	—	—	38,499	3	38,502
Distributions declared and paid	—	—	(10,895)	—	(10,895)
Distributions payable	—	—	(5,576)	—	(5,576)
As at March 31, 2020	\$1,015,465	\$795	\$614,321	\$116	\$1,630,697

*See accompanying notes to the unaudited condensed consolidated interim financial statements.*

# Condensed Consolidated Interim Statements of Cash Flows

*In thousands of Canadian dollars,  
[unaudited]*

		Three months ended March 31,	
	Note	2021	2020
<b>OPERATING ACTIVITIES</b>			
Net income		\$27,422	\$38,502
<b>Add (deduct) items not affecting cash</b>			
Fair value adjustments		(7,856)	(13,633)
Depreciation		133	147
Amortization of deferred financing		877	744
Non-cash compensation expense		492	468
Deferred income taxes		4,800	(3,119)
Amortization of fair value adjustments on assumed mortgages		12	24
(Gain) loss on derivative liability		(40)	443
Interest expense on Exchangeable Units		697	692
Straight-line rent		(131)	(154)
Interest expense on lease liability		97	96
Net change in non-cash operating activities	[18]	1,252	2,198
<b>Cash provided by operating activities</b>		<b>\$27,755</b>	<b>\$26,408</b>
<b>FINANCING ACTIVITIES</b>			
Deferred financing costs paid		(935)	(3,239)
Cash paid on redemption of restricted Units		(1,339)	(1,601)
Cash paid on lease liabilities		(79)	(79)
Mortgage financing		65,875	151,590
Mortgages repaid		(6,714)	(66,500)
Mortgage principal repayments		(14,642)	(12,232)
Credit facility proceeds		37,584	20,000
Proceeds from construction loans		16,995	3,730
Construction loan repayments		(11,581)	(23,120)
Distributions to Unitholders		(12,606)	(11,231)
<b>Cash provided by financing activities</b>		<b>\$72,558</b>	<b>\$57,318</b>
<b>INVESTING ACTIVITIES</b>			
Increase in restricted cash		(1,325)	(1,152)
Acquisition of investment properties, net of debt assumed		(67,264)	(66,761)
Development of investment properties		(19,100)	(9,334)
Capital expenditures		(11,543)	(11,925)
<b>Cash used in investing activities</b>		<b>(\$99,232)</b>	<b>(\$89,172)</b>
<b>Net increase (decrease) in cash</b>		<b>1,081</b>	<b>(5,446)</b>
Cash, beginning of period		2,556	12,801
<b>Cash, end of period</b>		<b>\$3,637</b>	<b>\$7,355</b>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

*Dollar amounts in thousands of Canadian dollars (except as noted)*  
*[unaudited]*

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## 1. Organization of the Trust

Killam Apartment Real Estate Investment Trust ("Killam" or the "Trust") is an unincorporated open-ended mutual fund trust created pursuant to the amended and restated Declaration of Trust ("DOT"), dated November 27, 2015, under the laws of the Province of Ontario. Killam specializes in the acquisition, management and development of multi-residential apartment buildings, manufactured home communities ("MHCs") and commercial properties in Canada.

The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at and for the three months ended March 31, 2021. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8.

## 2. Significant Accounting Policies

### (A) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been omitted or condensed.

The condensed consolidated interim financial statements of the Trust for the period ended March 31, 2021 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on May 5, 2021.

### (B) Basis of Presentation

The condensed consolidated interim financial statements of Killam have been prepared on a historical cost basis, except for investment properties, deferred unit-based compensation, a derivative liability and Exchangeable Units, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The condensed consolidated interim financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand (\$000), except per unit amounts or as noted.

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Trust's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the consolidated financial statements for the year ended December 31, 2020, and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three months ended March 31, 2021, are not necessarily indicative of results that may be expected for the full year ending December 31, 2021, due to seasonal variations in property expenses and other factors.

The condensed consolidated interim financial statements have been prepared considering the impact that the spread of COVID-19 has and continues to have on local, national and worldwide economies. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Canadian and global stock markets have also experienced great volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. Killam has considered the negative economic outlook and cash flow difficulties that may be experienced as a result of this virus, on its tenants, suppliers and lenders. Despite the commencement of a vaccine rollout, the ultimate duration and impacts of the COVID-19 pandemic are not currently known. Killam has used the best information available as at March 31, 2021, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the year. Actual results could differ from those estimates. Killam considers the estimates that could be most significantly impacted by COVID-19 to include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 3. Investment Properties

As at March 31, 2021

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
<b>Balance, beginning of period</b>	<b>\$3,218,369</b>	<b>\$212,699</b>	<b>\$139,130</b>	<b>\$128,100</b>	<b>\$43,620</b>	<b>\$3,741,918</b>
Fair value adjustment on investment properties	13,938	(56)	(73)	—	—	13,809
Acquisitions	59,352	2	3,067	—	3,484	65,905
Transfer from IPUC	16,758	—	—	(16,758)	—	—
Capital expenditures	10,518	461	57	18,005	353	29,394
Transfer from land for development	—	—	—	4,132	(4,132)	—
Interest capitalized on IPUC and land for development	—	—	—	567	173	740
<b>Balance, end of period</b>	<b>\$3,318,935</b>	<b>\$213,106</b>	<b>\$142,181</b>	<b>\$134,046</b>	<b>\$43,498</b>	<b>\$3,851,766</b>

As at December 31, 2020

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, beginning of year	\$2,874,407	\$202,431	\$157,572	\$46,867	\$39,327	\$3,320,604
Fair value adjustment on investment properties	53,765	1,820	(14,862)	10,184	(4,022)	46,885
Acquisitions	200,017	4,044	2,555	3,968	1,237	211,821
Transfer from IPUC	22,117	—	—	(22,117)	—	—
Capital expenditures	57,961	4,392	3,340	76,050	3,339	145,082
Transfer between apartment and commercial segment	9,475	—	(9,475)	—	—	—
Transfer from land for development	—	—	—	11,462	(11,462)	—
Transfer to held for sale	—	—	—	—	14,214	14,214
Impact of change in right-of-use asset	627	12	—	—	—	639
Interest capitalized on IPUC and land for development	—	—	—	1,686	987	2,673
Balance, end of year	\$3,218,369	\$212,699	\$139,130	\$128,100	\$43,620	\$3,741,918

During the three months ended March 31, 2021, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest	Property Type	Purchase Price <sup>(1)</sup>
Nolan Hill <sup>(2)</sup>	Calgary, AB	21-Jan-21	100%	Apartment	\$49,500
Sherwood Crossing Land	Charlottetown, PE	29-Jan-21	100%	Development Land	3,400
1313-1321 Hollis Street <sup>(3)</sup>	Halifax, NS	29-Jan-21	100%	Commercial/Development Land	3,000
54 Assomption Blvd	Moncton, NB	01-Feb-21	100%	Apartment	5,600
Southport <sup>(3)</sup>	Stratford, PE	01-Feb-21	100%	Development Land	3,800
<b>Total Acquisitions</b>					<b>\$65,300</b>

<sup>(1)</sup> Purchase price does not include transaction costs.

<sup>(2)</sup> Killam had a 10% interest in the Nolan Hill development of \$4.8 million and acquired the remaining 90% interest in Nolan Hill in January 2021, based on the purchase price of \$55.0 million for 100% interest.

<sup>(3)</sup> Revenue generating properties acquired for future development potential.

During the three months ended March 31, 2021, Killam capitalized salaries of \$1.0 million (three months ended March 31, 2020 - \$0.9 million), as part of its project improvement, suite renovation and development programs. For the three months ended March 31, 2021, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.66% (March 31, 2020 - 2.86%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of \$3.5 billion as at March 31, 2021 (December 31, 2020 - \$3.5 billion), have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 3. Investment Properties (continued)

### Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.25% to 7.00%, applied to a stabilized net operating income ("SNOI") of \$154.7 million (December 31, 2020 - 3.25% to 7.00% and \$150.1 million), resulting in an overall weighted average effective cap-rate of 4.67% (December 31, 2020 - 4.67%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 92.5% to 99.0% (December 31, 2020 - 92.5% to 99.0%). Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.0% to 6.5%, applied to a SNOI of \$11.5 million (December 31, 2020 - 5.0% to 6.5% and \$11.3 million), resulting in an overall weighted average effective cap-rate of 5.64% (December 31, 2020 - 5.64%). The stabilized occupancy rate used in the calculation of SNOI was 97.8% (December 31, 2020 - 97.8%). Using a discounted cash flow model, the stabilized commercial properties were valued using key inputs determined by management based on review of asset performance and comparable assets in relevant markets. Using the discounted cash flow (DCF) method, fair value is estimated using assumptions regarding benefits and liabilities of ownership over the asset's life, including a terminal value. This method involves the projection of stabilized cash flows on each individual property, with market derived discount rates and terminal capitalization rates applied to the stabilized cash flow to establish the present value of the income stream associated with the asset.

Killam reviewed its valuation of investment properties in light of COVID-19 as at March 31, 2021. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on Killam's business and operations, both in the short-term and in the long-term. In the long-term scenario the aspects which could be impacted include rental rates, occupancy and cap-rates which would impact the underlying valuation of investment properties. Killam has applied judgement in estimating the valuation given the uncertainties surrounding the economic impact of COVID-19. Key assumptions for the apartment portfolio include reflecting lower rental rate increases and increased vacancy in regions seeing more significant economic downturn, including Alberta and Newfoundland. For commercial assets Killam reviewed lease up assumptions, credit allowances and the applicable discount and terminal rates.

Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table by region:

	March 31, 2021			December 31, 2020		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
<b>Apartments</b>	<b>3.25%</b>	<b>7.00%</b>	<b>4.67%</b>	3.25%	7.00%	4.67%
Halifax	3.75%	5.60%	4.50%	3.75%	5.60%	4.50%
Moncton	4.50%	7.00%	5.06%	4.50%	7.00%	5.05%
Fredericton	5.00%	6.00%	5.53%	5.00%	6.00%	5.53%
Saint John	5.50%	6.00%	5.79%	5.50%	6.00%	5.79%
St. John's	5.00%	6.00%	5.62%	5.00%	6.00%	5.62%
Charlottetown	5.25%	5.75%	5.48%	5.25%	5.75%	5.50%
Ontario	3.25%	5.00%	3.97%	3.25%	5.00%	3.97%
British Columbia	4.08%	4.35%	4.22%	4.08%	4.35%	4.22%
Alberta	4.47%	5.00%	4.64%	4.47%	5.00%	4.64%
Other Atlantic	5.50%	7.00%	6.38%	5.50%	7.00%	6.38%
<b>MHCs</b>	<b>5.00%</b>	<b>6.50%</b>	<b>5.64%</b>	5.00%	6.50%	5.64%
Ontario	5.00%	6.50%	5.95%	5.00%	6.50%	5.95%
Nova Scotia	5.00%	6.00%	5.30%	5.00%	6.00%	5.30%
New Brunswick	5.19%	6.50%	5.72%	5.19%	6.50%	5.72%
Newfoundland	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

### Fair Value Sensitivity

The following table summarizes fair value sensitivity of Killam's income-producing investment properties:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties <sup>(1)</sup>	Effective Weighted Average	Fair Value Variance	% Change
(0.50)%	\$3,935,497	4.23%	\$403,456	11%
(0.25)%	3,715,113	4.48%	183,072	5%
—%	3,532,041	4.73%	—	—%
0.25%	3,341,032	4.98%	(191,009)	(5)%
0.50%	3,180,925	5.23%	(351,116)	(10)%

<sup>(1)</sup> Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
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## 4. Joint Operations and Investments in Joint Venture

Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint control and are joint operations. Accordingly, the condensed consolidated interim statements of financial position and condensed consolidated interim statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at March 31, 2021, the fair value of the investment properties subject to joint control was \$320.6 million (December 31, 2020 - \$316.0 million).

## 5. Other Current Assets

As at	March 31, 2021	December 31, 2020
Restricted cash	\$8,173	\$6,849
Deposits	905	3,266
Prepaid expenses	10,271	7,061
	\$19,349	\$17,176

Restricted cash consists of security deposits and property tax reserves. Deposits consist of funds held in trust for future acquisitions.

## 6. Mortgages and Loans Payable

As at	March 31, 2021		December 31, 2020	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	2.66%	\$1,670,362	2.69%	\$1,623,889
Variable rate	2.15%	5,800	1.98%	7,800
<b>Total</b>		<b>\$1,676,162</b>		<b>\$1,631,689</b>
Current		226,079		201,345
Non-current		1,450,083		1,430,344
		<b>\$1,676,162</b>		<b>\$1,631,689</b>

Mortgages are collateralized by a first charge on the properties of Killam.

As at March 31, 2021, unamortized deferred financing costs of \$36.7 million (December 31, 2020 - \$36.7 million) and mark-to-market adjustments on mortgages assumed on acquisitions of \$0.09 million (December 31, 2020 - \$0.08 million) are netted against mortgages and loans payable.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 6. Mortgages and Loans Payable (continued)

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending March 31, are as follows:

	Principal Amount	% of Total Principal
2022	\$226,079	13.2%
2023	198,149	11.6%
2024	248,438	14.5%
2025	307,600	18.0%
2026	192,162	11.2%
Subsequent to 2026	540,395	31.5%
	\$1,712,823	100.0%
Unamortized deferred financing costs	(\$36,749)	
Unamortized mark-to-market adjustments	\$88	
	\$1,676,162	

## 7. Credit Facilities

Killam has access to two credit facilities with credit limits of \$110.0 million (\$130.0 million with the accordion feature) and \$10.0 million (December 31, 2020 - \$110.0 million and \$10.0 million) that can be used for acquisition and general business purposes.

The \$110.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$80.0 million committed revolver as well as an accordion option to increase the \$110.0 million facility by an additional \$20.0 million. The agreement includes certain covenants and undertakings with which Killam was in compliance as at March 31, 2021. The facility matures on December 15, 2021.

The \$10.0 million demand facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. The agreement includes certain covenants and undertakings with which Killam was in compliance as at March 31, 2021.

As at March 31, 2021	Maximum Loan Amount <sup>(1)</sup>	Amount Drawn	Letters of Credit	Amount Available
\$110.0 million facility	\$130,000	38,500	—	\$91,500
\$10.0 million facility	10,000	4,084	1,870	4,046
<b>Total</b>	<b>\$140,000</b>	<b>\$42,584</b>	<b>\$1,870</b>	<b>\$95,546</b>

As at December 31, 2020	Maximum Loan Amount <sup>(1)</sup>	Amount Drawn	Letters of Credit	Amount Available
\$110.0 million facility	\$130,000	5,000	—	\$125,000
\$10.0 million facility	10,000	2,029	1,773	6,198
<b>Total</b>	<b>\$140,000</b>	<b>\$7,029</b>	<b>\$1,773</b>	<b>\$131,198</b>

<sup>(1)</sup> Maximum loan includes a \$20.0 million accordion option, for which collateral is pledged.

## 8. Construction Loans

As at March 31, 2021, Killam had access to five variable rate non-revolving demand construction loans, for the purpose of financing development projects, totalling \$171.2 million. As at March 31, 2021, \$46.8 million was drawn on the construction loans (December 31, 2020 - \$41.3 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding is 2.36% (December 31, 2020 - 2.37%). Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
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## 9. Accounts Payable and Accrued Liabilities

As at	March 31, 2021	December 31, 2020
Accounts payable and other accrued liabilities	\$42,164	\$39,950
Distributions payable	6,162	6,136
Mortgage interest payable	3,481	3,434
Security deposits	9,682	9,386
	<b>\$61,489</b>	<b>\$58,906</b>

## 10. Exchangeable Units

	Number of Exchangeable Units	Value
Balance, December 31, 2020	4,101,520	\$70,177
Fair value adjustment	—	5,742
<b>Balance, March 31, 2021</b>	<b>4,101,520</b>	<b>\$75,919</b>

The Exchangeable Units are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the Units been exchanged for Killam Trust Units.

## 11. Unitholders' Equity

By virtue of Killam being an open-ended mutual fund Trust, unitholders of Trust Units are entitled to redeem their Trust Units at any time at prices determined and payable in accordance with the conditions specified in Killam's DOT. As a result, under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32.

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. The DOT authorizes the issuance of an unlimited number of Trust Units. Trust Units represent a unitholder's proportionate undivided beneficial interest in Killam. No Trust Unit has any preference or priority over another. No unitholder has or is deemed to have any right of ownership in any of the assets of Killam. Each Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in any distributions and, on liquidation to a pro rata share of the residual net assets remaining after preferential claims thereon of debtholders.

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the three months ended March 31, 2021, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	Value
Balance, December 31, 2020	103,212,327	\$1,097,713
Distribution reinvestment plan	328,535	5,828
Restricted Trust Units redeemed	66,108	888
<b>Balance, March 31, 2021</b>	<b>103,606,970</b>	<b>\$1,104,429</b>

# Notes to the Condensed Consolidated Interim Financial Statements

*Dollar amounts in thousands of Canadian dollars (except as noted)*

*[unaudited]*

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## 11. Unitholders' Equity (continued)

### Distribution Reinvestment Plan ("DRIP")

Killam's DRIP allows unitholders to acquire additional Units of the Trust through the reinvestment of distributions on their Units. Unitholders who participate in the DRIP receive additional Units equal to 3% of the Units reinvested. Units issued with the DRIP are issued directly from the Trust at a price based on the 10-day volume weighted average closing price of the Toronto Stock Exchange ("TSX") preceding the relevant distribution date, which typically is on or about the 15<sup>th</sup> day of the month following the distribution declaration.

## 12. Distributions

Killam pays distributions to its unitholders in accordance with its DOT. Distributions declared by the Board of Trustees are paid monthly, on or about the 15<sup>th</sup> day of each month.

For the three months ended March 31, 2021, the distributions declared related to the Trust Units were \$17.7 million (three months ended March 31, 2020 - \$16.5 million). For the three months ended March 31, 2021, distributions declared related to the Exchangeable Units were \$0.7 million (three months ended March 31, 2020 - \$0.7 million). The distributions on the Exchangeable Units are recorded in financing costs.

## 13. Deferred Unit-based Compensation

Restricted Trust Units ("RTUs") are awarded to members of the senior executive team and director-level employees as a percentage of their compensation. The Trust also grants RTUs subject to performance conditions under the RTU Plan for certain senior executives. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs.

The number of RTUs awarded are based on the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is awarded. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions translate into additional RTUs. The initial RTUs, and RTUs acquired through distribution reinvestment, are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. For employees, the RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. Effective Q3-2017, RTUs issued to Trustees will be redeemed and paid, in the issuance of Trust Units, upon retirement from the Board.

The RTUs subject to performance conditions will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period. Killam accounts for the RTUs subject to performance conditions under the fair value method of accounting, and uses the Monte-Carlo simulation pricing model to determine the fair value, which allows for the incorporation of the market based performance hurdles that must be met before the RTUs subject to performance conditions vest.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the condensed consolidated interim statements of income and comprehensive income. The fair value of the vested RTUs as at March 31, 2021, is \$3.3 million, which includes \$1.1 million related to RTUs subject to performance conditions (March 31, 2020 - \$3.2 million and \$0.7 million). For the three months ended March 31, 2021, compensation expense of \$0.5 million (three months ended March 31, 2020 - \$0.5 million) has been recognized in respect of the RTUs.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 13. Deferred Unit-based Compensation (continued)

The details of the RTUs issued are shown below:

For the three months ended March 31,	2021		2020	
	Number of RTUs	Weighted Average Issue Price	Number of RTUs	Weighted Average Issue Price
<b>Outstanding, beginning of period</b>	<b>351,734</b>	<b>\$16.93</b>	364,874	\$14.73
Granted	<b>132,749</b>	<b>17.65</b>	105,777	19.68
Redeemed	<b>(140,530)</b>	<b>12.95</b>	(124,385)	12.78
Forfeited	—	—	(1,635)	18.68
Additional Restricted Trust Unit distributions	<b>3,827</b>	<b>17.71</b>	2,977	20.26
<b>Outstanding, end of period</b>	<b>347,780</b>	<b>\$17.85</b>	347,608	\$16.95

## 14. Revenue

In accordance with IFRS 15, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

	For the three months ended March 31,	
	2021	2020
Rental revenue <sup>(1)</sup>	<b>\$47,835</b>	\$44,938
Property expense recoveries	<b>16,844</b>	15,824
Ancillary revenue	<b>2,695</b>	2,532
	<b>\$67,374</b>	\$63,294

<sup>(1)</sup> Includes base rent, realty taxes and insurance recoveries, which are outside the scope of IFRS 15.

## 15. Financing Costs

	Three months ended March 31,	
	2021	2020
Mortgage, loan and construction loan interest	<b>\$11,139</b>	\$10,823
Interest on credit facilities	<b>307</b>	337
Interest on exchangeable units	<b>697</b>	692
Amortization of deferred financing costs	<b>877</b>	744
Amortization of fair value adjustments on assumed debt	<b>12</b>	24
Unrealized loss (gain) on derivative liability	<b>(40)</b>	443
Interest on lease liabilities	<b>97</b>	96
Capitalized interest	<b>(741)</b>	(575)
	<b>\$12,348</b>	\$12,584

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 16. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2020, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at March 31, 2021, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the three months ended March 31, 2021, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

## 17. Segmented Information

For investment properties, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker ("CODM"). The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHCs and commercial segments. Consequently, Killam is considered to have three reportable segments, as follows:

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Commercial segment - includes seven commercial properties.

Killam's administration costs, other income, financing costs, depreciation, fair value adjustments, loss on disposition and deferred tax expense are not reported to the CODM on a segment basis.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 to the consolidated financial statements for the year ended December 31, 2020. Reportable segment performance is analyzed based on NOI. The operating results, and selected assets and liabilities, of the reportable segments are as follows:

Three months ended March 31, 2021	Apartments	MHCs	Commercial	Total
Property revenue	\$59,932	\$3,348	\$4,094	\$67,374
Property operating expenses	(23,342)	(1,624)	(2,145)	(27,111)
<b>Net operating income</b>	<b>\$36,590</b>	<b>\$1,724</b>	<b>\$1,949</b>	<b>\$40,263</b>

Three months ended March 31, 2020	Apartments	MHCs	Commercial	Total
Property revenue	\$56,090	\$3,199	\$4,005	\$63,294
Property operating expenses	(21,689)	(1,489)	(2,068)	(25,246)
Net operating income	\$34,401	\$1,710	\$1,937	\$38,048

### Selected Statement of financial position items<sup>(1)</sup>

As at March 31, 2021	Apartments	MHCs	Commercial	Total
Total Investment Properties	\$3,496,485	\$213,100	\$142,181	\$3,851,766
Mortgages payable/construction loans	\$1,615,834	\$83,287	\$23,800	\$1,722,921

  

As at December 31, 2020	Apartments	MHCs	Commercial	Total
Investment properties	\$3,390,089	\$212,699	\$139,130	\$3,741,918
Mortgages payable/construction loans	\$1,562,861	\$84,150	\$26,023	\$1,673,034

<sup>(1)</sup> Total investment properties for the Apartments segment includes IPUC and land held for development.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 18. Supplemental Cash Flow Information

	Three months ended March 31,	
	2021	2020
<b>Net income items related to investing and financing activities</b>		
Interest paid on mortgages payable and other	\$11,198	\$10,709
Interest paid on credit facilities	307	337
	<b>\$11,505</b>	<b>\$11,046</b>
<b>Net change in non-cash operating assets and liabilities</b>		
Rent and other receivables	(\$452)	\$4,933
Other current assets	(880)	(6,205)
Accounts payable and other liabilities	2,584	3,470
	<b>\$1,252</b>	<b>\$2,198</b>

## 19. Financial Instruments and Financial Risk Management Objectives and Policies

Killam's principal financial liabilities consist of mortgages, credit facilities, construction loans and trade payables. The main purpose of these financial liabilities is to finance investment properties and operations. Killam has various financial assets, such as tenant receivables, which arise directly from its operations.

### Fair Value of Financial Instruments

Fair value is the amount that would be received in the sale of an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for similar term and current credit spreads for debt with similar terms and risks. The fair values of the Trust's financial instruments were determined as follows:

- (i) the fair values of the mortgages payable are estimated based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Killam might pay or receive in actual market transactions;
- (ii) the fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;
- (iii) the fair value of the derivative is calculated based on an estimate of the mid-market arbitrage-free price of the swap. The arbitrage-free price comprises the present value of the future rights and obligations between two parties to receive or deliver future cash flows or exchange other assets or liabilities. Future obligations are valued as the sum of the present values as of the valuation date of contractually fixed future amounts and expected variable future amounts, the expected size of which is calculated from the projected levels of underlying variables. Future rights are valued as the sum of the present values of the expected values of contingent future amounts, the existence and size of which are calculated from the projected levels of underlying variables.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 19. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

The significant financial instruments and their carrying values as at March 31, 2021, and December 31, 2020, are as follows:

As at  Classification	March 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial liabilities carried at amortized cost:</b>				
Mortgages and loans payable	\$1,676,162	\$1,758,996	\$1,631,689	\$1,714,740
<b>Financial liabilities carried at FVTPL:</b>				
Exchangeable Units	\$75,919	\$75,919	\$70,177	\$70,177
Derivative liability <sup>(1)</sup>	\$148	\$148	\$188	\$188
Deferred unit-based compensation	\$3,261	\$3,261	\$4,784	\$4,784

<sup>(1)</sup> The \$0.1 million derivative liability is included in other non-current liabilities within the condensed consolidated interim statements of financial position (December 31, 2020 - \$0.2 million).

The interest rates used to discount the estimated cash flows, when applicable, are based on the five-year government yield curve at the reporting date, which is in-line with Killam's weighted average years to maturity of 4.5 years, plus an adequate credit spread, and were as follows:

As at	March 31, 2021	December 31, 2020
Mortgages - Apartments	1.59%	1.31%
Mortgages - MHCs	2.49%	2.31%

### Assets and Liabilities Measured at Fair Value

Fair value measurements recognized in the condensed consolidated interim statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the condensed consolidated interim statements of financial position is as follows:

As at	March 31, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Investment properties	—	—	\$3,851,766	—	—	\$3,741,918
<b>Liabilities</b>						
Exchangeable Units	—	\$75,919	—	—	\$70,177	—
Derivative liability	—	\$148	—	\$—	188	—
Deferred unit-based compensation	—	\$2,638	\$623	—	\$3,601	\$1,183

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three months ended March 31, 2021.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)

[unaudited]

## 19. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

### Risk Management

Killam may enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from Killam's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

#### (i) Interest Rate Risk

Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to structure the majority of its mortgages in fixed-term arrangements, as well as, at times, entering into cash flow hedges. Killam also structures its financings so as to stagger the maturities of its debt, minimizing the exposure to interest rate volatility in any one year.

As at March 31, 2021, \$95.2 million of Killam's debt had variable interest rates, including five construction loans totalling \$46.8 million, amounts drawn on its credit facilities of \$42.6 million and two demand loans totalling \$5.8 million. These loans and facilities have interest rates of prime plus 0.4% - 1.25% (December 31, 2020 - prime plus 0.5% - 1.25%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage debt, which matures in the next 12 months, totals \$166.6 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by \$1.7 million per year.

#### (ii) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant.

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.3% of revenue. None of Killam's tenants account for more than 4% of the tenant receivables as at March 31, 2021 or 2020.

Killam has considered the cash flow difficulties that may be experienced by commercial and residential tenants due to the impact of COVID-19 and the probability of default and has adjusted its exposure in an allowance for doubtful accounts. Killam continues to assist residential tenants on a case-by-case basis dependent upon need.

#### (iii) Liquidity Risk

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for Canadian Mortgage and Housing Corporation ("CMHC") insured debt, reducing the refinancing risk upon mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt; however, MHCs have access to conventional mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the three months ended March 31, 2021, Killam refinanced \$9.2 million of maturing apartment mortgages with new mortgages totalling \$11.4 million, generating net proceeds of \$2.2 million. In addition, during the three months ended March 31, 2021 Killam renewed a \$1.4 million maturing MHC mortgage. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending March 31,	Mortgage and loans payable	Construction loans <sup>(1)</sup>	Credit facilities	Total
2022	\$226,079	\$46,759	42,584	\$315,422
2023	198,149	—	—	198,149
2024	248,438	—	—	248,438
2025	307,600	—	—	307,600
2026	192,162	—	—	192,162
Thereafter	540,395	—	—	540,395
	\$1,712,823	\$46,759	\$42,584	\$1,802,166

<sup>(1)</sup> Construction loans are demand loans, but expected to be repaid once construction is complete and rental targets achieved. Once these targets are achieved each construction loan will be repaid in full and replaced with conventional mortgages.

# Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]

## 20. Capital Management

The primary objective of Killam's capital management is to ensure a healthy capital structure to support the business and maximize unitholder value. Killam manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Killam may adjust the distribution payment to unitholders, issue additional Units, issue debt securities or adjust mortgage financing on properties.

Killam's primary measure of capital management is the total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. However, Killam's long-term target is to manage overall indebtedness to be below 40%. The calculation of the total debt to total assets is summarized as follows:

As at	March 31, 2021	December 31, 2020
Mortgages and loans payable	\$1,676,162	\$1,631,689
Credit facilities	\$42,584	\$7,029
Construction loans	\$46,759	\$41,345
Total interest bearing debt	\$1,765,505	\$1,680,063
Total assets <sup>(1)</sup>	\$3,880,364	\$3,766,987
Total debt as a percentage of total assets	45.5%	44.6%

<sup>(1)</sup> Excludes right of use asset of \$9.6 million as at March 31, 2021 (December 31, 2020 \$9.6 million).

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties <sup>(1)</sup>	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	\$4,255,222	\$4,283,820	41.2%	(430)
(0.25)%	\$4,034,838	\$4,063,436	43.4%	(200)
—%	\$3,851,766	\$3,880,364	45.5%	—
0.25%	\$3,660,757	\$3,689,355	47.9%	240
0.50%	\$3,500,650	\$3,529,248	50.0%	450

<sup>(1)</sup> The cap-rate sensitivity is calculating the impact on Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method.

## 21. Commitments and Contingencies

Killam is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of Killam. However, actual outcomes may differ from Management's expectations.

Killam entered into a supply contract for electricity to hedge its own usage, which is summarized below:

Area	Utility	Usage Coverage	Term	Cost
Alberta	Hydro	50%	January 1, 2021 - December 31, 2021	\$56.40/MWh

# Notes to the Condensed Consolidated Interim Financial Statements

*Dollar amounts in thousands of Canadian dollars (except as noted)  
[unaudited]*

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## 22. Financial Guarantees

Killam is the guarantor on a joint and several basis for certain mortgage debt held through its joint operations. As at March 31, 2021, the maximum potential obligation resulting from these guarantees is \$76.7 million, related to long term mortgage financing (December 31, 2020 - \$83.1 million). The loans held through its joint operations are secured by a first ranking mortgage over the associated investment properties. Killam's portion of the total mortgages for these properties are recorded as a mortgage liability on the condensed consolidated interim statements of financial position.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at March 31, 2021, determined that a provision is not required to be recognized in the condensed consolidated interim statements of financial position (December 31, 2020 - \$nil).

## 23. Related Party Transactions

Killam has construction management agreements with companies owned by a Trustee of Killam. The agreements include a market rate construction management fee of 2.5% and 1.5% development management fee on hard construction costs for the Shorefront development and a 4.0% construction management fee for the Harley Street development, totalling \$0.03 million (March 31, 2020 - \$0.1 million). These fees are to be paid over the construction period. Killam's Shorefront development was completed in October 2020 and 10 Harley was completed in March 2021. In addition, these companies supply direct construction services or contract arm's-length services. For the three months ended March 31, 2021, these companies were paid \$0.2 million (March 31, 2020 - \$0.3 million).

Killam owns a 50% interest in two commercial properties located at 3700 & 3770 Kempt Road in Halifax, NS, the remaining 50% interest in these properties is owned by a company owned by an executive and Trustee of Killam. These properties are managed by an arm's length third party. Killam's head office occupies approximately 23,000 square feet of one of the buildings with base rent of approximately \$13.00 per square foot, of which 50% is paid to the related party based on the ownership interest.

## 24. Subsequent Events

On April 15, 2021, Killam announced a distribution of \$0.05667 per unit, payable on May 17, 2021, to unitholders of record on April 30, 2021.