



**Condensed Consolidated Interim Financial Statements [unaudited]
For the three and nine months ended September 30, 2022 and 2021**

Condensed Consolidated Interim Statements of Financial Position

*In thousands of Canadian dollars,
[unaudited]*

| | Note | September 30, 2022 | December 31, 2021 |
|--|------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investment properties | [3] | \$4,802,457 | \$4,540,877 |
| Property and equipment | | 8,140 | 7,931 |
| Other non-current assets | [6] | 4,389 | 4,375 |
| | | \$4,814,986 | \$4,553,183 |
| Current assets | | | |
| Cash and Cash Equivalents | | \$10,143 | \$6,484 |
| Rent and other receivables | | 8,850 | 7,768 |
| Residential Inventory | [4] | 7,141 | 212 |
| Other current assets | [6] | 16,432 | 10,860 |
| | | 42,566 | 25,324 |
| TOTAL ASSETS | | \$4,857,552 | \$4,578,507 |
| EQUITY AND LIABILITIES | | | |
| Unitholders' equity | [12] | \$2,295,809 | \$2,111,327 |
| Non-controlling interest | | 158 | 142 |
| Total Equity | | \$2,295,967 | \$2,111,469 |
| Non-current liabilities | | | |
| Mortgages and loans payable | [7] | \$1,632,833 | \$1,678,391 |
| Lease liabilities | | 9,621 | 9,604 |
| Exchangeable Units | [11] | 61,065 | 94,461 |
| Deferred income tax | [17] | 242,454 | 227,004 |
| Deferred unit-based compensation | [14] | 3,379 | 6,376 |
| Other non-current liabilities | | — | 20 |
| | | \$1,949,352 | \$2,015,856 |
| Current liabilities | | | |
| Mortgages and loans payable | [7] | 308,791 | 236,943 |
| Credit facilities | [8] | 108,430 | 61,730 |
| Construction loans | [9] | 130,199 | 77,596 |
| Accounts payable and accrued liabilities | [10] | 64,813 | 74,913 |
| | | 612,233 | 451,182 |
| Total Liabilities | | \$2,561,585 | \$2,467,038 |
| TOTAL EQUITY AND LIABILITIES | | \$4,857,552 | \$4,578,507 |
| Commitments and contingencies | [22] | | |
| Financial guarantees | [23] | | |

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]*

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|----------------------------------|----------|---------------------------------|-----------|
| | | 2022 | 2021 | 2022 | 2021 |
| Property revenue | [15] | \$85,301 | \$76,244 | \$244,313 | \$213,919 |
| Property operating expenses | | | | | |
| Operating expenses | | (12,704) | (11,407) | (37,680) | (33,866) |
| Utility and fuel expenses | | (5,763) | (5,127) | (22,996) | (18,350) |
| Property taxes | | (10,042) | (9,255) | (29,897) | (26,388) |
| | | (28,509) | (25,789) | (90,573) | (78,604) |
| Net operating income | | \$56,792 | \$50,455 | \$153,740 | \$135,315 |
| Other income | | 464 | 287 | 1,350 | 791 |
| Financing costs | [16] | (16,285) | (13,169) | (44,126) | (37,876) |
| Depreciation | | (173) | (139) | (447) | (410) |
| Administration | | (4,463) | (3,938) | (12,877) | (11,314) |
| Fair value adjustment on unit-based compensation | [14] | 539 | (435) | 2,544 | (1,037) |
| Fair value adjustment on Exchangeable Units | [11] | 7,608 | (3,924) | 33,396 | (16,737) |
| Fair value adjustment on investment properties | [3] | (41,328) | 25,786 | 14,214 | 173,671 |
| Income before income taxes | | 3,154 | 54,923 | 147,794 | 242,403 |
| Deferred tax recovery (expense) | [17] | 446 | (8,289) | (15,450) | (31,677) |
| Net income and comprehensive income | | \$3,600 | \$46,634 | \$132,344 | \$210,726 |
| Comprehensive income | | \$3,600 | \$46,634 | \$132,344 | \$210,726 |
| Net income attributable to: | | | | | |
| Unitholders | | 3,595 | 46,630 | 132,332 | 210,717 |
| Non-controlling interest | | 5 | 4 | 12 | 9 |
| | | \$3,600 | \$46,634 | \$132,344 | \$210,726 |
| Comprehensive income attributable to: | | | | | |
| Unitholders | | 3,595 | 46,630 | 132,332 | 210,717 |
| Non-controlling interest | | 5 | 4 | 12 | 9 |
| | | \$3,600 | \$46,634 | \$132,344 | \$210,726 |

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]*

| Nine months ended September 30, 2022 | Trust Units | Contributed Surplus | Retained Earnings | Non-controlling Interest | Total Equity |
|---|--------------------|----------------------------|--------------------------|---------------------------------|---------------------|
| As at January 1, 2022 | \$1,230,307 | \$795 | \$880,225 | \$142 | \$2,111,469 |
| Distribution reinvestment plan | 18,858 | — | — | — | 18,858 |
| Deferred Unit-based compensation | 752 | — | — | — | 752 |
| Issued for cash | 93,628 | — | — | — | 93,628 |
| Net income | — | — | 132,332 | 12 | 132,344 |
| Contributions from non-controlling interest | — | — | — | 4 | 4 |
| Distributions declared and paid | — | — | (54,245) | — | (54,245) |
| Distributions payable | — | — | (6,843) | — | (6,843) |
| As at September 30, 2022 | \$1,343,545 | \$795 | \$951,469 | \$158 | \$2,295,967 |

| Nine months ended September 30, 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 |
| Exchange of Exchangeable Units | 1,823 | — | — | — | 1,823 |
| Distribution reinvestment plan | 18,622 | — | — | — | 18,622 |
| Deferred Unit-based compensation | 945 | — | — | — | 945 |
| Issued for cash | 104,361 | — | — | — | 104,361 |
| Net income | — | — | 210,717 | 9 | 210,726 |
| Distributions declared and paid | — | — | (48,893) | — | (48,893) |
| Distributions payable | — | — | (6,497) | — | (6,497) |
| As at September 30, 2021 | \$1,223,464 | \$795 | \$824,948 | \$138 | \$2,049,345 |

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

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,
[unaudited]

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|---|------|-------------------------------------|-------------------|------------------------------------|--------------------|
| | | 2022 | 2021 | 2022 | 2021 |
| OPERATING ACTIVITIES | | | | | |
| Net income | | \$3,600 | \$46,634 | \$132,344 | \$210,726 |
| Add (deduct) items not affecting cash | | | | | |
| Fair value adjustments | | 33,181 | (21,427) | (50,154) | (155,897) |
| Depreciation | | 173 | 139 | 447 | 410 |
| Amortization of deferred financing | | 878 | 933 | 2,649 | 2,687 |
| Non-cash compensation expense | | 595 | 496 | 1,679 | 1,503 |
| Deferred income tax (recovery) expense | | (446) | 8,289 | 15,450 | 31,677 |
| Amortization of fair value adjustments on assumed mortgages | | 77 | 12 | 117 | 36 |
| Gain on derivative liability | | 11 | (18) | (159) | (98) |
| Straight-line rent | | (7) | (39) | (151) | (259) |
| Net change in non-cash operating activities | [19] | (6,063) | 4,016 | (23,864) | 273 |
| Cash provided by operating activities | | \$31,999 | \$39,035 | \$78,358 | \$91,058 |
| FINANCING ACTIVITIES | | | | | |
| Deferred financing costs paid | | (546) | (1,219) | (4,049) | (2,792) |
| Interest expense on Exchangeable Units | | 701 | 687 | 2,102 | 2,065 |
| Net proceeds on issuance of Units | | — | — | 93,628 | 104,361 |
| Cash paid on redemption of restricted Units | | — | — | (1,268) | (1,419) |
| Cash paid on lease liabilities | | (83) | (80) | (247) | (239) |
| Interest expense on lease liability | | 98 | 97 | 293 | 290 |
| Mortgage financing | | 45,520 | 39,327 | 204,606 | 262,424 |
| Mortgages repaid | | (23,886) | (19,252) | (141,084) | (34,932) |
| Mortgage principal repayments | | (17,256) | (15,705) | (51,439) | (45,311) |
| Credit facility proceeds | | 8,803 | 4,906 | 46,701 | 27,901 |
| Proceeds from construction loans | | 24,914 | 10,636 | 52,603 | 39,994 |
| Construction loan repayments | | — | (6,308) | — | (17,889) |
| Contributions from non-controlling interest | | — | — | 4 | — |
| Distributions to Unitholders | | (14,829) | (12,812) | (43,982) | (38,230) |
| Cash provided by financing activities | | \$23,436 | \$277 | \$157,868 | \$296,223 |
| INVESTING ACTIVITIES | | | | | |
| Increase in restricted cash | | (868) | (873) | 187 | 360 |
| Acquisition of investment properties, net of debt | | (2,518) | (390) | (103,338) | (280,164) |
| Repayment (advance) on loan receivable | | — | — | 225 | (4,375) |
| Development of investment properties | | (18,930) | (18,569) | (64,686) | (56,044) |
| Capital expenditures | | (31,830) | (22,675) | (64,955) | (48,054) |
| Cash used in investing activities | | (\$54,146) | (\$42,507) | (\$232,567) | (\$388,277) |
| Net (decrease) increase in cash | | 1,289 | (3,195) | 3,659 | (996) |
| Cash and Cash Equivalents, beginning of period | | 8,854 | 9,810 | 6,484 | 7,611 |
| Cash and Cash Equivalents, end of period | | \$10,143 | \$6,615 | \$10,143 | \$6,615 |

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]

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 and nine months ended September 30, 2022. 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 September 30, 2022 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on November 8, 2022.

(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 operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of results that may be expected for the full year ending December 31, 2022, due to seasonal variations in property expenses and other factors.

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued consolidated financial statements, 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, 2021, and have been consistently applied in the preparation of these condensed consolidated interim financial statements, in addition to the following:

IAS 7 Statement of Cash Flows - Demand Deposits with Restrictions on Use

In April 2022, the IFRS Interpretations Committee (the Committee) reached a conclusion on whether an entity includes a demand deposit as a component on cash and cash equivalents in the statement of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party. The Committee concluded that restrictions on the use of a demand deposit arising from a contract with a third party does not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. The conclusion is applied in Killam's statement of financial position as at September 30, 2022, and the comparative period and the statement of cash flows for the three and nine months ended September 30, 2022 and 2021, with a change in presentation of cash and cash equivalents and other current assets.

Judgements and Estimates

The condensed consolidated interim financial statements have been prepared considering the impact of the current inflationary economic environment, impact of rising interest rates and potential for government intervention and how increased uncertainty could impact the valuation of investment properties. Killam has used the best information available as at September 30, 2022, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the period. Actual results could differ from those estimates. Killam considers the estimates that could be most significantly impacted 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 September 30, 2022

| | Apartments | MHCs | Commercial | IPUC | Land for Development | Total |
|---|--------------------|------------------|------------------|------------------|----------------------|--------------------|
| Balance, beginning of period | \$3,897,354 | \$231,370 | \$155,306 | \$201,319 | \$55,528 | \$4,540,877 |
| Fair value adjustment on investment properties | 18,379 | (9,555) | (1,303) | 6,693 | — | 14,214 |
| Acquisitions | 109,840 | 2,553 | 3,960 | — | 4,000 | 120,353 |
| Transfer from IPUC | 170,337 | — | — | (170,337) | — | — |
| Capital expenditures | 60,991 | 3,641 | 3,889 | 58,000 | 1,186 | 127,707 |
| Transfer from land for development | 1,394 | — | — | 21,710 | (23,104) | — |
| Transfer to residential inventory | — | — | — | (3,073) | — | (3,073) |
| Interest capitalized on IPUC and land for development | — | — | — | 1,740 | 639 | 2,379 |
| Balance, end of period | \$4,258,295 | \$228,009 | \$161,852 | \$116,052 | \$38,249 | \$4,802,457 |

As at December 31, 2021

| | Apartments | MHCs | Commercial | IPUC | Land for Development | Total |
|---|--------------------|------------------|------------------|------------------|----------------------|--------------------|
| Balance, beginning of year | \$3,218,369 | \$212,699 | \$139,130 | \$128,100 | \$43,620 | \$3,741,918 |
| Fair value adjustment on investment properties | 210,829 | 12,844 | 2,937 | 11,097 | — | 237,707 |
| Acquisitions | 382,129 | 404 | 10,495 | — | 13,315 | 406,343 |
| Transfer from IPUC | 17,254 | — | — | (17,254) | — | — |
| Capital expenditures | 68,773 | 5,423 | 2,744 | 73,005 | 1,905 | 151,850 |
| Transfer from land for development | — | — | — | 4,132 | (4,132) | — |
| Interest capitalized on IPUC and land for development | — | — | — | 2,239 | 820 | 3,059 |
| Balance, end of year | \$3,897,354 | \$231,370 | \$155,306 | \$201,319 | \$55,528 | \$4,540,877 |

During the nine months ended September 30, 2022, Killam acquired the following properties:

| Property | Location | Acquisition Date | Ownership Interest | Property Type | Units | Purchase Price ⁽¹⁾ |
|--|---------------|------------------|--------------------|-----------------------------|-------|-------------------------------|
| 1477 & 1479 Carlton Street | Halifax, NS | 16-Feb-22 | 100% | Apartment | 4 | \$3,500 |
| 510-516 Quiet Place | Waterloo, ON | 7-Mar-22 | 100% | Apartment | 24 | 7,900 |
| 150 Wissler Road ⁽²⁾ | Waterloo, ON | 17-Mar-22 | 100% | Commercial/Development Land | — | 3,850 |
| Craigflower House | Victoria, BC | 31-Mar-22 | 100% | Apartment | 49 | 14,000 |
| 1358 & 1360 Hollis Street | Halifax, NS | 03-Apr-22 | 100% | Apartment | 27 | 6,200 |
| 665 & 671 Woolwich Street ⁽³⁾ | Guelph, ON | 29-Apr-22 | 100% | Apartment/Development Land | 84 | 25,000 |
| 621 Crown Isle Blvd | Courtenay, BC | 18-May-22 | 100% | Apartment | 56 | 21,900 |
| 1876 & 1849 Riverside Lane | Courtenay, BC | 18-May-22 | 100% | Apartment | 94 | 33,700 |
| Highland Village | Amherst, NS | 04-Jul-22 | 100% | Permanent MHC | 99 | 2,500 |
| Total Acquisitions | | | | | | \$118,550 |

⁽¹⁾ Purchase price does not include transaction costs.

⁽²⁾ Property has in-place income acquired for future development potential located adjacent to Killam's Northfield Gardens complex in Waterloo.

⁽³⁾ Property includes an existing 84-unit apartment building and an adjacent parcel of land for future development potential.

During the three and nine months ended September 30, 2022, Killam capitalized salaries of \$1.6 million and \$4.5 million (three and nine months ended September 30, 2021 - \$1.0 million and \$3.0 million), as part of its project improvement, suite renovation and development programs. For the three and nine months ended September 30, 2022, 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 2.89% (September 30, 2021 - 2.61%). 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 \$4.6 billion as at September 30, 2022 (December 31, 2021 - \$4.3 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 3.00% to 7.10%, applied to a stabilized net operating income ("SNOI") of \$183.2 million (December 31, 2021 - 3.00% to 7.00% and \$172.4 million), resulting in an overall weighted average effective cap-rate of 4.43% (December 31, 2021 - 4.41%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 95.0% to 99.0% (December 31, 2021 - 94.0% to 99.0%). Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.25% to 6.50%, applied to a SNOI of \$12.6 million (December 31, 2021 - 5.0% to 6.5% and \$12.5 million), resulting in an overall weighted average effective cap-rate of 5.78% (December 31, 2021 - 5.59%). The stabilized occupancy rate used in the calculation of SNOI was 97.9% (December 31, 2021 - 97.8%).

The commercial properties were valued 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. 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. The weighted average discount rate applied in the period was 7.68% (December 31, 2021 - 7.48%).

Killam reviewed its valuation of investment properties in light of higher inflation and increased borrowing costs as at September 30, 2022. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19, current inflationary pressures 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, expense growth 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, higher inflation and increased borrowing costs.

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:

| | September 30, 2022 | | | December 31, 2021 | | |
|-------------------|--------------------|--------------|----------------------------|-------------------|-------|----------------------------|
| | Low | High | Effective Weighted Average | Low | High | Effective Weighted Average |
| Apartments | 3.00% | 7.10% | 4.43% | 3.00% | 7.00% | 4.41% |
| Halifax | 3.75% | 5.60% | 4.41% | 3.75% | 5.60% | 4.37% |
| Moncton | 3.80% | 6.60% | 4.99% | 3.80% | 7.00% | 4.86% |
| Fredericton | 5.10% | 5.35% | 5.21% | 5.00% | 5.25% | 5.10% |
| Saint John | 5.35% | 5.35% | 5.35% | 5.25% | 5.25% | 5.25% |
| St. John's | 5.25% | 7.10% | 5.87% | 5.00% | 6.00% | 5.64% |
| Charlottetown | 5.10% | 5.85% | 5.56% | 4.42% | 5.75% | 5.39% |
| Ontario | 3.00% | 4.87% | 3.61% | 3.00% | 4.87% | 3.59% |
| British Columbia | 3.50% | 3.96% | 3.62% | 3.50% | 3.50% | 3.50% |
| Alberta | 4.75% | 5.00% | 4.85% | 4.47% | 5.00% | 4.65% |
| MHCs | 5.25% | 6.50% | 5.78% | 5.00% | 6.50% | 5.59% |
| Ontario | 5.25% | 6.50% | 5.99% | 5.00% | 6.50% | 5.86% |
| Nova Scotia | 5.25% | 6.25% | 5.52% | 5.00% | 6.00% | 5.27% |
| New Brunswick | 5.44% | 6.50% | 5.98% | 5.19% | 6.50% | 5.77% |
| Newfoundland | 6.25% | 6.25% | 6.25% | 6.00% | 6.00% | 6.00% |

Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)
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3. Investment Properties (continued)

Fair Value Sensitivity

The following table summarizes the impact of changes in capitalization rates and stabilized NOI on the fair value of Killam's investment properties:

| | | Change in Stabilized NOI ⁽¹⁾ | | | | |
|----------------------------------|---------|---|-----------|-----------|-----------|-----------|
| | | (2.00)% | (1.00)% | — % | 1.00% | 2.00% |
| Change in Capitalization Rate | (0.50)% | \$457,810 | \$508,364 | \$558,918 | \$609,472 | \$660,026 |
| | (0.25)% | 167,827 | 215,422 | 263,017 | 310,612 | 358,207 |
| | —% | (89,930) | (44,965) | — | 44,965 | 89,930 |
| | 0.25% | (320,567) | (277,955) | (235,344) | (192,732) | (150,120) |
| | 0.50% | (528,163) | (487,670) | (447,177) | (406,683) | (366,190) |

⁽¹⁾ Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method, and commercial assets valued using the discounted cash flow approach. The sensitivity for commercial assets is calculated using an implied capitalization rate based on the stabilized NOI of the properties.

4. Residential Inventory

Residential inventory consists of assets that are for sale in ordinary course of business and MHC home inventory.

| | Nine months ended September 30, 2022 | Year ended December 31, 2021 |
|-------------------------------------|---|---------------------------------|
| Balance, beginning of period | \$212 | \$9 |
| Net change in MHC home inventory | (192) | 203 |
| Transfer from investment properties | 3,073 | — |
| Capital expenditures | 4,048 | — |
| Balance, end of period | \$7,141 | \$212 |

Residential inventory consists of assets acquired or developed that Killam does not intend to use for rental income purposes and plans to sell in the ordinary course of business. Killam expects to earn a return on such assets through a combination of property operating income earned during the holding period and sale proceeds. As at September 30, 2022, residential inventory consists of the development of townhouses in Charlottetown, PE, and MHC home inventory intended for resale.

5. Joint Operations and Investments in Joint Venture

Killam has interests in six properties, one development project 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 September 30, 2022, the fair value of the investment properties subject to joint control was \$383.7 million (December 31, 2021 - \$371.5 million).

Notes to the Condensed Consolidated Interim Financial Statements

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

6. Cash and Cash Equivalents and Other Current and Non-Current Assets

Cash and Cash Equivalents

As at September 30, 2022, Killam had \$10.1 million (December 31, 2021 - \$6.5 million) in cash and cash equivalents, consisting of \$4.0 million in operating cash and \$6.1 million in security deposits (December 31, 2021 - \$0.5 million and \$6.0 million).

Other Current Assets

| As at | September 30, 2022 | December 31, 2021 |
|------------------|--------------------|-------------------|
| Restricted cash | \$1,251 | \$1,437 |
| Deposits | 1,672 | 1,575 |
| Prepaid expenses | 13,509 | 7,848 |
| | \$16,432 | \$10,860 |

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

Other Non-Current Assets

As at September 30, 2022, Killam had a \$0.1 million derivative asset (December 31, 2021 - \$0.02 million derivative liability) and a loan receivable of \$4.3 million (December 31, 2021 - \$4.4 million) from its 25% joint owner of Royalty Crossing (Charlottetown Mall). The loan receivable bears interest at 6.5% to be paid monthly and full repayment of the loan is due within 36 months from the initial advance in June 2021.

7. Mortgages and Loans Payable

| As at | September 30, 2022 | | December 31, 2021 | |
|-----------------------------|---------------------------|--------------------|---------------------------|--------------------|
| | Weighted Average Interest | Debt Balance | Weighted Average Interest | Debt Balance |
| Mortgages and loans payable | | | | |
| Fixed rate | 2.67% | \$1,937,824 | 2.58% | \$1,907,064 |
| Variable rate | 4.76% | 3,800 | 2.37% | 8,270 |
| Total | | \$1,941,624 | | \$1,915,334 |
| Current | | 308,791 | | 236,943 |
| Non-current | | 1,632,833 | | 1,678,391 |
| | | \$1,941,624 | | \$1,915,334 |

Mortgages are collateralized by a first charge on the properties of Killam. As at September 30, 2022, unamortized deferred financing costs of \$38.4 million (December 31, 2021 - \$37.0 million) and mark-to-market adjustments on mortgages assumed on acquisitions of \$1.3 million (December 31, 2021 - \$0.8 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending September 30, are as follows:

| | Principal Amount | % of Total Principal |
|--|--------------------|----------------------|
| 2023 | \$308,791 | 15.6% |
| 2024 | 335,150 | 16.9% |
| 2025 | 310,911 | 15.7% |
| 2026 | 269,847 | 13.6% |
| 2027 | 210,345 | 10.6% |
| Subsequent to 2027 | 546,279 | 27.6% |
| | \$1,981,323 | 100.0% |
| Unamortized deferred financing costs | (\$38,428) | |
| Unamortized mark-to-market adjustments | (\$1,271) | |
| | \$1,941,624 | |

Notes to the Condensed Consolidated Interim Financial Statements

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

8. Credit Facilities

Killam has access to two credit facilities with credit limits of \$155.0 million (\$175.0 million with the accordion feature) and \$15.0 million (December 31, 2021 - \$155.0 million and \$15.0 million) that can be used for acquisition and general business purposes.

The \$155.0 million facility bears interest at prime plus 55 bps on prime rate advances or 155 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$125.0 million committed revolver as well as an accordion option to increase the \$155.0 million facility by an additional \$20.0 million. The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2022. This facility matures December 16, 2024 and includes a one-year extension option.

The \$15.0 million demand facility bears interest at prime plus 125 bps on advances and 155 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 September 30, 2022.

| As at September 30, 2022 | Maximum Loan Amount ⁽¹⁾ | Amount Drawn | Letters of Credit | Amount Available |
|--------------------------|------------------------------------|------------------|-------------------|------------------|
| \$155.0 million facility | \$175,000 | \$101,000 | — | \$74,000 |
| \$15.0 million facility | 15,000 | 7,430 | 2,243 | 5,327 |
| Total | \$190,000 | \$108,430 | \$2,243 | \$79,327 |

| As at December 31, 2021 | Maximum Loan Amount ⁽¹⁾ | Amount Drawn | Letters of Credit | Amount Available |
|--------------------------|------------------------------------|-----------------|-------------------|------------------|
| \$155.0 million facility | \$175,000 | \$54,500 | — | \$120,500 |
| \$15.0 million facility | 15,000 | 7,230 | 1,745 | 6,025 |
| Total | \$190,000 | \$61,730 | \$1,745 | \$126,525 |

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

9. Construction Loans

As at September 30, 2022, Killam had access to seven variable rate non-revolving demand construction loans for the purpose of financing development projects totalling \$201.5 million. As at September 30, 2022, \$130.2 million was drawn on the construction loans (December 31, 2021 - \$77.6 million). Payments are made monthly on an interest-only basis. The weighted average contractual interest rate on amounts outstanding during the three-months ended September 30, 2022 was 4.54% (December 31, 2021 - 2.01%). Once construction is complete and rental targets are achieved, the construction loans are expected to be repaid in full and replaced with conventional mortgages.

10. Accounts Payable and Accrued Liabilities

| As at | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Accounts payable and other accrued liabilities | \$41,188 | \$53,109 |
| Distributions payable | 7,077 | 6,737 |
| Mortgage interest payable | 4,049 | 3,873 |
| Security deposits | 12,499 | 11,194 |
| | \$64,813 | \$74,913 |

Notes to the Condensed Consolidated Interim Financial Statements

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

11. Exchangeable Units

| | Number of Exchangeable Units | Value |
|------------------------------------|------------------------------|-----------------|
| Balance, December 31, 2021 | 4,004,270 | \$94,461 |
| Fair value adjustment | — | (33,396) |
| Balance, September 30, 2022 | 4,004,270 | \$61,065 |

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.

12. 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 nine months ended September 30, 2022, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

| | Number of Trust Units | Value |
|------------------------------------|-----------------------|--------------------|
| Balance, December 31, 2021 | 110,557,466 | \$1,230,307 |
| Distribution reinvestment plan | 980,382 | 18,858 |
| Restricted Trust Units redeemed | 61,205 | 752 |
| Units issued for cash | 4,715,000 | 93,628 |
| Balance, September 30, 2022 | 116,314,053 | \$1,343,545 |

Units issued for cash

| | Price per Unit | Gross Proceeds | Transaction Costs | Net Proceeds | Units Issued |
|-----------------------------------|----------------|----------------|-------------------|--------------|--------------|
| Bought-deal (February 4, 2022) | \$20.80 | \$85,280 | \$3,923 | \$81,357 | 4,100,000 |
| Over-allotment (February 4, 2022) | \$20.80 | 12,792 | 521 | 12,271 | 615,000 |
| Total | | \$98,072 | \$4,444 | \$93,628 | 4,715,000 |

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 15th day of the month following the distribution declaration.

Notes to the Condensed Consolidated Interim Financial Statements

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

12. Unitholders' Equity (continued)

Normal Course Issuer Bid

In May 2022, Killam announced that the TSX had accepted Killam's notice of intention to make a normal course issuer bid for its Trust Units. Under the normal course issuer bid, Killam may acquire up to 3,000,000 Trust Units commencing on June 2, 2022, and ending on June 1, 2023. All purchases of Trust Units are made through the facilities of the TSX at the market price of the Trust Units at the time of acquisition. Daily repurchases by Killam are limited to 53,703 Trust Units, other than block purchase exemptions. Any Trust Units acquired will be cancelled.

13. 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 15th day of each month.

For the three and nine months ended September 30, 2022, the distributions declared related to the Trust Units were \$20.5 million and \$61.1 million (three and nine months ended September 30, 2021 - \$19.1 million and \$55.4 million). For the three and nine months ended September 30, 2022, distributions declared related to the Exchangeable Units were \$0.7 million and \$2.1 million (three and nine months ended September 30, 2021 - \$0.7 million and \$2.1 million). The distributions on the Exchangeable Units are recorded in financing costs.

14. 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 September 30, 2022, is \$3.4 million, which includes \$1.2 million related to RTUs subject to performance conditions (December 31, 2021 - \$6.4 million and \$2.6 million). For the three and nine months ended September 30, 2022, compensation expense of \$0.6 million and \$1.7 million (three and nine months ended September 30, 2021 - \$0.5 million and \$1.5 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

| | Nine months ended September 30, 2022 | | Year ended December 31, 2021 | |
|--|--------------------------------------|------------------------------|------------------------------|------------------------------|
| | Number of RTUs | Weighted Average Issue Price | Number of RTUs | Weighted Average Issue Price |
| Outstanding, beginning of period | 359,172 | \$18.10 | 351,734 | \$16.93 |
| Granted | 128,448 | 21.08 | 143,054 | 18.14 |
| Redeemed | (127,867) | 17.10 | (148,016) | 13.09 |
| Forfeited | (10,927) | 19.93 | — | — |
| Additional Restricted Trust Unit distributions | 10,137 | 19.35 | 12,400 | 19.92 |
| Outstanding, end of period | 358,963 | \$19.52 | 359,172 | \$18.10 |

Notes to the Condensed Consolidated Interim Financial Statements

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

15. 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 September 30, | | For the nine months ended September 30, | |
|-------------------------------|---|----------|--|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| Rental revenue ⁽¹⁾ | \$60,564 | \$54,133 | \$173,462 | \$151,882 |
| Property expense recoveries | 21,325 | 19,061 | 61,078 | 53,480 |
| Ancillary revenue | 3,412 | 3,050 | 9,773 | 8,557 |
| | \$85,301 | \$76,244 | \$244,313 | \$213,919 |

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

16. Financing Costs

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2022 | 2021 | 2022 | 2021 |
| Mortgage, loan and construction loan interest | \$14,026 | \$11,967 | \$39,610 | \$34,398 |
| Interest on credit facilities | 1,202 | 242 | 1,893 | 709 |
| Interest on Exchangeable Units | 701 | 687 | 2,102 | 2,065 |
| Amortization of deferred financing costs | 878 | 933 | 2,649 | 2,687 |
| Amortization of fair value adjustments on assumed debt | 77 | 12 | 117 | 36 |
| Unrealized loss (gain) on derivative liability | 11 | (18) | (159) | (98) |
| Interest on lease liabilities | 98 | 97 | 293 | 290 |
| Capitalized interest | (708) | (751) | (2,379) | (2,211) |
| | \$16,285 | \$13,169 | \$44,126 | \$37,876 |

17. 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, 2021, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at September 30, 2022, 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 and nine months ended September 30, 2022, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

Notes to the Condensed Consolidated Interim Financial Statements

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

18. 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 - acquires and operates stand-alone commercial properties in Ontario, Nova Scotia and Prince Edward Island. The segment includes eight 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, 2021. 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 September 30, 2022 | Apartments | MHCs | Commercial | Total |
|---------------------------------------|-----------------|----------------|----------------|-----------------|
| Property revenue | \$73,808 | \$6,707 | \$4,786 | \$85,301 |
| Property operating expenses | (24,491) | (2,044) | (1,974) | (28,509) |
| Net operating income | \$49,317 | \$4,663 | \$2,812 | \$56,792 |

| Three months ended September 30, 2021 | Apartments | MHCs | Commercial | Total |
|---------------------------------------|------------|---------|------------|----------|
| Property revenue | \$65,579 | \$6,150 | \$4,515 | \$76,244 |
| Property operating expenses | (21,969) | (1,928) | (1,892) | (25,789) |
| Net operating income | \$43,610 | \$4,222 | \$2,623 | \$50,455 |

| Nine months ended September 30, 2022 | Apartments | MHCs | Commercial | Total |
|--------------------------------------|------------------|-----------------|----------------|------------------|
| Property revenue | \$214,583 | \$15,443 | \$14,287 | \$244,313 |
| Property operating expenses | (79,007) | (5,373) | (6,193) | (90,573) |
| Net operating income | \$135,576 | \$10,070 | \$8,094 | \$153,740 |

| Nine months ended September 30, 2021 | Apartments | MHCs | Commercial | Total |
|--------------------------------------|------------|----------|------------|-----------|
| Property revenue | \$186,806 | \$14,417 | \$12,696 | \$213,919 |
| Property operating expenses | (67,729) | (4,962) | (5,913) | (78,604) |
| Net operating income | \$119,077 | \$9,455 | \$6,783 | \$135,315 |

Selected Statement of financial position items⁽¹⁾

| As at September 30, 2022 | Apartments | MHCs | Commercial | Total |
|--------------------------------------|-------------|-----------|------------|-------------|
| Total Investment Properties | \$4,412,596 | \$228,009 | \$161,852 | \$4,802,457 |
| Mortgages payable/construction loans | \$1,933,803 | \$76,716 | \$61,304 | \$2,071,823 |
| As at December 31, 2021 | Apartments | MHCs | Commercial | Total |
| Investment properties | \$4,154,201 | \$231,370 | \$155,306 | \$4,540,877 |
| Mortgages payable/construction loans | \$1,865,925 | \$83,013 | \$43,992 | \$1,992,930 |

⁽¹⁾ 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]

19. Supplemental Cash Flow Information

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Interest paid (financing activities) | | | | |
| Interest paid on mortgages payable and other | \$14,177 | \$11,803 | \$39,903 | \$34,608 |
| Interest paid on credit facilities | 1,202 | 242 | 1,893 | 709 |
| | \$15,379 | \$12,045 | \$41,796 | \$35,317 |
| Net change in non-cash operating assets and liabilities | | | | |
| Rent and other receivables | (\$1,006) | \$1,304 | (\$1,082) | \$32 |
| Residential inventory | (2,255) | — | (6,929) | — |
| Other current assets | 4,280 | 2,041 | (5,753) | (3,623) |
| Accounts payable and other liabilities | (7,082) | 671 | (10,100) | 3,864 |
| | (\$6,063) | \$4,016 | (\$23,864) | \$273 |

20. 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. For certain of the Trust's financial instruments the carrying value represents fair value due to the short term nature including, loan receivable, construction loans and credit facilities, and as such these items are not included in the table below. 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]

20. Financial Instruments and Financial Risk Management Objectives and Policies (continued)

The significant financial instruments and their carrying values as at September 30, 2022, and December 31, 2021, are as follows:

| As at Classification | September 30, 2022 | | December 31, 2021 | |
|---|--------------------|-------------|-------------------|-------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets carried at FVTPL: | | | | |
| Derivative asset ⁽¹⁾ | \$139 | \$139 | — | — |
| Financial liabilities carried at amortized cost: | | | | |
| Mortgages and loans payable ⁽²⁾ | \$1,941,624 | \$1,887,205 | \$1,915,334 | \$1,964,015 |
| Financial liabilities carried at FVTPL: | | | | |
| Exchangeable Units | \$61,065 | \$61,065 | \$94,461 | \$94,461 |
| Derivative liability ⁽¹⁾ | — | — | \$20 | \$20 |
| Deferred unit-based compensation | \$3,379 | \$3,379 | \$6,376 | \$6,376 |

(1) The \$0.1 million derivative asset is included in other non-current assets within the condensed consolidated interim statements of financial position (December 31, 2021 - \$0.02 million derivative liability, included in other non-current liabilities).

(2) Mortgages and loans payable does not include construction loans and credit facilities, the carrying value of these line items represents fair value.

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 4.0 years, plus an adequate credit spread, and were as follows:

| As at | September 30, 2022 | December 31, 2021 |
|------------------------|--------------------|-------------------|
| Mortgages - Apartments | 4.33% | 2.40% |
| Mortgages - MHCs | 4.83% | 3.00% |

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 | September 30, 2022 | | | December 31, 2021 | | |
|-------------------------------------|--------------------|----------|-------------|-------------------|----------|-------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| Investment properties | — | — | \$4,802,457 | — | — | \$4,540,877 |
| Derivative asset ⁽¹⁾ | — | \$139 | — | — | — | — |
| Liabilities | | | | | | |
| Exchangeable Units | — | \$61,065 | — | — | \$94,461 | — |
| Derivative liability ⁽¹⁾ | — | — | — | — | \$20 | — |
| Deferred unit-based compensation | — | \$2,857 | \$522 | — | \$4,859 | \$1,517 |

(1) The \$0.1 million derivative asset is included in other non-current assets within the condensed consolidated interim statements of financial position (December 31, 2021 - \$0.02 million derivative liability included in other non-current liabilities).

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 and nine months ended September 30, 2022.

Notes to the Condensed Consolidated Interim Financial Statements

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20. 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 September 30, 2022, \$242.4 million of Killam's debt had variable interest rates, including construction loans totalling \$130.2 million, amounts drawn on its credit facilities of \$108.4 million and one demand loan totalling \$3.8 million. These loans and facilities have interest rates of prime plus 0.55% - 1.25% or 105 - 155 bps above BAs (December 31, 2021 - prime plus 0.5% - 1.25% or 105-245 bps above BAs) 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 \$197.2 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by \$2.0 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 September 30, 2022 or 2021.

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 recognizing an expected credit loss in an allowance for doubtful accounts.

(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 and commercial assets do not qualify for CMHC insured debt; however, these assets 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 nine months ended September 30, 2022, Killam refinanced \$127.4 million of maturing apartment mortgages with new mortgages totalling \$176.9 million, generating net proceeds of \$49.5 million. 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 September 30, | Mortgage and loans payable | Construction loans ⁽¹⁾ | Credit facilities | Total |
|--|----------------------------|-----------------------------------|-------------------|-------------|
| 2023 | \$308,791 | \$130,199 | \$7,430 | \$446,420 |
| 2024 | 335,150 | — | 101,000 | 436,150 |
| 2025 | 310,911 | — | — | 310,911 |
| 2026 | 269,847 | — | — | 269,847 |
| 2027 | 210,345 | — | — | 210,345 |
| Thereafter | 546,279 | — | — | 546,279 |
| | \$1,981,323 | \$130,199 | \$108,430 | \$2,219,952 |

⁽¹⁾ 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 is expected to be repaid in full and replaced with conventional financing.

Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars (except as noted)
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21. 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 as a percentage of 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. The calculation of total debt as a percentage of total assets is summarized as follows:

| As at | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Mortgages and loans payable | \$1,941,624 | \$1,915,334 |
| Credit facilities | \$108,430 | \$61,730 |
| Construction loans | \$130,199 | \$77,596 |
| Total interest bearing debt | \$2,180,253 | \$2,054,660 |
| Total assets ⁽¹⁾ | \$4,847,931 | \$4,568,903 |
| Total debt as a percentage of total assets | 45.0% | 45.0% |

⁽¹⁾ Excludes right of use asset of \$9.6 million as at September 30, 2022 (December 31, 2021 - \$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 ⁽¹⁾ | Total Assets | Total Debt as % of Total Assets | Change (bps) |
|--|--|--------------|---------------------------------|--------------|
| (0.50)% | \$5,209,721 | \$5,255,195 | 41.5% | (350) |
| (0.25)% | \$4,913,820 | \$4,959,294 | 44.0% | (100) |
| —% | \$4,802,457 | \$4,847,931 | 45.0% | — |
| 0.25% | \$4,415,459 | \$4,460,933 | 48.9% | 390 |
| 0.50% | \$4,203,626 | \$4,249,100 | 51.3% | 630 |

⁽¹⁾ The cap-rate sensitivity is calculating the impact on Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method and Killam's commercial portfolio which is valued using the discounted cash flow method. The sensitivity for commercial assets is calculated using an implied capitalization rate based on the stabilized NOI of the properties.

22. 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 purchased a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta in 2018. Phase 1 was completed in January 2021 and Killam purchased the remaining 90% interest in the 233 unit property on January 21, 2021. Construction of Phase II commenced in December 2021 and Killam has a \$65.0 million commitment in place to purchase the remaining 90% interest following completion of construction and the achievement of certain conditions which are expected to occur in late 2023.

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

| Area | Utility | Usage Coverage | Term | Cost |
|---------|---------|----------------|--------------------------------------|-----------|
| Ontario | Gas | 25% | December 1, 2021 - October 31, 2023 | \$4.70/GJ |
| Alberta | Gas | 25% | December 1, 2021 - November 30, 2023 | \$3.81/GJ |

Notes to the Condensed Consolidated Interim Financial Statements

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

[unaudited]

23. Financial Guarantees

Killam is the guarantor on a joint and several basis for certain mortgage debt held through its joint operations. As at September 30, 2022, the maximum potential obligation resulting from these guarantees is \$73.6 million, related to long term mortgage financing (December 31, 2021 - \$75.1 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 September 30, 2022, determined that a provision is not required to be recognized in the condensed consolidated interim statements of financial position (December 31, 2021 - \$nil).

24. Related Party Transactions

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 an executive and Trustee of Killam. These properties are managed by a third party. Killam's head office occupies approximately 26,000 square feet of one of the buildings with base rent of approximately \$14.00 per square foot, of which 50% is paid to the related party based on the ownership interest.

25. Subsequent Events

On October 14, 2022, Killam announced a distribution of \$0.05833 per unit, payable on November 15, 2022, to unitholders of record on October 31, 2022.