

This *Fact Sheet* provides important information about KAI Properties Inc. You are encouraged to read this in conjunction with additional related disclosure set out in the *Relationship Disclosure Document (RDD)* and in your *Investment Policy Statement*. This *Fact Sheet* is applicable to clients who hold shares of KAI Properties Inc. directly and to those who have an interest in KAI Properties Inc. through ownership of the KAI Core Equity Pool.

Objectives

KAI Properties Inc. (KPI) is a private company formed to identify and invest in multi-family residential and commercial real estate with an objective of providing consistent and positive investment returns to its shareholders.

- KPI was formed to achieve further diversification than a traditional portfolio comprised of only listed equities and fixed income through the inclusion of private real estate.
- KPI invests in income producing real estate as a target asset because of the expectations surrounding its consistent historical performance, the tangible nature of the underlying asset, and the desire for fixed income-like characteristics with the added benefit of inflation protection.
- KPI predominantly acquires properties that have been developed and stabilized with a history of revenue and earnings and seeks to employ responsible leverage to enhance investment returns.
- To learn more about KPI, and the real estate assets it owns, please visit www.kaiproperties.ca.

Risks

The following is a summary of the risks of investing in KPI. Please note that this list is not exhaustive and has been provided to give you an indication of the factors that can affect the value of KPI shares.

- **Liquidity risk:** This is the risk that an investment cannot be readily sold to cash and that process might take an elongated period of time with no guarantee that it would be done in a timely fashion. KPI is an illiquid security. There is no market in which the shares of KPI can be sold and you should expect to hold your shares for a period of at least 10 years and perhaps for a longer period of time. KPI shares are subject to restrictions on transfer and may only be sold with the consent of the board of directors of the issuer. Direct ownership of KPI shares is suitable only for clients who are "Qualified Clients" and in accordance with other KAM policies. Qualified Clients are those who meet prescribed levels of financial assets, net worth, or income.
- **Real property ownership risk:** Certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs, and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If management of real property is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.
- **Shareholder disclosure risk:** KPI is not a reporting issuer under Canadian securities law and is not subject to the same disclosure obligations as public issuers. Investors will not receive continuous disclosure of information regarding the business.
- **Dependence on key personnel risk:** The management of KPI and the properties depend on the services of key personnel and the termination of employment by management of any of these key personnel could have a materially adverse effect on the business.
- **Litigation risk:** KPI may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all.
- **Interest rate risk:** It is anticipated that the value of real estate assets at any given time may be affected by the level of interest rates prevailing at that time. A rise in interest rates may have a negative effect on the value of the underlying real estate assets which may adversely influence the value of KPI.
- **Debt financing risk:** Management utilizes a combination of equity and debt financing for property acquisitions within KPI. There is a risk that KPI may be unable to make interest or principal payments or meet loan covenants, there is risk that defaults under a loan could result in cross defaults or other lender rights or remedies under other loans, and there is risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. The debt financing component within KPI is achieved either by assuming or incurring mortgage indebtedness only when management feels it is advantageous, such as assuming a favourable existing mortgage or new mortgage indebtedness when the terms are relatively attractive. Investors should be aware that while the use of leverage increases the potential for higher returns on equity it also increases the risk of loss if

there is a downward movement in asset values. Asset value declines are multiplied for shareholders of companies that utilize leverage in their capital structure. For example, if KPI maintains a leverage ratio of 70% debt to assets and asset market values decline by 15%, equity value will decline by 50%. As the leverage ratio increases, risk also increases. Based on current economic conditions management has targeted a debt to asset ratio of 70% for KPI. As economic conditions change, management may change the leverage target as it deems appropriate. As of March 31, 2023 the KPI leverage ratio was 69.9% debt to assets. Leveraging may not be appropriate during periods of high or escalating interest rates and should be utilized with consideration for the volatility of mortgage interest rates and the ability of the properties to absorb interest increases. Whenever possible management aims to lock in favourable long-term interest rates on its indebtedness. As of March 31, 2023 the weighted average interest rate on KPI indebtedness was 3.2% with a weighted average term to maturity of 5.9 years. Based on current operations KPI has cash flow sufficient to service all debt obligations and effectively operate the properties, however there is no guarantee that will continue indefinitely. If KPI defaults on its debt obligations it could result in permanent loss of shareholder capital.

- **Valuation risk:** The value calculated for KPI shares cannot be readily determined as there is no active market that can be applied to value these shares. The valuation process for KPI is addressed in the *Valuation of KAI Issuers* section of this *Fact Sheet*.
- **Government regulation risk:** KPI is invested in a regulated industry. Legislation is continually evolving, and changes thereto may give rise to ongoing financial and other obligations of KPI which may not be readily recoverable from tenants and may adversely influence the profitability of KPI.
- **Growth opportunities risk:** From time to time KPI may participate in growth initiatives that are deemed by management to be an optimal allocation of capital and accretive to shareholders. These opportunities may carry unique risks as there may be less assurance that such ventures will be sufficiently capitalized and profitable when compared to existing properties. However, management will not enter into such a transaction without conducting appropriate due diligence and making what they deem to be a prudent investment decision.
- **Inflation risk:** This is the risk of a decline in the purchasing power of savings due to a general rise in prices which reduces the real rate of return to investors. Inflation can also have an adverse impact on business operations as the rise in key input costs could materially impact profitability.
- **Company-specific risk:** This is the risk of unexpected company-specific events that can affect the value of its stock, bond or investment in private businesses such as, changes in market share, competitive environment, significant unexpected costs and the departure of key personnel. This risk is more pronounced in KPI than in public equity markets, as it operates as a portfolio of real estate assets.
- **Concentration risk:** This is the risk that any one security or group of securities may have concentrated investment exposure such as to a geographic area, business model, or management team. KPI has concentration risk as a portfolio of real estate assets located only in Western Canada.
- **Disposition risk:** KAI Holdings Inc. (KHI) may determine that a disposition of all or any part of KPI is a valid business decision. Any such transaction would be carried out in accordance with applicable law, and shareholders of KPI may not have any ability to approve or disapprove any such transaction. Such a transaction could impact a client's IPS, and in such an event, KAM will take such steps as are required to amend the client's IPS appropriately.

Related and connected issuer conflicts of interest

Under applicable securities laws, KPI is a "connected issuer" of KAI Asset Management Inc. (KAM) as Paul Allard and Robert MacKay are directors and officers of KPI, and directors, officers, and advising representatives of KAM. KAI Holdings Inc. (KHI) is the manager of KPI and is a "related issuer" to KAM as it controls KAM. Paul Allard and Robert MacKay are the directors and officers of KHI, and indirectly own substantially all the equity of and control KHI.

In consideration of management services that KHI provides to KPI pursuant to a management agreement, KHI receives fees (KAI Issuer Fees) from KPI, which indirectly benefit Mr. Allard and Mr. MacKay. These KAI Issuer Fees are paid by KPI directly, which has the effect of reducing funds that might otherwise be available to be paid as distributions to the owners of KPI.

Mitigation of related and connected Issuer conflicts of interest:

As registrants under applicable securities laws, and as CFA Charterholders, each of Mr. Allard and Mr. MacKay are obligated to act in the best interests of their clients. KAM has established policies, internal controls and independent processes that are intended to safeguard client interests and to provide reasonable assurance that activities are carried out appropriately. In

order to ensure that all proposed material transactions involving KPI are considered independently from the interests of Mr. Allard and Mr. MacKay, the Board of Directors of KAM has appointed an Independent Acquisitions and Compliance Committee (IACC) comprised of two independent professionals whose role is to review each such matter referred to the IACC by management and assess whether KAM has addressed conflict matters in the best interests of KAM's clients. This committee is intended to provide assurance that the conflicts of interest that may exist in the organizational structure are managed appropriately and do not disadvantage KAM clients.

KAI Issuer Fees

Your managed account will effectively bear a share of the below fees based on its proportionate ownership of KPI. A summary of these fees charged for the prior fiscal year are set out in each KAI Issuer's annual financial statements, which are available upon request.

KHI charges the following fees to KPI:

- a 1.0% Transaction Services Fee on the purchase price of each acquisition or sale price of each disposition made during the year and
- a 15% Performance Fee on Net Operating Income (NOI). The Performance Fee will only be charged if the annual NOI after charging Performance Fees is 5% or greater of Shareholder Paid-In Capital. For purposes of calculating Performance Fees, NOI excludes items such as interest, taxes, gains, losses, depreciation, amortization, Transaction Services Fees and any transaction expenses incurred by KPI related to an acquisition or disposition. For clarity any Transaction Services Fees are considered to be one-time charges and are not considered by management to be operating expenses of the business. Accordingly, these fees are not deducted in determining NOI for purposes of calculating the Performance Fee which has the effect of the Performance Fee being higher than if it was charged on net income of KPI.
- The following illustrates a hypothetical example of the different fee components discussed above that may be charged within KPI in any given year. The fees charged to KPI are variable from year to year depending on performance, acquisition/disposition activity however this example is intended to give an accurate representation of the annual fee structure within KPI:

KPI Total Fees Example		
Shareholder Paid-in Capital*	\$5,000,000	
Net Operating Income (NOI) Yr 1	\$830,000	
Annual Fees		
(A) Performance Fee	\$124,500	15.0% of NOI
NOI After Annual Fees	\$705,500	
Does NOI After Annual Fees Exceed 5%?	14.1%	YES
One Time Fees		
Acquisition Cost Yr 1	\$3,000,000	
(B) Transaction Services Fee Yr 1	\$30,000	1.0% of Acquisition Costs
(A)+(B) Total KAI Issuer Fees	\$154,500	

KPI Investor Example		
Investor Paid-in Capital Amount		\$50,000
Weight (%) of Investor Paid-in Capital Amount		1.0%
	Investor Experience (Annual)	
	Expressed in \$	% of Investment
Investor's Portion of NOI Before KAI Issuer Fees	\$8,300	16.6%
Investor's Portion of KAI Issuer Fees Charged	\$1,545	3.1%

**Shareholder Paid-in Capital is the amount of capital invested by shareholders during common stock issuances. It represents the funds raised by the business through selling its equity and not from ongoing business operations. Shareholder Paid-in capital will be reduced by the amount of stock buybacks should any occur in the future.*

KAI Issuer expense recoveries

KAM provides the services of certain KAM employees to the KAI Issuers which the directors of the KAI Issuers have determined to be necessary for the operations of the KAI Issuers. KAM charges the KAI Issuers on a cost recovery basis with no mark-up for the services.

Waiver of performance fees

KHI has agreed to waive all or the necessary part of the Performance Fee for any given quarter if KHI reasonably determines, acting in good faith, that KPI will be unable to satisfy payment of its then-current debt obligations. For sake of certainty, any KAI Issuer Fees that are waived in this manner are not accrued or deferred; they are waived.

Valuation of KAI Issuers

KPI valuations are prepared on a quarterly basis to determine the share price of KPI, which is then reflected in managed accounts. KAM engages an independent Chartered Business Valuator firm (CBV) to prepare valuations of KPI. The Independent Acquisition and Compliance Committee must approve the *KAI Issuer Valuation* policy and must review the appointment of the independent CBV.

For KPI, the independent CBV prepares a *Comprehensive Valuation Report* in accordance with the practice standards set out by the Canadian Institute of Chartered Business Valuators on an annual basis. Comprehensive valuation procedures performed by the CBV involve the highest standard of review and analysis including comprehensive review and analysis of the business and the industry and all other relevant information and factors used in the calculation. Interim quarterly valuations are determined by the CBV based on Estimation Valuation Procedures.

In any interim quarter where a significant “trigger event” occurs, KAM will consult with the CBV on the appropriate valuation report standard and may request a comprehensive valuation for that period. A “trigger event” is an event which may result in the impairment of assets, as described in *IAS 36.12*, which lays out external and internal indications of impairment. A trigger event will be considered significant if it would result in a material increase or decline in the share price of KPI.

Treatment of KAI Issuer Fees in relation to KAI Issuer Valuations

KHI charges KAI Issuer fees to KPI as explained above in consideration of management services that it provides KPI pursuant to management services agreements. The KAI Issuer Fees currently include performance fees and monitoring fees. Prior to November 1, 2019, KAI Issuer Fees also included shareholder equity management fees. KAI Issuer Fees do not relate to operational corporate overhead but relate to asset management activities provided by KHI to KPI. Shareholders of the KAI Issuers do not pay these expenses directly.

BDO Canada LLP (the CBV) performs quarterly independent valuations of KPI for KAM. The CBV utilizes a valuation methodology using a cost assumption that excludes the future impact of the KAI Issuer Fees. The CBV has determined that this cost assumption is appropriate as they have assumed that a prospective purchaser of KPI may not be required to incur the KAI Issuer Fees if they intend to manage the investments directly. If the CBV determines that the KAI Issuer Fees are likely

to remain in place for any and all third-party purchasers, then their conclusion of Fair Market Value would decrease. It should be noted that historical KAI Issuer Fees are accounted for in each valuation as the KAI Issuer Fees incurred reduce cash balances which directly impact equity value at the valuation date. This approach is set out in detail in the independent valuation reports of KPI which establish these valuations and are in conformity with the standards of the Canadian Institute of Chartered Business Valuators (CICBV). The valuations are used for purposes of determining KPI share prices, portfolio management fees charged to clients, and calculating performance results.

The cost assumption utilized within the methodology presents the potential for a conflict of interest for KAM because excluding the future impact of KAI Issuer Fees has the effect of producing a higher reported Fair Market Value for KPI which would determine higher investment portfolio management fees and performance results. KAM has thoughtfully considered this cost assumption and has determined that the Valuator's methodology achieves a result which is fair to clients as it best reflects the value KPI in a prospective sale situation. Regardless of KAM's opinion concerning the fairness of the approach chosen by the Valuator, KAM has taken multiple steps to respond to this potential conflict, specifically:

- The appointment of the CBV was approved by the IACC who confirmed that the firm was independent from KAM and properly qualified.
- The CBV performed the KAI Issuer valuations in accordance with CICBV standards and determined appropriate methodology and assumptions independently, without influence by KAM.
- KAM presented the potential conflict of interest related to the CBV's treatment of the KAI Issuer Fees to the IACC who determined that KAM's response achieves a fair and reasonable result for clients.
- KAM has disclosed the cost assumption to clients.