Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

Condensed Consolidated Interim Statements of Financial Position

In thousands of Canadian dollars,
[unaudited]

	Note	March 31, 2016	December 31, 2015
ASSETS			
Non-current assets			
Investment properties	[4]	**$1,849,147**	$1,840,256
Property and equipment		**4,892**	4,973
Other non-current assets		**963**	4,965
		1,855,002	1,850,194
Current assets			
Cash		**15,577**	11,673
Rent and other receivables		**2,859**	2,080
Loan receivable	[5]	**4,000**	-
Other current assets		**19,003**	12,329
		41,439	26,082
TOTAL ASSETS		**$1,896,441**	$1,876,276
EQUITY AND LIABILITIES			
Unitholders'/shareholders' equity		**$652,119**	$669,827
Accumulated other comprehensive loss ("AOCL")		**(142)**	(157)
Non-controlling interest		**15,731**	15,658
Total Equity		**667,708**	685,328
Non-current liabilities			
Mortgages and loans payable	[6]	**797,852**	784,629
Convertible debentures	[8]	**103,395**	99,627
Other liabilities		**9,845**	8,723
Exchangeable units	[9]	**55,140**	-
Deferred tax	[14]	**72,501**	112,145
		1,038,733	1,005,124
Current liabilities			
Mortgages and loans payable	[6]	**150,238**	156,218
Construction loans	[7]	**6,161**	4,115
Accounts payable and accrued liabilities		**31,871**	25,491
Deferred unit-based compensation	[12]	**1,730**	-
		190,000	185,824
Total Liabilities		**1,228,733**	1,190,948
TOTAL EQUITY AND LIABILITIES		**$1,896,441**	$1,876,276
Commitments and Contingencies	[19]		

See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

(signed) "G. Wayne Watson"
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 March 31, 2016**	Three months ended March 31, 2015
Property revenue		**$42,207**	$39,536
Property operating expenses			
Operating expenses		**(7,047)**	(6,732)
Utility and fuel expenses		**(6,711)**	(7,452)
Property taxes		**(5,019)**	(4,697)
		(18,777)	(18,881)
Net operating income		**23,430**	20,655
Other income		**289**	378
Financing costs	[13]	**(9,579)**	(9,113)
Depreciation		**(208)**	(180)
Amortization of deferred financing costs		**(364)**	(463)
Administration		**(3,599)**	(2,155)
Income before fair value adjustments, gain on disposition and income taxes		**9,969**	9,122
Fair value adjustment on convertible debentures		**1,913**	-
Fair value adjustment on unit-based compensation		**(212)**	-
Fair value adjustment on exchangeable units		**(6,173)**	-
Fair value adjustment on investment properties		**-**	793
Gain on disposition		**27**	-
Income before income taxes		**5,524**	9,915
Deferred tax recovery (expense)	[14]	**39,643**	(2,747)
Net income		**$45,167**	$7,168
Other comprehensive income loss			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to finance costs		**15**	10
Comprehensive income		**$45,182**	$7,178
Net income attributable to:			
Unitholders/common shareholders		**44,913**	6,922
Non-controlling interest		**254**	246
		$45,167	$7,168
Comprehensive income attributable to:			
Unitholders/common shareholders		**44,928**	6,932
Non-controlling interest		**254**	246
		$45,182	$7,178

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

In thousands of Canadian dollars,
[unaudited]

Three months ended March 31, 2016

	Trust Units	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
At January 1, 2016	**$-**	**$484,133**	**$2,150**	**$5,681**	**$177,863**	**$(157)**	**$15,658**	**$685,328**
REIT conversion, January 1, 2016 (note 3)	**447,566**	**(484,133)**	**(1,355)**	**(5,681)**	**(12,463)**	**-**	**-**	**(56,066)**
Unit Capital								
Exchange of exchangeable units	**460**	**-**	**-**	**-**	**-**	**-**	**-**	**460**
Distribution reinvestment plan	**1,696**	**-**	**-**	**-**	**-**	**-**	**-**	**1,696**
Restricted trust unit plan	**76**	**-**	**-**	**-**	**-**	**-**	**-**	**76**
Net income	**-**	**-**	**-**	**-**	**44,913**	**-**	**254**	**45,167**
Amortization of loss on forward interest rate hedge	**-**	**-**	**-**	**-**	**-**	**15**	**-**	**15**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**(181)**	**(181)**
Distributions on trust units								
Distributions declared and paid	**-**	**-**	**-**	**-**	**(5,852)**	**-**	**-**	**(5,852)**
Distributions payable	**-**	**-**	**-**	**-**	**(2,935)**	**-**	**-**	**(2,935)**
At March 31, 2016	**$449,798**	**$-**	**$795**	**$-**	**$201,526**	**$(142)**	**$15,731**	**$667,708**

Three months ended March 31, 2015

	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
At January 1, 2015	$459,138	$2,417	$5,681	$180,793	$(198)	$14,852	$662,683
Share capital							
Dividend reinvestment plan	1,010	-	-	-	-	-	1,010
Stock options exercised	2,191	(274)	-	-	-	-	1,917
Issuance of shares for acquisitions	12,000	-	-	-	-	-	12,000
Restricted share units redeemed	147	(229)	-	-	-	-	(82)
Share-based compensation	-	409	-	-	-	-	409
Net Income	-	-	-	6,922	-	246	7,168
Amortization of loss on forward interest rate hedge	-	-	-	-	10	-	10
Distribution to non-controlling interest	-	-	-	-	-	(219)	(219)
Dividends declared and paid	-	-	-	(6,090)	-	-	(6,090)
Dividends payable	-	-	-	(3,113)	-	-	(3,113)
At March 31, 2015	$474,486	$2,323	$5,681	$178,512	$(188)	$14,879	$675,693

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,

Three months ended March 31,

	Note	**2016**	2015
OPERATING ACTIVITIES			
Net income		**$45,167**	$7,168
Add (deduct) items not affecting cash			
Fair value gain on convertible debentures	[3] , [8]	**(1,913)**	-
Fair value loss on unit-based compensation	[3]	**212**	-
Fair value loss on exchangeable units	[3]	**6,173**	-
Fair value gain on investment properties		**-**	(793)
Depreciation and amortization		**572**	643
Non-cash compensation expense	[12]	**(2)**	13
Deferred income taxes		**(39,643)**	2,747
Gain on disposition		**(27)**	-
Financing costs	[13]	**9,579**	9,113
Interest paid		**(7,683)**	(7,770)
Net change in non-cash operating activities	[16]	**679**	(5,751)
Cash provided by operating activities		**$13,114**	$5,370
FINANCING ACTIVITIES			
Deferred financing costs paid		**(1,042)**	(1,292)
Costs/proceeds on issuance of units/common shares		**(61)**	1,863
Mortgage financing		**28,038**	47,033
Mortgages repaid on maturity		**(12,313)**	(18,661)
Mortgage principal repayments		**(7,657)**	(6,513)
Proceeds from construction loans		**2,047**	5,410
Construction loans repaid on maturity		**-**	(10,000)
Distributions paid to non-controlling interest	[11]	**(181)**	(219)
Distributions to unitholders/shareholders	[11]	**(7,788)**	(8,083)
Cash provided by financing activities		**$1,043**	$9,538
INVESTING ACTIVITIES			
Increase in restricted cash		**(1,274)**	(1,562)
Acquisition and development of investment properties, net of debt assumed		**(4,463)**	(7,464)
Disposition of investment property		**42**	-
Capital expenditures		**(4,558)**	(4,839)
Cash used in investing activities		**$(10,253)**	$(13,865)
Net increase in cash		**3,904**	1,043
Cash, beginning of period		**11,673**	18,847
Cash, end of period		**$15,577**	$19,890

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

Dollar amounts in thousands of Canadian dollars
[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 and manufactured home communities ("MHCs") in Canada.

Effective January 1, 2016, Killam Properties Inc. (the "Company") completed its plan of arrangement to convert into a real estate investment trust and approval was granted by the Toronto Stock Exchange ("TSX") on January 4, 2016. Under the reorganization, shareholders of Killam received one trust unit ("Trust Unit") or one Class B Limited Partnership Unit ("Exchangeable Unit") of a controlled limited partnership of the Trust, for each common share of Killam held. Consequently, any references to common shares, shareholders and per share amounts relate to periods prior to the conversion on January 1, 2016 and any references to Trust Units, unitholders and per unit amounts relate to periods subsequent to January 1, 2016.

Since the Trust is a continuation of Killam Properties Inc., the prior year comparatives included in these condensed consolidated interim financial statements are those of the Company. The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at March 31, 2016. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Trust's registered office is located at 2571 Windsor Street, Halifax, NS, B3K 5C4.

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* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure 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, 2016, were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on May 10, 2016.

(B) Basis of Presentation

The condensed consolidated interim financial statements of Killam have been prepared on a historical cost basis, except for investment properties, unit-based compensation, convertible debentures 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 share, per unit or as noted amounts.

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, 2015, and, after the changes described in note 2(c) and note 2(e), have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three months ended March 31, 2016, are not necessarily indicative of results that may be expected for the full year ended December 31, 2016, due to seasonal variations in property expenses and other factors.

(C) Financial Assets and Liabilities

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS, 7 *Financial Instruments: Disclosures*, IAS 32, *Financial Instruments: Presentation* ("IAS 32") and IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). Killam recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at fair value through profit or loss ("FVTPL"), are measured at fair value plus transaction costs on initial recognition. Financial assets at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

2. Significant Accounting Policies (continued)

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. The following summarizes Killam's classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Rent, loans and other receivables	Loans and Receivables	Amortized cost
Accounts payable and accrued liabilities	Other Financial Liabilities	Amortized cost
Mortgages and construction loans	Other Financial Liabilities	Amortized cost
Convertible debentures	FVTPL	Fair value
Exchangeable Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value

Financial Liabilities at Fair Value Through Profit and Loss
Convertible debentures issued by the Trust are convertible into Trust Units at the option of the holder and the number of Trust Units to be issued does not vary with changes in their fair value. As the Trust's Units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives.

Effective January 1, 2016, the Trust has elected to record the full outstanding amount of each convertible debenture at fair value determined using the closing trading prices, for publicly traded convertible debentures. Changes in fair value are recognized in the condensed consolidated interim statements of income and comprehensive income (refer to note 3).

The Exchangeable Units of the Trust are exchangeable into units of the Trust at the option of the holder. These Exchangeable Units are considered puttable instruments in accordance with IAS 32, and are required to be classified as financial liabilities at FVTPL. The distributions paid on the Exchangeable Units are accounted for as finance costs.

Trust Unit
Killam's Trust Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. Killam's Trust Units meet the conditions of IAS 32 as they are the most subordinate to all other classes of instruments and are, therefore, presented as equity on the condensed consolidated statement of financial position.

(D) Deferred Unit-based Compensation
Unit-based compensation benefits in the form of restricted trust units ("RTUs") are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, the RTUs are presented as a liability on the condensed consolidated statements of financial position as the Trust is obliged to provide the holder with Trust Units once the deferred units vest. The RTUs are classified as current, except for the vested portion expected to be realized or paid beyond 12 months of the reporting date. Compensation expense is recognized over the vesting period and included in administration costs on the condensed consolidated interim statements of income and comprehensive income.

Under IAS 19 – *Employee Benefits*, the RTUs are classified at FVTPL and are measured at each reporting period at fair value with changes in fair value recognized in the condensed consolidated interim statements of income and comprehensive income. Fair value is determined with reference to the market price of the Trust's Units.

(E) Taxation
Effective January 1, 2016, Killam qualified as a "mutual fund trust" as defined under the *Income Tax Act* (Canada) and as a Real Estate Investment Trust ("REIT") eligible for the "REIT Exemption" in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, the Trust is not taxable on its income provided that all of its taxable income is distributed to its unitholders. This exemption, however, does not extend to the corporate subsidiaries of Killam that are subject to income taxes.

Dollar amounts in thousands of Canadian dollars

3. REIT Conversion Adjustments

A description of the adjustments recorded effective January 1, 2016 related to Killam's conversion to a REIT are as follows:

(a) Exchangeable Units
The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The Trust Units are redeemable at the option of the holders, and are, therefore, considered puttable instruments in accordance with IAS 32, while the Exchangeable Units are considered a financial liability. The distributions on the Exchangeable Units are recognized as interest expenses in the condensed consolidated interim statements of income and comprehensive income. The interest payable as at the reporting date is reported under other current liabilities on the condensed consolidated interim statements of financial position. On initial recognition, the Exchangeable Units are measured at fair value, with the related fair value gain being recorded through retained earnings. Subsequently, the Exchangeable Units are remeasured at each reporting date at fair value, with changes in the carrying amount recognized as a fair value adjustment within net income.

Effective January 1, 2016, 4,748,061 Exchangeable Units were issued and $36.6 million was reclassified from unitholders' equity to Exchangeable Units on the condensed consolidated interim statement of financial position. The Exchangeable Units were recorded at fair value using Killam's unit price on January 4, 2016, and the related fair value loss of $12.9 million was recorded through retained earnings.

(b) Convertible Debentures
The convertible debentures are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon conversion of the convertible debentures. As the Trust Units are redeemable at the option of the holder, and are, therefore, considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives. As at January 1, 2016, Killam has elected to record the full outstanding amount of each convertible debenture at fair value using the closing trading price for each convertible debenture on the TSX on each reporting date with changes in fair value recognized in the condensed consolidated interim statements of income and comprehensive income.

Effective January 1, 2016 the convertible debentures were re-measured at fair value. The difference between the fair value and the carrying amount included $5.7 million recorded in other paid-in capital, which represented the value of the conversion option of each convertible debenture on issuance. This balance net of $1.4 million in deferred financing costs were reclassified to the convertible debentures liability. The modification of the convertible debentures as a result of the REIT conversion was treated as an extinguishment and resulted in a gain of $3.1 million included in the fair value gain on the statement of income and comprehensive income.

(c) Restricted Trust Units ("RTUs")
The RTUs are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon conversion of the RTUs. As the Trust Units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the RTUs are also considered a financial liability. The RTUs are measured at fair value using Killam's unit price on each reporting date with changes in fair value recognized in the condensed consolidated interim statements of income and comprehensive income.

Effective January 1, 2016, $1.4 million was reclassified from contributed surplus to deferred unit-based compensation and a fair value gain of $0.4 million was recorded through retained earnings. The deferred unit-based compensation was calculated using Killam's unit price on the TSX on January 4, 2016.

(d) Deferred Income Taxes
Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability to reflect the tax status of the Trust as a flow-through vehicle. The deferred tax liability recorded on the condensed consolidated interim statements of financial position relates only to the corporate subsidiary entity of the REIT. The derecognition of the deferred tax liability was recorded through net income.

The reconciliation of the deferred tax liability as at January 1, 2016, is as follows:

Deferred tax liability as at January 1, 2016, opening	$112,145
Derecognition on conversion to REIT	(39,997)
Deferred tax liability as at January 1, 2016, closing	$ 72,148

Dollar amounts in thousands of Canadian dollars

4. Investment Properties

As at March 31, 2016

Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of period	**$1,636,744**	**$125,648**	**$32,188**	**$45,676**	**$1,840,256**
Acquisitions	**364**	**-**	**-**	**-**	**364**
Dispositions	**-**	**(8)**	**-**	**-**	**(8)**
Capital expenditure on investment properties	**4,180**	**70**	**182**	**-**	**4,432**
Capital expenditure on IPUC	**-**	**-**	**-**	**3,878**	**3,878**
Interest capitalized on IPUC	**-**	**-**	**-**	**225**	**225**
Balance, end of period	**$1,641,288**	**$125,710**	**$32,370**	**$49,779**	**$1,849,147**

As at December 31, 2015

Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of year	$1,568,203	$122,629	$2,223	$40,840	$1,733,895
Fair value (loss) gain on investment properties	(6,837)	734	-	-	(6,103)
Acquisitions	13,020	-	28,904	17,973	59,897
Dispositions	-	-	-	(1,143)	(1,143)
Transfer from IPUC	36,147	-	-	(36,147)	-
Transfer to IPUC	(2,300)	-	-	2,300	-
Capital expenditure on investment properties	28,511	2,285	1,061	-	31,857
Capital expenditure on IPUC	-	-	-	20,764	20,764
Interest capitalized on IPUC	-	-	-	1,089	1,089
Balance, end of year	$1,636,744	$125,648	$32,188	$45,676	$1,840,256

During the three months ended March 31, 2016, Killam capitalized salaries of $0.7 million (three months ended March 31, 2015 - $0.7 million), as part of its project improvement, suite renovation and development programs.

For the three months ended March 31, 2016, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development using Killam's weighted average borrowing rate of 3.60% (March 31, 2015 - 3.83%). Interest costs associated with construction loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1.8 billion as at March 31, 2016, (December 31, 2015 - $1.8 billion) are pledged as collateral against Killam's mortgages payable.

Valuation Basis

Killam has engaged a leading independent national real estate appraisal firm with representation and expertise across Canada to provide appraisals on approximately 20% of its portfolio by value annually. Properties are rotated annually to ensure that every property is externally valued at least once every five years. The investment properties are valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income (“NOI”) of each property is divided by an overall capitalization rate ("cap-rate"). Each quarter, Killam utilizes cap-rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. Changes in the externally provided cap-rates or results of operations from one reporting period to the next would increase or decrease the fair value of the investment properties.

Dollar amounts in thousands of Canadian dollars

4. Investment Properties (continued)

Investment properties have been valued using the same valuation methods and key assumptions as those described in note 5 of Killam's audited consolidated financial statements for the year ended December 31, 2015 contained in Killam's 2015 Annual Report.

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 4.12% to 8.00%, applied to a stabilized NOI of $91.7 million (December 31, 2015 - 4.12% to 8.0% and $91.3 million), resulting in an overall weighted average cap-rate of 5.53% (December 31, 2015 - 5.53%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.2% to 97.9% (December 31, 2015 - 93.2% to 97.9%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of $8.5 million (December 31, 2015 - 5.75% to 8.0% and $8.5 million), resulting in an overall weighted average cap-rate of 6.82% (December 31, 2015 - 6.82%). The stabilized occupancy rate used in the calculation of NOI was 97.5% (December 31, 2015 - 97.5%).

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, 2016			December 31, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.53%**			5.53%
Halifax	5.00%	7.33%	5.58%	5.00%	7.33%	5.58%
Moncton	5.15%	8.00%	6.03%	5.15%	8.00%	6.04%
Fredericton	5.15%	6.25%	5.90%	5.15%	6.25%	5.90%
Saint John	6.00%	6.75%	6.40%	6.00%	6.75%	6.40%
St. John's	5.00%	6.00%	5.68%	5.00%	6.00%	5.68%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.25%	5.94%
Ontario	4.12%	5.00%	4.63%	4.12%	5.00%	4.63%
Alberta	4.85%	4.85%	4.85%	4.85%	4.85%	4.85%
Other Atlantic	5.75%	7.00%	6.57%	5.75%	7.00%	6.57%
MHCs			**6.82%**			6.82%
Ontario	7.00%	8.00%	7.49%	7.00%	8.00%	7.49%
Nova Scotia	5.75%	7.00%	6.22%	5.75%	7.00%	6.22%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

For the three months ended March 31, 2016, Killam did not record any fair value gains or losses for Q1-2016. As part of the valuation model completed during Q1-2016, Killam identified a fair value loss on its 50% interest in its Alberta property of $1.4 million, however this was offset by fair value gains generated from increased NOI across the portfolio.

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's portfolio of properties given the change in the noted input:

Class of property	**Capitalization rate**	
	10 basis points increase	*10 basis points decrease*
Apartments	$(29,435)	$30,519
MHCs	$(1,802)	$1,856

The investment property segment defined as other consists of three commercial properties.

Dollar amounts in thousands of Canadian dollars

5. Loan Receivable

Loan receivable as at March 31, 2016, includes a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property issued in May 2014, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is expected in the second quarter of 2016.

6. Mortgages and Loans Payable

As at	March 31, 2016		December 31, 2015	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.21%**	**$931,106**	3.27%	$923,835
Variable rate	**4.34%**	**11,759**	4.34%	11,778
Vendor financing	**3.01%**	**5,225**	3.01%	5,234
Total		**$948,090**		$940,847
Current		**150,238**		156,218
Non-current		**797,852**		784,629
		$948,090		$940,847

Mortgages are collateralized by a first charge on the properties of Killam and vendor mortgages are collateralized by either a second charge on the property or a general corporate guarantee.

As at March 31, 2016, unamortized deferred financing costs of $20.4 million (December 31, 2015 - $19.8 million) and mark-to-market premiums on mortgages assumed on acquisitions of $0.6 million (December 31, 2015 - $0.8 million) are netted against mortgages and loans payable.

Estimated future principal payments required to meet mortgage obligations as at March 31, 2016, are as follows:

	Principal Amount	**% of Total Principal**
2017	$150,238	15.5%
2018	123,059	12.7%
2019	131,519	13.6%
2020	181,176	18.7%
2021	158,425	16.4%
Subsequent to 2021	223,487	23.1%
	967,904	100.0%
Unamortized deferred financing costs	(20,431)	
Unamortized mark-to-market adjustments	617	
	$948,090	

Dollar amounts in thousands of Canadian dollars

6. Mortgage and Loans Payable (continued)

Killam has two credit facilities with major financial institutions, which are set out as follows:

I. A $2.0 million revolving demand facility that can be used for Killam's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 basis points ("bps") on prime rate advances or 225 bps over Banker's Acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at March 31, 2016, Killam had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $nil (December 31, 2015 - $nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

II. A $1.5 million revolving demand facility that can be used for Killam's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at March 31, 2016, Killam had assets with a carrying value of $1.8 million pledged as collateral and letters of credit total $1.5 million outstanding against the facility (December 31, 2015 - $1.5 million). The agreement includes certain covenants and undertakings of which Killam is in compliance.

7. Construction Loan

As at March 31, 2016, Killam had access to a $10.1 million floating rate non-revolving demand construction loan for the purpose of financing a development project. Payments are made monthly on an interest only basis. The construction loan has an interest rate of prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loan will be repaid in full and converted into a conventional mortgage. As at March 31, 2016, $6.2 million (December 31, 2015 - $4.1 million) was drawn at a weighted average interest rate of 3.45% (December 31, 2015 - 3.45%).

8. Convertible Debentures

Face Interest Rate %	**Conversion Price**	**Face Amount**	**Maturity Date**	**March 31, 2016(1)**	December 31, 2015(2)
5.65%	$13.40	$57,500	November 30, 2017	**$57,251**	$55,873
5.45%	$14.60	$46,000	June 30, 2018	**46,144**	45,160
				103,395	101,033
Less: Deferred financing charges				**-**	(1,406)
				$103,395	$99,627

(1) Recorded at fair value based on closing market trading prices of the debentures.
(2) Recorded at carrying value net of unamortized deferred financing costs.

Killam's $57.5 million convertible subordinated debentures were redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015 (provided that the current market price of the common shares of Killam on the date on which the notice of redemption was given was not less than 125% of the conversion price). After November 30, 2015, the debentures were redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturing). Effective January 1, 2016, the convertible debentures are classified as FVTPL and measured at fair value (refer to note 3).

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016 (provided that the current market price of the Trust Units of Killam on the date on which the notice of redemption is given is not less than 125% of the conversion price). After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturing). Effective January 1, 2016, the convertible debentures are classified as FVTPL and measured at fair value (refer to note 3).

Dollar amounts in thousands of Canadian dollars

9. Exchangeable Units

The Exchangeable Units, representing an aggregate fair value of $55.1 million as at March 31, 2016 (December 31, 2015 - $nil), 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 which would have been made had the units been exchanged for Killam Trust Units. As at March 31, 2016, there were 4,708,811 Exchangeable Units issued and outstanding (December 2015 - $Nil) (refer to note 3).

For the three months ended March 31,

	2016	
	Number of Exchangeable Units	**Value**
Balance, beginning of period	-	-
Trust units exchanged for exchangeable units on conversion	4,748,061	$36,567
Fair value adjustment on conversion	-	12,860
Exchangeable units exchanged	(39,250)	(460)
Fair value adjustment as at March 31	-	6,173
Balance, end of period	**4,708,811**	**$55,140**

10. Unitholders' Equity/Capital Stock

Under the reorganization of the Company to a real estate investment trust, the former shareholders of the Company received Trust Units or Exchangeable Units. The interests in Killam are represented by two classes of units: a class described and designated as "Trust Units" and a class described and designated as "Special Voting Units". The Special Voting Units, are used to provide voting rights to holders of Exchangeable Units that are exchangeable for Trust Units. The Exchangeable Units are classified as a financial liability in accordance with IAS 32 (refer to note 3).

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, 2016, no unitholders redeemed units.

Dollar amounts in thousands of Canadian dollars

10. Unitholders' Equity/Capital Stock (continued)

The units issued and outstanding are as follows:

	Number of Trust Units	Number of Common Shares	Value
Balance, January 1, 2015	-	60,475,979	$459,138
Dividend reinvestment plan	-	96,438	1,010
Stock options exercised	-	234,917	2,191
Shares issued for acquisition	-	1,092,548	12,000
Restricted trust units redeemed	-	12,566	147
Balance, March 31, 2015	-	61,912,448	$474,486
Dividend reinvestment plan	-	571,156	5,897
Stock options exercised	-	132,990	1,267
Shares issued for acquisitions	-	249,311	$2,536
Restricted trust units redeemed	-	18,129	139
Repurchase through NCIB	-	(21,000)	(192)
Balance, December 31, 2015	-	62,863,034	$484,133
REIT conversion adjustments (January 1, 2016)	**58,114,973**	**(4,748,061)**	**(36,567)**
Distribution reinvestment plan	**159,341**	**-**	**1,696**
Restricted share units redeemed	**16,973**	**-**	**76**
Units issued on exchange of exchangeable units	**39,250**	**-**	**460**
Balance, March 31, 2016	**58,330,537**	**58,114,973**	**$449,798**

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 TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration.

Normal Course Issuer Bid

In July 2015, Killam announced that the TSX had accepted its notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 1,500,000 common shares/Trust Units commencing on July 30, 2015, and ending July 29, 2016. The normal course issuer bid was not affected by Killam's conversion to a REIT (refer to note 1). All purchases of units are made through the facilities of the TSX at the market price of the units at the time of the acquisition. Daily repurchases by Killam are limited to 23,698 Trust Units, other than block purchase exemptions. Any units acquired will be cancelled. For the three months ended March 31, 2016, no units were purchased and cancelled.

11. Distributions

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

For the three months ended March 31, 2016, the distributions declared were $8.8 million (dividends declared for the three months ended March 31, 2015 - $9.2 million). For the three months ended March 31, 2016, distributions paid or payable related to the Exchangeable Units were $0.7 million (March 31, 2015 - $nil).

Dollar amounts in thousands of Canadian dollars

12. Unit-based Compensation

Unit/Stock Option Plan

Killam replaced its stock option plan with a restricted share unit plan in 2011. All remaining outstanding stock options were exercised in May 2015. For the three months ended March 31, 2015, there were no stock options granted and 234,917 stock options were exercised at a weighted average price of $8.16. As at March 31, 2015, there were 132,990 stock options outstanding at a weighted average price of $8.16.

Restricted Trust Units / Restricted Share Units ("RSUs")

Killam's Restricted Trust Unit Plan ("RTU Plan") gives members of the senior executive team and directors the right to receive a percentage of their annual bonus and non-executive members of the Board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The Compensation Committee has established the following parameters on the percentage of the annual bonus and annual retainer which may be allocated to RTUs:

	Minimum	**Maximum**
Non-executive board members	-%	100%
Chief Executive Officer and Chief Financial Officer	50%	50%
Other executives and director-level employees	25%	50%

Killam will match the elected amount in the form of RTUs having a value equal to 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 payable. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions are used to acquire 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. The RTUs will be redeemed and paid out by December 31 of the year in which the RTUs have vested. The RTUs shall vest with the following schedule: (a) 50% on the second anniversary of the grant rate; and (b) 50% on the third anniversary of the grant date.

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 for the period ended March 31, 2016, is $1.7 million (December 31, 2015 - $nil). As at December 31, 2015, $1.4 million was included in contributed surplus related to the RSUs.

For the three months ended March 31, 2016, compensation expense of $0.2 million (March 31, 2015 - $0.1 million) has been recognized in respect of the RTUs/RSUs.

The details of the RTUs issued under the RTU Plan are shown below:

For the three months ended March 31,	**2016**		2015	
	Number of RTUs	**Weighted Average Issue Price**	Number of RSUs	Weighted Average Issue Price
Outstanding, beginning of period	**184,105**	**$10.40**	140,513	$11.01
Granted	**136,412**	**10.75**	61,228	10.87
Redeemed	**(32,863)**	**10.40**	(20,420)	12.64
Forfeited	**(517)**	**10.88**	-	-
Additional restricted trust unit/share distributions	**3,132**	**10.78**	1,937	10.74
Outstanding, end of period	**290,269**	**$10.57**	183,258	$10.78

Dollar amounts in thousands of Canadian dollars

13. Financing Costs

For the three months ended March 31,	**2016**	2015
Mortgage, loan and construction loan interest	**$7,776**	$7,940
Interest paid on exchangeable units	**711**	-
Amortization of fair value adjustments on assumed debt	**(145)**	(122)
Amortization of loss on interest rate hedge	**11**	10
Convertible debenture interest	**1,451**	1,712
Capitalized interest	**(225)**	(427)
	$9,579	$9,113

14. Deferred Income taxes

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 January 1, 2016, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at March 31, 2016, and is therefore not subject to taxation. Killam expects to continue to meet the REIT Exemption through the remainder of 2016. For the three months ended March 31, 2016, the deferred tax expense recorded relates to the corporate subsidiary entity of the REIT.

Dollar amounts in thousands of Canadian dollars

15. 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. 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, MHC and other 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;
- Other segment - includes three commercial properties, and Killam's head office and regional office administration costs.

Killam's administration costs, other income, financing costs, depreciation and amortization, fair value adjustments, gain on disposition and deferred tax expense are not reported to the members of executive management 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 of the audited consolidated financial statements for the year ended December 31, 2015, plus additions in note 2(c) through 2(e) of the condensed consolidated interim financial statements. Reportable segment performance is analysed based on NOI. The operating results, assets and liabilities, and capital expenditures of the reportable segments are as follows:

For the three months ended March 31, 2016	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$38,165**	**$2,849**	**$1,193**	**$42,207**
Property operating expenses	**(16,825)**	**(1,289)**	**(663)**	**(18,777)**
Net operating income	**$21,340**	**$1,560**	**$530**	**$23,430**
Total assets	**$1,672,625**	**$128,220**	**$95,596**	**$1,896,441**
Total liabilities	**$910,331**	**$59,986**	**$258,416**	**$1,228,733**

For the three months ended March 31, 2015	Apartments	MHCs	Other	Total
Property revenue	$36,624	$2,780	$132	$39,536
Property operating expenses	(17,531)	(1,247)	(103)	(18,881)
Net operating income	$19,093	$1,533	$29	$20,655
Total assets	$1,597,382	$149,540	$80,568	$1,827,490
Total liabilities	$864,662	$57,816	$229,319	$1,151,797

Dollar amounts in thousands of Canadian dollars

16. Supplemental Cash Flow Information

For the three months ended March 31,	2016	2015
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**$(779)**	$(285)
Other current assets	**(5,399)**	(4,817)
Accounts payable and accrued liabilities	**6,857**	(649)
	$679	$(5,751)

17. Financial Risk Management Objectives and Policies

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

Killam may also 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 have the majority of its mortgages payable 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, 2016, no mortgages or vendor debt had floating interest rates except for five demand loans total $11.8 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2015 - prime plus 1.0% - 2.0%). As at March 31, 2016, Killam also has a construction loan total $6.1 million with a floating interest rate of prime to prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on this loan.
An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt as at March 31, 2016, would affect financing costs by approximately $9.7 million per year. However, only $113.1 million of Killam's fixed mortgage and vendor debt matures in the next 12 months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.1 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 with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Killam's exposure to bad debt is not significant. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 1% of the tenant receivables as at March 31, 2016, or 2015. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(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 CMHC insured debt, thereby reducing the refinancing risk on mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt; however, they continue to have access to 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 period ended March 31, 2016, Killam refinanced $13.9 million of maturing apartment mortgages with new mortgages total $28.4 million for net proceeds of $14.5 million. As well, Killam refinanced $0.5 million of maturing MHC mortgages with new mortgages total $1.8 million for net proceeds of $1.3 million.

Dollar amounts in thousands of Canadian dollars

17. Financial Risk Management Objectives and Policies (continued)

The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities over the next five years as at March 31, 2016:

For the twelve months ended March 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2017	$150,238	$6,161	$ -	**$156,399**
2018	123,059	-	57,500	**180,559**
2019	131,519	-	46,000	**177,519**
2020	181,176	-	-	**181,176**
2021	158,425	-	-	**158,425**
Thereafter	223,487	-	-	**223,487**
	$967,904	$6,161	$103,500	**$1,077,565**

Capital Management

The primary objective of Killam's capital management is to ensure that it maintains a healthy capital ratio in order to support its 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 new units, issue debt securities or adjust mortgage financing on properties.

Killam monitors capital using a total debt to total assets ratio. Killam's strategy is for its total debt to total assets ratio to not exceed 65%. The calculation of the total debt to total assets is summarized as follows:

As at	March 31, 2016	December 31, 2015
Mortgages, loans payables and construction loans	**$954,251**	$944,962
Convertible debentures	**103,395**	99,627
Total debt	**$1,057,646**	$1,044,589
Total assets	**$1,896,441**	$1,876,276
Total debt as a percentage of total assets	**55.8%**	55.7%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at March 31, 2016, would increase the debt as a percentage of assets by 90 bps.

Dollar amounts in thousands of Canadian dollars

18. Fair Value Measurement

Fair Value of Financial Instruments

Fair value is the amount that would be received to sell 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 value of the loans receivable are 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 receive or pay in actual market transactions;

(ii) 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;

(iii) the fair value of the convertible debentures are based on a quoted market price as at the reporting date;

(iv) the fair value of the deferred unit-based compensation and the Exchangeable Units are estimates at the reporting date, based on the closing market price of the Trust Units listed on the TSX.

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. The significant financial instruments of Killam and their carrying values as at March 31, 2016 and December 31, 2015, are as follows:

As at		**March 31, 2016**		December 31, 2015
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at amortized cost:				
Loans receivable(1)	**$4,950**	**$4,960**	$4,950	$4,949
Financial liabilities carried at amortized cost:				
Mortgages payable	**$948,090**	**$1,002,293**	$940,847	$995,709
Convertible debentures	**$-**	**$-**	$99,627	$102,160
Financial liabilities carried at FVTPL:				
Exchangeable units	**$55,140**	**$55,140**	$-	$-
Convertible debentures	**$103,395**	**$103,395**	$-	$-
Deferred unit-based compensation	**$1,730**	**$1,730**	$-	$-

(1) the $0.95 million loan receivable is included in the other non-current assets within the condensed consolidated interim financial statements of financial position.

Dollar amounts in thousands of Canadian dollars

18. Fair Value Measurement (continued)

The interest rates used to discount the estimated cash flows, when applicable, are based on the five-year Government of Canada yield curve at the reporting date, plus an adequate credit spread, and were as follows:

As at	**March 31, 2016**	December 31, 2015
Mortgages - Apartments	**1.88%**	1.73%
Mortgages - MHCs	**3.30%**	3.33%

The fair value of Killam's mortgages payable exceeded the recorded value, due to changes in interest rates since the dates on which the individual mortgages were last contracted. The fair values of the mortgages payable have been estimated based on the current market rates for mortgages with similar terms and conditions. The fair value of Killam's mortgages payable is an amount computed based on the interest rate environment prevailing at March 31, 2016 and December 31, 2015, respectively.

Assets and Liabilities Measured at Fair Value

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, 2016**			December 31, 2015	
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	**-**	**-**	**$1,849,147**	-	**-**	$1,840,256
Liabilities						
Exchangeable units	**$55,140**	**-**	**-**	-	**-**	**-**
Convertible debentures	**$103,395**	**-**	**-**	-	-	-
Deferred unit-based compensation	**$1,730**	**-**	**-**	-	**-**	**-**

The three levels of the fair value hierarchy are described in note 3 to the audited consolidated financial statements for the year ended December 31, 2015. Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. As at March 31, 2016, and December 31, 2015, there were no transfers of assets or liabilities between Level 1, Level 2 and Level 3.

19. Commitments and Contingencies

Commitments primarily related to capital investment in investment properties and IPUC of $5.9 million were outstanding at March 31, 2016 (December 31, 2015 - $8.1 million).

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.

20. Subsequent Events

On April 18, 2016, Killam announced a distribution of $0.05 per unit, payable on May 16, 2016, to unitholders of record on April 29, 2016.

Subsequent to March 31, 2016, Killam has agreed to acquire the remaining 51% ownership interest in Garden Park Apartments in Halifax for $23.7 million, which will result in Killam owning 100% of the well-located property. Killam has been acquiring ownership interests in the 246-unit apartment since its first investment in the property in 2005 and has been acting as the property manager for the building since 2011. The Garden Park acquisition will be fully-funded through a new mortgage on the property; the property is currently free and clear of any mortgage debt. The acquisition is expected to close in June 2016.

Subsequent to March 31, 2016, Killam has agreed to acquire a 50% interest in Kanata Lake Apartments III, located at 1047 Canadian Shields Avenue in Ottawa. The 173-unit apartment building was completed in late 2014 and is the third of a five-building complex with a shared clubhouse. The acquisition cost of $30.8 million for Killam's 50% interest will be funded though CMHC-insured mortgage debt and cash. The acquisition is expected to close in May 2016. Killam and its 50/50 partner have the two remaining buildings of the Kanata Lakes apartment development under contract with closings scheduled for Q1-2017.