Condensed Consolidated Interim Financial Statements [unaudited]

For the three and nine months ended September 30, 2019 and 2018

Condensed Consolidated Interim Statements of Financial Position

In thousands of Canadian dollars, [unaudited]

	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Investment properties	[3]	**$3,130,746**	$2,799,693
Property and equipment		**6,675**	5,659
Other non-current assets		**228**	530
		$3,137,649	$2,805,882
Current assets			
Cash		**$5,119**	$3,789
Rent and other receivables		**3,846**	3,025
Other current assets	[6]	**13,856**	11,710
		22,821	18,524
Assets held for sale	[4]	**14,163**	—
TOTAL ASSETS		**$3,174,633**	$2,824,406
EQUITY AND LIABILITIES			
Unitholders' equity	[13]	**$1,376,431**	$1,168,814
Non-controlling interest		**138**	136
Total Equity		**$1,376,569**	$1,168,950
Non-current liabilities			
Mortgages and loans payable	[7]	**$1,161,860**	$1,060,082
Lease liabilities	[8]	**7,211**	—
Exchangeable Units	[12]	**83,195**	66,207
Deferred income tax	[18]	**158,042**	134,684
Deferred unit-based compensation	[15]	**6,442**	4,579
		$1,416,750	$1,265,552
Current liabilities			
Mortgages and loans payable	[7]	**$274,934**	$232,394
Credit facilities	[9]	**36,000**	53,350
Construction loans	[10]	**22,720**	60,502
Accounts payable and accrued liabilities	[11]	**47,660**	43,658
		381,314	389,904
Total Liabilities		**$1,798,064**	$1,655,456
TOTAL EQUITY AND LIABILITIES		**$3,174,633**	$2,824,406
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) "G. Wayne Watson" (signed) "Philip D. Fraser"

Trustee Trustee

Condensed Consolidated Interim Statements of Income and Comprehensive Income

In thousands of Canadian dollars, [unaudited]

	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Property revenue	[16]	**$62,834**	$55,532	**$179,064**	$157,919
Property operating expenses					
Operating expenses		**(9,724)**	(8,800)	**(27,241)**	(24,454)
Utility and fuel expenses		**(4,381)**	(3,838)	**(18,154)**	(16,067)
Property taxes		**(7,380)**	(6,410)	**(21,265)**	(18,575)
		(21,485)	(19,048)	**(66,660)**	(59,096)
Net operating income		**$41,349**	$36,484	**$112,404**	$98,823
Other income		**536**	237	**1,002**	749
Financing costs	[17]	**(12,328)**	(10,038)	**(35,536)**	(28,966)
Depreciation		**(174)**	(238)	**(499)**	(693)
Administration		**(3,674)**	(3,712)	**(10,974)**	(10,594)
Fair value adjustment on unit-based compensation		**(619)**	(698)	**(1,772)**	(641)
Fair value adjustment on Exchangeable Units	[12]	**(5,152)**	(4,393)	**(16,988)**	(7,299)
Fair value adjustment on investment properties	[3]	**35,846**	14,685	**133,681**	99,758
Loss on disposition		**(247)**	—	**(1,241)**	(183)
Income before income taxes		**55,537**	32,327	**180,077**	150,954
Deferred tax expense	[18]	**(8,698)**	(5,207)	**(23,358)**	(20,055)
Net income		**$46,839**	$27,120	**$156,719**	$130,899
Other comprehensive income					
Item that may be reclassified subsequently to net income					
Amortization of loss in AOCL to financing costs		—	7	—	37
Comprehensive income		**$46,839**	$27,127	**$156,719**	$130,936
Net income attributable to:					
Unitholders		**46,834**	27,121	**156,705**	130,887
Non-controlling interest		**5**	(1)	**14**	12
		$46,839	$27,120	**$156,719**	$130,899
Comprehensive income attributable to:					
Unitholders		**46,834**	27,128	**156,705**	130,924
Non-controlling interest		**5**	(1)	**14**	12
		$46,839	$27,127	**$156,719**	$130,936

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, 2019	**Trust Units**	**Contributed Surplus**	**Retained Earnings**	**AOCL**	**Non-controlling Interest**	**Total Equity**
As at January 1, 2019	**$798,473**	**$795**	**$369,546**	**$—**	**$136**	**$1,168,950**
Distribution reinvestment plan	**12,522**	**—**	**—**	**—**	**—**	**12,522**
Deferred Unit-based compensation	**735**	**—**	**—**	**—**	**—**	**735**
Issued for cash	**82,470**	**—**	**—**	**—**	**—**	**82,470**
Net income	**—**	**—**	**156,705**	**—**	**14**	**156,719**
Distributions on non-controlling interest	**—**	**—**	**—**	**—**	**(12)**	**(12)**
Distributions declared and paid	**—**	**—**	**(39,721)**	**—**	**—**	**(39,721)**
Distributions payable	**—**	**—**	**(5,094)**	**—**	**—**	**(5,094)**
As at September 30, 2019	**$894,200**	**$795**	**$481,436**	**$—**	**$138**	**$1,376,569**

Nine months ended September 30, 2018	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2018	$718,858	$795	$247,965	($37)	$141	$967,722
Exchange of Exchangeable Units	1,054	—	—	—	—	1,054
Distribution reinvestment plan	10,722	—	—	—	—	10,722
Deferred unit-based compensation	327	—	—	—	—	327
Issued for cash	54,852	—	—	—	—	54,852
Net income	—	—	130,887	—	12	130,899
Amortization of loss on forward interest rate hedge	—	—	—	37	—	37
Distributions on non-controlling interest	—	—	—	—	(32)	(32)
Distributions declared and paid	—	—	(35,190)	—	—	(35,190)
Distributions payable	—	—	(4,575)	—	—	(4,575)
As at September 30, 2018	$785,813	$795	$339,087	$—	$121	$1,125,816

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

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,
[unaudited]

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2019**	2018	**2019**	2018
OPERATING ACTIVITIES					
Net income		**$46,839**	$27,120	**$156,719**	$130,899
Add (deduct) items not affecting cash					
Fair value adjustments		**(30,075)**	(9,594)	**(114,921)**	(91,818)
Depreciation		**174**	238	**499**	693
Amortization of deferred financing		**720**	628	**2,356**	1,675
Non-cash compensation expense		**498**	385	**1,516**	1,134
Deferred income taxes		**8,698**	5,207	**23,358**	20,055
Loss on disposition		**247**	—	**1,241**	183
(Gain) loss on derivative liability		**(11)**	(86)	**302**	(116)
Interest expense on Exchangeable Units		**685**	609	**2,042**	1,827
Net change in non-cash operating activities	[20]	**10,836**	3,480	**942**	7,393
Cash provided by operating activities		**$38,611**	$27,987	**$74,054**	$71,925
FINANCING ACTIVITIES					
Deferred financing costs paid		**(1,076)**	(2,650)	**(4,463)**	(7,157)
Net proceeds on issuance of Units		**(11)**	(158)	**82,459**	54,852
Cash paid on vesting of restricted Units		**—**	(39)	**(687)**	(610)
Cash paid on lease liabilities		**(32)**	—	**(96)**	—
Mortgage financing		**93,116**	113,810	**294,686**	257,576
Mortgages repaid		**(54,429)**	(48,852)	**(162,138)**	(90,277)
Mortgage principal repayments		**(11,455)**	(10,034)	**(32,756)**	(29,121)
Credit facility (repayments) proceeds		**(12,000)**	16,417	**(17,350)**	16,417
Construction loans proceeds (repayments)		**3,415**	(8,966)	**(37,782)**	12,732
Distributions paid to non-controlling interest		**—**	—	**(12)**	(32)
Distributions to Unitholders		**(11,185)**	(10,505)	**(33,863)**	(30,466)
Cash provided by financing activities		**$6,343**	$49,023	**$87,998**	$183,914
INVESTING ACTIVITIES					
(Increase)/ decrease in restricted cash		**(1,081)**	(3,949)	**105**	(2,854)
Acquisition of investment properties, net of debt assumed		**(5,075)**	(82,273)	**(93,179)**	(184,443)
Disposition of investment properties		**5,322**	—	**11,548**	1,460
Development of investment properties		**(18,585)**	(11,739)	**(27,671)**	(48,779)
Capital expenditures		**(23,188)**	(13,293)	**(51,525)**	(31,113)
Cash used in investing activities		**($42,607)**	($111,254)	**($160,722)**	($265,729)
Net increase (decrease) in cash		**2,347**	(34,244)	**1,330**	(9,890)
Cash, beginning of period		**2,772**	36,354	**3,789**	12,000
Cash, end of period		**$5,119**	$2,110	**$5,119**	$2,110

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

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, 2019. 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, 2019 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on November 5, 2019.

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

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Trust's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the consolidated financial statements for the year ended December 31, 2018, and have been consistently applied in the preparation of these condensed consolidated interim financial statements, with the exception of the accounting changes noted in (C) below.

The operating results for the three and nine months ended September 30, 2019, are not necessarily indicative of results that may be expected for the full year ending December 31, 2019, due to seasonal variations in property expenses and other factors.

(C) Adoption of Accounting Standards

IFRS 16*, Leases*

On January 13, 2016 the International Accounting Standards Board (IASB) issued IFRS 16, replacing IAS 17 and related interpretations. IFRS 16 provides a comprehensive framework for recognition, measurement and disclosure for accounting for leases. Lessor accounting under IFRS 16 is substantially unchanged and lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where Killam is the lessor.

Killam adopted the standard on January 1, 2019 using the modified retrospective approach and elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Killam has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

As part of the adoption of this standard, Killam reviewed all lease contracts in which they are a lessee and concluded that all leases, with the exception of three ground leases, were assets of low value and therefore had no impact upon adoption. The implementation of IFRS 16 resulted in a right-of-use asset and lease liability being recorded in the amount of $7.1 million (current balance sheet amount is $7.2 million). Refer to Note 8 to the condensed consolidated interim financial statements for additional information.

2. Significant Accounting Policies (continued)

In accordance with IFRS 16, at the commencement date of any new leases, Killam will recognize a liability to reflect the present value of the lease obligations and an asset representing the right to use the underlying asset during the lease term. Land leases meet the definition of investment property under IAS 40; therefore, the fair value model is applied to these assets. Interest expense on the lease liability and the fair value gain or loss on the right-of-use asset is recognized separately on the statement of income and comprehensive income.

Killam measures lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Killam uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for lease payments made. The carrying amount of lease liabilities are remeasured if there are modifications, a change in the lease terms, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*
In June 2017, the IASB issued IFRIC 23 which addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments collectively;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The IFRIC Interpretation did not have a material impact on Killam’s condensed consolidated interim financial statements.

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

3. Investment Properties

As at September 30, 2019

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2019	**$2,425,158**	**$153,509**	**$122,835**	**$37,163**	**$61,028**	**$2,799,693**
Impact of change in accounting policy	**7,115**	**—**	**—**	**—**	**—**	**7,115**
Restated balance, beginning of period	**2,432,273**	**153,509**	**122,835**	**37,163**	**61,028**	**2,806,808**
Fair value adjustment on investment properties	**108,233**	**30,084**	**(2,384)**	**—**	**(2,165)**	**133,768**
Acquisitions	**109,083**	**—**	**30,875**	**—**	**6,200**	**146,158**
Transfer from IPUC	**36,506**	**—**	**—**	**(36,506)**	**—**	**—**
Capital expenditures	**45,770**	**2,530**	**1,541**	**21,808**	**4,128**	**75,777**
Transfer from land for development	**—**	**—**	**—**	**15,050**	**(15,050)**	**—**
Transfer to held for sale	**(15,099)**	**—**	**—**	**—**	**(18,401)**	**(33,500)**
Interest capitalized on IPUC and land for development	**—**	**—**	**—**	**464**	**1,271**	**1,735**
Balance, end of period	**$2,716,766**	**$186,123**	**$152,867**	**$37,979**	**$37,011**	**$3,130,746**

As at December 31, 2018

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, beginning of year	$1,995,144	$139,783	$36,445	$80,226	$28,165	$2,279,763
Fair value adjustment on investment properties	118,601	5,271	7,301	4,919	1,800	137,892
Acquisitions	167,218	4,789	76,179	—	28,347	276,533
Dispositions	—	—	—	—	(1,460)	(1,460)
Transfer from IPUC	104,283	—	—	(104,283)	—	—
Transfer from land for development	—	—	—	1,273	(1,273)	—
Capital expenditures	39,912	3,666	2,910	53,336	3,972	103,796
Interest capitalized on IPUC and land for development	—	—	—	1,692	1,477	3,169
Balance, end of year	$2,425,158	$153,509	$122,835	$37,163	$61,028	$2,799,693

During the nine months ended September 30, 2019, Killam acquired the following properties:

					Purchase Price [1]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Income-producing Properties**	**Land for Development**
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	**$—**	**$1,500**
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	**8,100**	**—**
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	**23,750**	**—**
Grid 5 [2]	Calgary, AB	14-Jun-19	100%	Apartment	**42,700**	**—**
Silver Spear [2]	Mississauga, ON	14-Jun-19	100%	Apartment & development land	**27,200**	**3,600**
Dieppe Village [3]	Moncton, NB	27-Jun-19	100%	Apartment & retail	**28,000**	**900**
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	**—**	**150**
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment	**9,250**	**—**
Total Acquisitions					**$139,000**	**$6,150**

[1] Purchase price does not include transaction costs.
[2] Killam acquired a 50% interest in each property and now holds 100% ownership.
[3] Dieppe Village includes 127 apartment units ($21.4M) and 45,500 square feet of commercial space ($6.6M).

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

3. Investment Properties (continued)

During the three and nine months ended September 30, 2019, Killam capitalized salaries of $1.0 million and $2.8 million (three and nine months ended September 30, 2018 - $0.9 million and $2.5 million), as part of its project improvement, suite renovation and development programs. For the three and nine months ended September 30, 2019, 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 2.95% (September 30, 2018 - 3.03%). 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 $2.9 billion as at September 30, 2019 (December 31, 2018 - $2.7 billion), have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.5% to 8.00%, applied to a stabilized net operating income ("NOI") of $132.9 million (December 31, 2018 - 3.75% to 8.00% and $125.5 million), resulting in an overall weighted average cap-rate of 4.99% (December 31, 2018 - 5.15%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.5% to 99% (December 31, 2018 - 94.0% to 99.0%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.00% to 6.5%, applied to a stabilized NOI of $10.3 million (December 31, 2018 - 5.75% to 8.00% and $10.2 million), resulting in an overall weighted average cap-rate of 5.63% (December 31, 2018 - 6.76%). The stabilized occupancy rate used in the calculation of NOI was 97.8% (December 31, 2018 - 97.8%).

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, 2019			December 31, 2018		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.99%**	3.75%	8.00%	5.15%
Halifax	4.25%	6.00%	4.99%	4.50%	6.00%	5.22%
Moncton	5.03%	7.00%	5.54%	5.15%	7.00%	5.73%
Fredericton	5.00%	6.00%	5.72%	5.00%	6.00%	5.73%
Saint John	5.75%	6.25%	6.04%	5.75%	6.25%	6.04%
St. John's	5.00%	6.00%	5.62%	5.00%	6.00%	5.62%
Charlottetown	5.28%	6.00%	5.78%	5.28%	6.00%	5.74%
Ontario	3.50%	5.08%	3.84%	3.75%	5.08%	4.33%
Alberta	4.50%	5.00%	4.69%	4.50%	5.00%	4.72%
Other Atlantic	5.75%	8.00%	6.67%	5.75%	8.00%	6.67%
MHCs	**5.00%**	**6.50%**	**5.63%**	5.75%	8.00%	6.76%
Ontario	5.00%	6.50%	5.94%	6.50%	8.00%	7.35%
Nova Scotia	5.00%	6.00%	5.30%	5.75%	7.00%	6.21%
New Brunswick	6.50%	6.50%	6.50%	7.50%	7.50%	7.50%
Newfoundland	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%

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 ("bps") increase	*10 basis points ("bps") decrease*
Apartments	($52,211)	$53,347
MHCs	($3,196)	$3,311

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

3. Investment Properties (continued)

During Q3-2019, there was a fire at a 29-unit apartment building located in Charlottetown, PE resulting in the loss of the building. The $6.0 million fair value of the building was written off during the quarter.

4. Assets held for sale

Killam determined that a parcel of land for development located in Calgary, AB met the criteria for classification as assets held for sale as at September 30, 2019. The property has a carrying value of $14.2 million (Killam's 40% interest). In Q3-2019 Killam completed the sale of a property previously classified as assets held for sale.

5. Joint Operations and Investments in Joint Venture

Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint control and are joint operations. Accordingly, the condensed consolidated interim statements of financial position and condensed consolidated interim statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at September 30, 2019, the fair value of the investment properties subject to joint control was $243.3 million (December 31, 2018 - $268.8 million).

6. Other Current Assets

As at	**September 30, 2019**	December 31, 2018
Restricted cash	**$7,300**	$7,405
Prepaid expenses	**6,281**	4,029
Inventory	**275**	276
	$13,856	$11,710

Restricted cash consists of security deposits, funds held in trust and property tax reserves. Inventory relates to manufactured homes for which sales have not closed at quarter-end.

7. Mortgages and Loans Payable

As at	**September 30, 2019**		December 31, 2018	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.91%**	**$1,425,994**	2.95%	$1,275,990
Variable rate	**4.63%**	**10,800**	5.42%	16,486
Total		**$1,436,794**		$1,292,476
Current		**274,934**		232,394
Non-current		**1,161,860**		1,060,082
		$1,436,794		$1,292,476

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 September 30, 2019, unamortized deferred financing costs of $32.0 million (December 31, 2018 - $30.1 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.2 million (December 31, 2018 - $0.4 million) are netted against mortgages and loans payable.

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

7. Mortgages and Loans Payable (continued)

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
2020	$274,934	18.7%
2021	154,115	10.5%
2022	188,368	12.8%
2023	186,132	12.7%
2024	206,113	14.0%
Subsequent to 2024	459,270	31.3%
	$1,468,932	100.0%
Unamortized deferred financing costs	($31,986)	
Unamortized mark-to-market adjustments	($152)	
	$1,436,794	

8. Lease Liabilities

In accordance with the adoption of IFRS 16, right-of-use assets and lease liabilities of $7.1 million were recognized as at January 1, 2019. The lease liabilities were discounted at the incremental borrowing rate as at January 1, 2019. The weighted average discount rate was 4.04%. Killam transitioned to IFRS 16 in accordance with the modified retrospective approach, and as such prior year figures were not adjusted.

As at September 30, 2019, the right-of-use assets and lease liabilities are $7.2 million. The right-of-use assets are classified as part of investment properties and the lease liabilities are classified in other liabilities on the condensed consolidated interim statement of financial position. The total lease payments for the three and nine months ended September 30, 2019, were $0.03 million and $0.06 million.

Gross lease liabilities at January 1, 2019	$18,374
Discounting	(11,259)
Lease liabilities at January 1, 2019	7,115
Net change in lease liabilities	96
Lease liabilities as at September 30, 2019	**$7,211**

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

9. Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $5.0 million (December 31, 2018 - $70.0 million and $5.0 million) that can be used for acquisition and general business purposes.

The $70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $40.0 million committed revolver as well as an accordion option to increase the $70.0 million facility by an additional $20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at September 30, 2019, Killam has assets with a carrying value of $83.8 million pledged as first mortgage ranking and $345.4 million pledged as second mortgage ranking to the line and a balance outstanding of $36.0 million (December 31, 2018 - $53.4 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2019.

The $5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2019, Killam had assets with a carrying value of $2.1 million pledged as collateral (December 31, 2018 - $2.1 million) and letters of credit totaling $1.3 million outstanding against the facility (December 31, 2018 - $1.0 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at September 30, 2019.

As at September 30, 2019	**Maximum Loan Amount[1]**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million demand facility	**$90,000**	**$36,000**	**—**	**$54,000**
$5.0 million demand facility	**5,000**	**—**	**1,270**	**3,730**
Total	**$95,000**	**$36,000**	**$1,270**	**$57,730**

As at December 31, 2018	Maximum Loan Amount[1]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	$53,350	—	$36,650
$5.0 million demand facility	5,000	—	958	4,042
Total	$95,000	$53,350	$958	$40,692

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

10. Construction Loans

As at September 30, 2019, Killam had access to a floating rate non-revolving demand construction loan, for the purpose of financing a joint development project, totaling $28.0 million (50%). Payments are made monthly on an interest-only basis. The construction loan has an interest rate of 125 bps above BAs. Once construction is complete and rental targets achieved, the construction loan will be repaid in full and replaced with conventional mortgages. Killam has an asset with a carrying value of $37.1 million (50%) pledged as collateral against this loan.

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

11. Accounts Payable and Accrued Liabilities

As at	**September 30, 2019**	December 31, 2018
Accounts payable and other accrued liabilities	**$30,420**	$27,991
Distributions payable	**5,322**	4,627
Mortgage interest payable	**3,141**	2,852
Security deposits	**8,777**	8,188
	$47,660	$43,658

12. Exchangeable Units

	Number of Exchangeable Units	**Value**
Balance, December 31, 2018	4,153,520	$66,207
Fair value adjustment	—	16,988
Balance, September 30, 2019	**4,153,520**	**$83,195**

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.

13. 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 six months ended September 30, 2019, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	**Value**
Balance, December 31, 2018	86,058,671	$798,473
Distribution reinvestment plan	672,267	12,522
Restricted Trust Units redeemed	39,485	735
Units issued for cash	5,048,500	82,470
Balance, September 30, 2019	**91,818,923**	**$894,200**

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

13. Unitholders' Equity (continued)

Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (March 6, 2019)	$17.10	$75,069	$3,370	$71,699	4,390,000
Over-allotment (March 6, 2019)	$17.10	11,260	504	10,756	658,500
Total		$86,329	$3,874	$82,455	5,048,500

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.

14. Distributions

Killam paid distributions to its unitholders during 2019 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 and nine months ended September 30, 2019, the distributions declared related to the Trust Units were $15.3 million and $44.8 million (three and nine months ended September 30, 2018 - $13.7 million and $39.8 million). For the three and nine months ended September 30, 2019, distributions declared related to the Exchangeable Units were $0.7 million and $2.0 million (three and nine months ended September 30, 2018 - $0.6 million and $1.8 million). The distributions on the Exchangeable Units are recorded in financing costs.

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

15. 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, 2019, is $6.4 million, which includes $1.4 million related to RTUs subject to performance conditions (September 30, 2018 - $5.4 million and $0.5 million). For the three and nine months ended September 30, 2019, compensation expense of $0.5 million and $1.5 million (three and nine months ended September 30, 2018 - $0.4 million and $1.1 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

	2019		2018	
For the nine months ended September 30,	**Number of RTUs**	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of period	**403,730**	**$13.12**	432,688	$12.09
Granted	**96,057**	**17.39**	124,091	13.10
Redeemed	**(78,938)**	**12.59**	(92,365)	10.83
Forfeited	**(1,529)**	**12.83**	(2,380)	12.83
Additional Restricted Trust Unit distributions	**11,373**	**18.58**	15,739	14.49
Outstanding, end of period	**430,693**	**$14.31**	477,773	$12.67

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

16. 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,**	
	2019	2018	**2019**	2018
Rental revenue	**$44,612**	$39,427	**$127,136**	$112,123
Property expense recoveries	**15,080**	13,328	**42,975**	37,900
Ancillary revenue	**3,142**	2,777	**8,953**	7,896
	$62,834	$55,532	**$179,064**	$157,919

17. Financing Costs

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Mortgage, loan and construction loan interest	**$10,711**	$9,666	**$31,140**	$27,465
Interest on credit facilities	**568**	94	**1,106**	556
Interest on exchangeable units	**685**	609	**2,042**	1,826
Amortization on deferred financing costs	**720**	628	**2,356**	1,675
Amortization of fair value adjustments on assumed debt	**34**	28	**108**	67
Amortization of loss on interest rate hedge	**—**	7	**—**	37
Unrealized loss (gain) on derivative asset	**(11)**	(86)	**302**	(116)
Interest on lease liabilities	**72**	—	**217**	—
Capitalized interest	**(451)**	(908)	**(1,735)**	(2,544)
	$12,328	$10,038	**$35,536**	$28,966

18. 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, 2018, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at September 30, 2019, 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, 2019, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

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

19. 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 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; and
- Other segment - includes ten 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, 2018. Reportable segment performance is analyzed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

Three months ended September 30, 2019	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$53,609**	**$5,639**	**$3,586**	**$62,834**
Property operating expenses	**(18,007)**	**(1,815)**	**(1,663)**	**(21,485)**
Net operating income	**$35,602**	**$3,824**	**$1,923**	**$41,349**

Three months ended September 30, 2018	Apartments	MHCs	Other	Total
Property revenue	$47,363	$5,239	$2,930	$55,532
Property operating expenses	(15,986)	(1,768)	(1,294)	(19,048)
Net operating income	$31,377	$3,471	$1,636	$36,484

Nine months ended September 30, 2019	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$156,040**	**$13,181**	**$9,843**	**$179,064**
Property operating expenses	**(57,223)**	**(4,738)**	**(4,699)**	**(66,660)**
Net operating income	**$98,817**	**$8,443**	**$5,144**	**$112,404**

Nine months ended September 30, 2018	Apartments	MHCs	Other	Total
Property revenue	$138,671	$12,281	$6,967	$157,919
Property operating expenses	(51,277)	(4,486)	(3,333)	(59,096)
Net operating income	$87,394	$7,795	$3,634	$98,823

As at September 30, 2019	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	**$2,803,687**	**$216,960**	**$153,986**	**$3,174,633**
Total liabilities	**$1,572,175**	**$95,496**	**$130,392**	**$1,798,063**

As at December 31, 2018	Apartments	MHCs	Other	Total
Total assets	$2,492,830	$177,795	$153,781	$2,824,406
Total liabilities	$1,448,761	$92,184	$114,511	$1,655,456

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

20. Supplemental Cash Flow Information

	Three months ended		Nine months ended	
	2019	2018	**2019**	2018
Net income items related to investing and financing activities				
Interest paid on mortgages payable and other	**$10,737**	$9,851	**$31,500**	$28,496
Interest paid on credit facilities	**568**	—	**1,106**	—
	$11,305	$9,851	**$32,606**	$28,496
Net change in non-cash operating assets and liabilities				
Rent and other receivables	**($535)**	($584)	**($821)**	($1,649)
Other current assets	**4,950**	4,119	**(2,251)**	(3,189)
Accounts payable and other liabilities	**6,421**	(55)	**4,014**	12,231
	$10,836	$3,480	**$942**	$7,393

21. 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 and cash, which arise directly from its operations.

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, 2019, $69.5 million of Killam's debt had variable interest rates, including a construction loan for $22.7 million, a credit facility balance of $36.0 million and two demand loans totaling $10.8 million. These loans and facilities have interest rates of prime plus 0.55% - 1.25% or 125-170 bps above BAs (December 31, 2018 - prime plus 0.55% - 1.25% or 125 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 $222.3 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $2.2 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 0.4% of revenue. None of Killam's tenants account for more than 1.7% of the tenant receivables as at September 30, 2019 or 2018. 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 Canadian Mortgage and Housing Corporation ("CMHC") insured debt, reducing the refinancing risk upon mortgage maturities.

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

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

Killam's MHCs do not qualify for CMHC insured debt; however, MHCs have access to conventional mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the nine months ended September 30, 2019, Killam refinanced $129.3 million of maturing apartment mortgages with new mortgages totaling $188.4 million generating net proceeds of $59.1 million. In addition, during the nine months ended September 30, 2019 Killam refinanced $6.8 million of maturing MHC mortgages with new mortgages totaling $9.9M generating net proceeds of $3.1M. 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	Credit facilities	Total
2020	$274,934	$22,720	—	$297,654
2021	154,115	—	36,000	190,115
2022	188,368	—	—	188,368
2023	186,132	—	—	186,132
2024	206,113	—	—	206,113
Thereafter	459,270	—	—	459,270
	$1,468,932	$22,720	$36,000	1,527,652

(1) Killam's $70 million credit facility expires in December 2020.

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

Killam's primary measure of capital management is the total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. However, Killam's long-term target is to manage overall indebtedness to be below 50%. The calculation of the total debt to total assets is summarized as follows:

As at	September 30, 2019	December 31, 2018
Mortgages and loans payable	**$1,436,794**	$1,292,476
Credit facilities	**$36,000**	$53,350
Construction loans	**$22,720**	$60,502
Total interest bearing debt	**$1,495,514**	$1,406,328
Total assets (1)	**$3,167,422**	$2,824,406
Total debt as a percentage of total assets	**47.2%**	49.8%

(1) Excludes right of use asset of $7.2M as at September 30, 2019.

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 September 30, 2019, would increase the debt as a percentage of assets by 80 bps.

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

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

Fair Value of Financial Instruments

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

(i) the fair values of the mortgages payable are estimated based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Killam might pay or receive in actual market transactions;

(ii) the fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;

(iii) the fair value of the derivative asset 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.

The significant financial instruments and their carrying values as at September 30, 2019, and December 31, 2018, are as follows:

As at	**September 30, 2019**		December 31, 2018	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset [1]	**$228**	**$228**	$530	$530
Financial liabilities carried at amortized cost:				
Mortgages and loans payable	**$1,436,794**	**$1,477,844**	$1,292,476	$1,319,513
Financial liabilities carried at FVTPL:				
Exchangeable Units	**$83,195**	**$83,195**	$66,207	$66,207
Deferred unit-based compensation	**$6,442**	**$6,442**	$4,579	$4,579

[1] The $0.2 million derivative asset is included in other non-current assets within the condensed consolidated interim statements of financial position.

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

As at	**September 30, 2019**	December 31, 2018
Mortgages - Apartments	**2.37%**	2.88%
Mortgages - MHCs	**3.64%**	4.68%

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

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

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, 2019**			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$3,130,746**	—	—	$2,799,693
Derivative asset	—	**$228**	—	—	$530	—
Liabilities						
Exchangeable Units	—	**$83,195**	—	—	$66,207	—
Deferred unit-based compensation	—	**$5,067**	**$1,375**	—	$3,944	$635

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, 2019.

22. Commitments and Contingencies

Killam has entered into commitments for development costs of $47.1 million as at September 30, 2019 (December 31, 2018 - $7.7 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.

Killam owns a 10% interest of a planed four-phase 829-unit development project in Calgary, Alberta. At the completion of construction of the first phase and the achievement of certain conditions of Phase 1, Killam has a $55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

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

Area	Utility	Usage Coverage	Term	Cost
Alberta	Hydro	50%	January 1, 2019 - December 31, 2019	$56.66/MWh
Alberta	Hydro	50%	January 1, 2020- December 31, 2020	$58.39/MWh

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, 2019, the maximum potential obligation resulting from these guarantees is $85.6 million, related to long term mortgage financing (December 31, 2018 - $128.5 million). During Q2-2019 Killam acquired its partners' interest in two of the previous joint operation properties. 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, 2019, determined that a provision is not required to be recognized in the condensed consolidated interim statements of financial position (December 31, 2018 - $nil).

24. Related Party Transactions

Killam has a construction management agreement with APM Construction ("APM"), a company owned by a Trustee of Killam, to provide construction services related to two apartment development in PEI. APM will be paid a market rate development and construction management fee. For the three and nine months ended September 30, 2019, APM was paid $0.2 million and $0.7 million in development and construction management fees (June 30, 2018 - $nil and $nil).

25. Subsequent Events

On October 15, 2019, Killam announced a distribution of $0.055 per unit, payable on November 15, 2019, to unitholders of record on October 31, 2019.

On November 1, 2019, Killam acquired a 359-site seasonal resort located in Shediac, NB for $3.8 million.

On October 15, 2019, Killam announced a public offering of 5,050,000 trust units. The offering closed on November 4, 2019. The agreement includes an over allotment option for an additional 757,500 units.