Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2013 and 2012

Consolidated Statements of Financial Position

In thousands of Canadian dollars,
(Unaudited*)*

As at	Note	**September 30, 2013**	December 31, 2012
ASSETS			
Non-current assets			
Investment properties	[3]	**$1,530,066**	$1,354,665
Investments in joint ventures	[4]	**11,236**	10,289
Property and equipment	[5]	**4,883**	4,574
Other non-current assets		**28**	45
		1,546,213	1,369,573
Current assets			
Cash		**11,379**	56,726
Rent and other receivables		**3,063**	3,767
Income tax receivable		-	36
Inventory		**637**	762
Other current assets		**13,657**	12,264
		28,736	73,555
TOTAL ASSETS		**$1,574,949**	$1,443,128
EQUITY AND LIABILITIES			
Shareholders' equity		**$602,334**	$575,335
Non-controlling interest		**13,241**	13,101
Total Equity		**615,575**	588,436
Non-current liabilities			
Mortgages and loans payable	[6]	**561,977**	519,712
Convertible debentures	[8]	**96,035**	94,924
Other liabilities		**2,235**	2,427
Deferred tax		**96,082**	83,871
		756,329	700,934
Current liabilities			
Mortgages and loans payable	[6]	**165,038**	105,369
Construction loans	[7]	**14,775**	14,062
Subordinated debentures	[8]	-	9,998
Accounts payable and other liabilities		**23,232**	24,329
		203,045	153,758
Total Liabilities		**959,374**	854,692
TOTAL EQUITY AND LIABILITIES		**$1,574,949**	$1,443,128

See accompanying notes to the unaudited condensed consolidated financial statements.

Approved on Behalf of the Board

(signed) "G. Wayne Watson"
Director

(signed) "Philip D. Fraser"
Director

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts)
(Unaudited)

	Note	**Three months ended** **September 30, 2013**	September 30, 2012	**Nine months ended** **September 30, 2013**	September 30, 2012
Property revenue		**$37,095**	$33,894	**$104,853**	$100,281
Property operating expenses		**(13,845)**	(12,452)	**(43,209)**	(39,396)
Net operating income		**23,250**	21,442	**61,644**	60,885
Other income					
Equity income	[4]	**189**	218	**1,158**	518
Home sales	[11]	**44**	93	**257**	368
Corporate income		**295**	221	**719**	675
		528	532	**2,134**	1,561
Other expenses					
Financing costs	[12]	**(9,275)**	(8,300)	**(26,170)**	(26,318)
Depreciation		**(154)**	(141)	**(440)**	(341)
Amortization of deferred financing costs		**(425)**	(411)	**(1,212)**	(1,239)
Administration		**(2,060)**	(2,165)	**(5,695)**	(6,471)
		(11,914)	(11,017)	**(33,517)**	(34,369)
Income before fair value gains, gain (loss) on disposition and income taxes		**11,864**	10,957	**30,261**	28,077
Fair value gains	[3]	**2,407**	6,279	**26,897**	27,669
Gain (loss) on disposition		**-**	(209)	**171**	(1,310)
Income before income taxes		**14,271**	17,027	**57,329**	54,436
Deferred tax expense		**(1,972)**	(4,208)	**(12,211)**	(11,877)
Net income and comprehensive income		**$12,299**	$12,819	**$45,118**	$42,559
Net income and comprehensive income attributable to:					
Common shareholders		**12,117**	12,662	**44,323**	41,302
Non-controlling interest		**182**	157	**795**	1,257
		$12,299	$12,819	**$45,118**	$42,559
Net income per share attributable to common shareholders:					
-basic		**$0.22**	$0.25	**$0.82**	$0.83
-diluted		**$0.21**	$0.24	**$0.77**	$0.77

See accompanying notes to unaudited condensed consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

(Unaudited)

Nine months ended September 30, 2013

	Share Capital	**Contributed Surplus**	**Other Paid- in Capital**	**Retained Earnings**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2013	$391,120	$2,241	$5,681	$176,293	$13,101	**$588,436**
Comprehensive income	-	-	-	44,323	795	**45,118**
Dividends	-	-	-	(23,604)	-	**(23,604)**
Distributions to non-controlling interest	-	-	-	-	(655)	**(655)**
Dividend reinvestment plan	2,689	-	-	-	-	**2,689**
Stock options exercised	837	(91)	-	-	-	**746**
Share-based compensation	-	531	-	-	-	**531**
Issuance of shares for acquisitions	2,389	-	-	-	-	**2,389**
Restricted share units redeemed	97	(172)	-	-	-	**(75)**
At September 30, 2013	**$397,132**	**$2,509**	**$5,681**	**$197,012**	**$13,241**	**$615,575**

Nine months ended September 30, 2012

	Share Capital	Contributed Surplus	Other Paid- in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2012	$339,178	$2,251	$5,681	$153,895	$11,538	$512,543
Comprehensive income	-	-	-	41,302	1,257	42,559
Dividends	-	-	-	(19,330)	-	(19,330)
Dividends Payable	-	-	-	(2,466)	-	(2,466)
Acquisition of non-controlling interest	-	-	-	12	(29)	(17)
Distributions to non-controlling interest	-	-	-	-	(701)	(701)
Dividend reinvestment plan	3,490	-	-	-	-	3,490
Stock options exercised	4,153	(583)	-	-	-	3,570
Warrants exercised	10,000	-	-	-	-	10,000
Share-based compensation	-	304	-	-	-	304
At September 30, 2012	$356,821	$1,972	$5,681	$173,413	$12,065	$549,952

See accompanying notes to the unaudited condensed consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

(Unaudited)

		Three months ended		Nine months ended	
		September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
OPERATING ACTIVITIES					
Net income		**$12,299**	$12,819	**$45,118**	$42,559
Add (deduct) items not affecting cash					
Fair value gains	[3]	**(2,407)**	(6,279)	**(26,897)**	(27,699)
Depreciation and amortization		**579**	552	**1,652**	1,582
Non-cash compensation expense	[10]	**48**	98	**295**	304
Equity income		**(189)**	(218)	**(1,158)**	(518)
Deferred income taxes		**1,972**	4,208	**12,211**	11,877
(Gain) loss on disposition		**-**	-	**(171)**	1,055
Financing costs	[12]	**9,275**	8,300	**26,170**	26,318
Interest paid	[15]	**(7,553)**	(6,807)	**(24,668)**	(24,389)
Net change in non-cash operating activities	[15]	**(5,259)**	4,773	**(6,475)**	3,265
Cash provided by operating activities		**$8,765**	$17,446	**$26,077**	$34,354
FINANCING ACTIVITIES					
Increase in deferred financing		**(598)**	(209)	**(2,764)**	(1,033)
Proceeds on issuance of common shares		**286**	10,748	**3,100**	13,568
Repayment of subordinated debentures		**-**	-	**(10,000)**	-
Mortgage financing		**69,998**	14,338	**151,794**	39,616
Mortgages repaid on maturity		**(8,581)**	(4,589)	**(43,173)**	(14,072)
Mortgage principal repayments		**(5,080)**	(8,124)	**(15,328)**	(17,402)
Proceeds from construction loans		**10,634**	-	**24,058**	-
Construction loans repaid on maturity		**(20,410)**	1,160	**(23,346)**	1,160
Distributions paid to non-controlling interest		**(86)**	(235)	**(655)**	(701)
Dividends		**(7,058)**	(5,871)	**(20,857)**	(18,200)
Cash provided by (used in) financing activities		**$39,105**	$7,218	**$62,829**	$2,936
INVESTING ACTIVITIES					
Decrease in restricted cash		**(510)**	(4,228)	**3,678**	(567)
Acquisition of non-controlling interest		**-**	-	**-**	(17)
Investments in joint ventures		**-**	6,355	**211**	(8,850)
Net proceeds on sale of investment properties		**-**	-	**171**	34,326
Acquisition and development of investment properties, net of debt assumed		**(45,566)**	(16,147)	**(123,759)**	(43,193)
Capital expenditures		**(5,705)**	(19,388)	**(14,554)**	(44,381)
Cash (used in) provided by investing activities		**$(51,781)**	$(33,408)	**$(134,253)**	$(62,682)
Net (decrease) increase in cash		**(3,911)**	(8,744)	**(45,347)**	(25,392)
Cash, beginning of the period		**15,290**	26,700	**56,726**	43,348
Cash, end of period		**$11,379**	$17,956	**$11,379**	$17,956

See accompanying notes to the unaudited condensed consolidated financial statements.

1. Corporate Information

Killam Properties Inc ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The unaudited condensed consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the three and nine months ended September 30, 2013. The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The unaudited condensed consolidated financial statements of the Company for the period ended September 30, 2013, were authorized for issue in accordance with a resolution of the Board of Directors on Tuesday, November 5, 2013.

2. Significant Accounting Policies

(A) Statement of Compliance

These unaudited condensed consolidated 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 Financing Reporting Standards ("IFRS") as issued by the IASB, have been omitted or condensed.

(B) Basis of Presentation

The unaudited condensed consolidated financial statements of the Company have been prepared on a historical cost basis, except for investment properties that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The unaudited condensed consolidated 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 when otherwise noted.

The condensed consolidated financial statements should be read in conjunction with the Company's most recently issued Annual Report, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 2 to the consolidated financial statements for the fiscal year ended December 31, 2012, and have been consistently applied in the preparation of these unaudited condensed consolidated financial statements, except for the impact of the adoption of the accounting standards described below in Note 2(c).

The operating results for the three and nine months ended September 30, 2013, are not necessarily indicative of results that may be expected for the full year ended December 31, 2013, due to seasonal variations in property expenses and other factors.

(C) Changes in Accounting Policies

The accounting policies applied during the third quarter of 2013 are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2012, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations which were effective for periods beginning on or after July 1, 2012, and January 1, 2013:

<u>IAS 1 Financial Statement Presentation ("IAS 1") — Presentation of Items of Other Comprehensive Income ("OCI")</u>

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard did not have an impact on the Company's financial position or performance.

2. Significant Accounting Policies (continued)

IFRS 10 Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the portion of *IAS 27 Consolidated and Separate Financial Statements* ("IAS 27") that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require Management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The adoption of this standard did not have an impact on the Company's financial position or performance.

IFRS 11 Joint Arrangements ("IFRS 11")

IFRS 11 replaces *IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, joint arrangements that meet the definition of a joint venture must be accounted for using the equity method. Otherwise joint arrangements are classified as joint operations and are accounted for by recognizing the group’s share of the arrangements assets and liabilities. The adoption of this standard did not have an impact on the Company's accounting treatment of its joint arrangements as they met the definition of joint ventures and were previously accounted for using the equity method.

IFRS 12 Disclosure of Interest in Other Entities ("IFRS 12")

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, including:

• A requirement to disclose judgments made in determining if the Company controls, has joint control or significant influence over an entity; and
• A requirement to disclose judgments made in determining the type of joint arrangement in which the Company has an interest.

The Company adopted this standard and included the required disclosures related to the Company's interest in subsidiaries, joint arrangements and associates in the notes of these unaudited condensed consolidated financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13")

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company adopted the standard and concluded that the definition of fair value applied in IFRS 13 does not differ materially from the Company's current definition and therefore there was no impact on the Company's financial position. However, IFRS 13 does expand the disclosure requirements in respect of fair value measurement which is included in Note 3 of these unaudited condensed consolidated financial statements.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

3. Investment Properties

The Company has used the following hierarchy for determining the fair value measurement of the Company's investment properties and investment properties under construction ("IPUC"):

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

As at and for the nine months ended September 30, 2013

Segment	**Apartments**	**MHCs**	**Other**	**IPUC**	**Total**
Level	**3**	**3**	**2**	**3**	
Balance, beginning of period	**$1,126,189**	**$168,401**	**$2,134**	**$57,941**	**$1,354,665**
Fair value gains included in net income					
Fair value gains on investment property	**15,121**	**11,776**	**-**	**-**	**26,897**
Acquisitions and dispositions					
Acquisitions	**104,049**	**-**	**-**	**7,294**	**111,343**
Other movements					
Transfer from IPUC	**70,315**	**-**	**-**	**(70,315)**	**-**
Capital expenditure on investment property	**11,298**	**2,491**	**11**	**-**	**13,800**
Capital expenditure on IPUC	**-**	**-**	**-**	**22,391**	**22,391**
Interest capitalized on IPUC	**-**	**-**	**-**	**970**	**970**
Balance, end of period	**$1,326,972**	**$182,668**	**$2,145**	**$18,281**	**$1,530,066**

As at and for the year ended December 31, 2012

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	2	3	
Balance, beginning of year	$1,012,847	$231,747	$2,051	$11,574	$1,258,219
Fair value gains (losses) included in net income					
Fair value gains (losses) on investment property	35,547	6,133	-	(1,980)	39,700
Acquisitions and dispositions					
Acquisitions	58,756	65	-	-	58,821
Dispositions	-	(72,889)	-	-	(72,889)
Other movements					
Capital expenditure on investment property	19,039	3,345	83	-	22,467
Capital expenditure on IPUC	-	-	-	47,284	47,284
Interest capitalized on IPUC	-	-	-	1,063	1,063
Balance, end of year	$1,126,189	$168,401	$2,134	$57,941	$1,354,665

During the three and nine months ended September 30, 2013, the Company capitalized salaries of $0.7 million and $1.9 million, (three and nine months ended September 30, 2012 - $0.5 million and $1.5 million) as part of its project improvement, suite renovation and development programs.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

3. Investment Properties (continued)

For the three and nine months ended September 30, 2013, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted-average borrowing rate of 4.50% (September 30, 2012 - 4.80%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1,498,383 at September 30, 2013, (December 31, 2012 - $1,294,317) are pledged as security against the Company's mortgages payable.

Valuation Process

The management group that determines the Company's valuation policies and procedures for investment property valuations comprises the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Each year, the CEO and CFO decide which external valuator to appoint to be responsible for the external valuations of the Company's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The CEO and CFO decide each quarter after consultation with the Company's external valuator and the Company's finance department:

- whether a property's fair value can be reliably determined (investment properties under construction are valued at cost until such time as fair value becomes reliably determinable);
- which valuation method should be applied for each property; and
- the assumptions made for unobservable inputs that are used in the valuation methods.

Valuations are performed on a quarterly basis at each interim reporting date. Valuations for interim reporting purposes are prepared internally by the Company's finance department using capitalization rates ("Cap-Rates") provided by the Company's external valuator. On an annual basis the Company obtains full valuation reports from an external valuator for approximately 20% of its investment property portfolio, and therefore every property is externally valued at least once every five years.

At each reporting date, the finance department analyses the movement in each property's value. For this analysis, the finance department verifies the major inputs applied in the latest valuation by referencing supporting information in the calculation to market reports and other relevant documents. For each property, the latest valuation is also compared with the valuations in the preceding quarter. If the fair value change (positive or negative) is more than 5%, the change is further analysed to ensure reasonability, as well as absence of expected changes.

On a quarterly basis, the finance department discusses assumptions used in the valuations, with an emphasis on: (i) properties with fair value changes outside of the relevant threshold set out above; and (ii) investment properties under construction.

The following table presents the following for each class of investment property:

- the level of the fair value hierarchy;
- the carrying amount or fair value of the investment property;
- a description of the valuation technique; and
- for Level 3 fair value measurements, quantitative information about significant unobservable inputs.

Class of property	Fair value at Sept 30, 2013	Fair value at Dec 31, 2012	Valuation technique	Unobservable inputs	2013 Inputs	2012 Inputs
Apartments -Level 3	**$1,326,972**	$1,126,189	Income capitalization approach	- Capitalization rate (weighted average)	**5.84%**	6.02%
				- Vacancy rate	**3.50%**	3.50%
				- Inflation rate	**1.10%**	1.64%
				- Management fee rate	**3.50%**	3.50%
MHCs -Level 3	**$182,668**	$168,401	Income capitalization approach	- Capitalization rate (weighted average)	**6.58%**	7.04%
				- Vacancy rate	**1.70%**	1.70%
				- Inflation rate	**1.10%**	1.64%
				- Management fee rate	**3.00%**	3.00%

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

3. Investment Properties (continued)

The segment defined as Other consists of one commercial property of which the Company has a 50% ownership. The property has a fair value of $2.1 million (December 31, 2012 - $2.1 million), is valued using the market comparable approach and is categorized within Level 2.

IPUC includes land held for future development, which is recorded at a fair value of $2.7 million (December 31, 2012 - $5.2 million). Fair value cannot be reliably determined for IPUC as the projects have just commenced, therefore IPUC is recorded at cost of $15.5 million (December 31, 2012 - $3.4 million).

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy include Cap-Rates, vacancy rates, management fee rates and an inflation rate. 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:

	September 30, 2013			December 31, 2012			September 30, 2012		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments			**5.84%**			**6.02%**			**6.07%**
Halifax	5.15%	7.00%	5.78%	5.30%	7.00%	5.85%	5.30%	7.00%	5.90%
Moncton	5.75%	8.00%	6.02%	6.00%	8.00%	6.30%	6.00%	8.00%	6.27%
Fredericton	5.15%	6.25%	5.94%	5.75%	6.50%	6.30%	5.75%	6.50%	6.35%
Saint John	6.00%	6.50%	6.31%	6.00%	6.75%	6.45%	6.00%	6.75%	6.38%
St. John's	5.15%	6.25%	5.85%	6.25%	7.00%	6.36%	6.25%	7.00%	6.36%
Charlottetown	5.65%	6.25%	5.95%	5.75%	6.50%	6.15%	6.00%	6.50%	6.23%
Ontario	4.50%	5.89%	5.30%	4.50%	5.25%	5.25%	5.50%	5.60%	5.52%
Other Atlantic	6.00%	7.00%	6.77%	6.25%	7.00%	7.31%	6.25%	7.00%	7.31%
MHCs			**6.58%**			**7.04%**			**7.26%**
Ontario	7.00%	8.00%	7.09%	7.00%	8.50%	7.34%	7.50%	8.50%	7.48%
Nova Scotia	6.00%	7.50%	6.63%	6.50%	7.50%	6.96%	6.75%	7.75%	7.13%
New Brunswick	6.00%	8.25%	6.16%	6.50%	8.50%	6.87%	6.50%	8.50%	7.21%
Newfoundland	7.25%	7.25%	7.25%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

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

Class of property	**Capitalization rate**		**Vacancy rate**	**Inflation rate**	**Management fee rate**	**Rental growth**
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in inflation*	*1% increase/ decrease in management fees*	*1% increase/ decrease in rental growth*
Apartments	$(22,320)	$23,098	$22,165	$6,049	$22,304	$21,414
MHCs	$(2,734)	$2,819	$2,601	$1,097	$2,601	$2,523

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

4. Investments in Joint Ventures

The Company has the following significant interest in joint ventures, which are measured using the equity method:

a) 25% share in the ownership of a 127-unit property located in London, Ontario.
b) 25% share in the ownership of a 140-unit property located in Ottawa, Ontario.
c) 25% share in the ownership of a 199-unit property located in Mississauga, Ontario.

	September 30, 2013	December 31, 2012
Balance, beginning of period	**$10,289**	$8,420
Additions	**2**	19,563
Share of net income	**1,158**	758
Distributions	**(213)**	(18,452)
Balance, end of period	**$11,236**	$10,289

As at	**September 30, 2013**	December 31, 2012
Current assets	**$4,114**	$3,293
Long-term assets	**115,119**	112,245
Current liabilities	**(4,336)**	(3,891)
Long-term liabilities	**(69,951)**	(70,492)
Net assets	**44,946**	41,155
Company's share of net assets of associate	**$11,236**	$10,289

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2013	2012	**2013**	2012
Property revenue	**$3,032**	$1,877	**$8,879**	$3,559
Property operating expenses	**(1,628)**	(642)	**(4,913)**	(1,067)
Net operating income	**1,404**	1,235	**3,966**	2,492
Interest and deferred financing expense	**(648)**	(362)	**(2,096)**	(417)
Fair value gains	**-**	-	**2,763**	-
Net income and comprehensive income	**756**	873	**4,633**	2,075
Company's share of net income and comprehensive income	**$189**	$218	**$1,158**	$518

Killam Properties Inc. is the guarantor for borrowings held through its three equity investments. As at September 30, 2013, the maximum potential obligations resulting from these guarantees is $71.0 million, all related to long-term mortgage financing (December 31, 2012 - $72.3 million). These loans are secured by a first ranking mortgage over the associated investment property. Management has reviewed the contingent liability associated with its financial guarantee contracts, and at September 30, 2013, Management has determined that a provision is not required to be recognized in the statement of financial position.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

5. Property and Equipment

As at	**September 30, 2013**		December 31, 2012	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$-**	$270	$-
Building	**1,819**	**93**	1,763	54
Heavy equipment	**622**	**240**	622	220
Vehicles	**1,352**	**341**	1,076	273
Furniture, fixtures and equipment	**3,476**	**2,345**	3,181	2,052
Leaseholds	**388**	**25**	261	-
	7,927	**3,044**	7,173	2,599
Less: accumulated depreciation	**(3,044)**		(2,599)	
	$4,883		$4,574	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a fair value of $4.2 million (December 31, 2012 - $4.2 million) is pledged as security against the Company's mortgages payable.

6. Mortgages and Loans Payable

As at	**September 30, 2013**		December 31, 2012	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**4.21%**	**$712,588**	4.44%	$621,397
Variable rate	**4.18%**	**3,871**	4.13%	2,802
Vendor financing	**6.06%**	**10,556**	6.85%	882
Total		**$727,015**		$625,081
Current		**165,038**		105,369
Non-current		**561,977**		519,712
		$727,015		$625,081

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

As of September 30, 2013, unamortized deferred financing costs of $11.6 million (December 31, 2012 - $9.6 million) and mark-to-market premiums on mortgages assumed on acquisition of $1.9 million (December 31, 2012 – $1.7 million) are netted against mortgages and loans payable.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

6. Mortgages and Loans Payable (continued)

Estimated future principal payments required to meet mortgage obligations as at September 30, 2013 are as follows:

	Principal repayments by 12 month periods ended September 30,
2014	$165,038
2015	137,099
2016	91,974
2017	84,793
2018	75,225
Subsequent	182,586
	736,715
Unamortized deferred financing costs	(11,550)
Unamortized mark-to-market adjustment	1,850
	$727,015

The Company has credit facilities set out as follows:

I. A credit facility with a major financial institution, which consists of a $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 basis points on prime rate advances or 225 basis points 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 September 30, 2013, the Company had assets with a fair value of $1.9 million pledged to the line and had a balance outstanding of $Nil (December 31, 2012 - $Nil).

II. An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at September 30, 2013, the Company had letters of credit totaling $0.5 million outstanding against this facility (December 31, 2012 - $0.3 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

7. Construction Loan

At September 30, 2013, the Company had access to a floating rate non-revolving demand construction loan totaling $14.8 million for the purpose of financing the development of The Plaza and payments are made monthly on an interest-only basis. The construction loan has an interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a first mortgage once rental targets have been achieved. As at September 30, 2013, $14.8 million was drawn at an interest rate of 3.75% (December 31, 2012 - $14.1 million).

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

8. Convertible and Subordinated Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	**September 30, 2013**	December 31, 2012
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$54,225**	$53,733
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,508**	44,309
					98,733	98,042
Less: Deferred financing charges					**(2,698)**	(3,118)
					$96,035	$94,924

On January 4, 2013, the Company repaid $10.0 million of unsecured subordinated debentures. The remaining outstanding warrants associated with the subordinated debentures expired on January 4, 2013.

9. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares, with no par value
Unlimited number of preferred shares, issuable in series, with no par value

Issued:
The following table summarizes the changes in issued common shares of the Company:

	2013		2012	
	Number of Shares	**Value**	Number of Shares	Value
Balance, January 1	**53,801,809**	**$391,120**	49,290,751	$339,178
Dividend reinvestment plan	**74,715**	**940**	61,112	735
Stock options exercised	**40,083**	**331**	180,958	1,613
Balance, March 31	**53,916,607**	**$392,391**	49,532,821	$341,526
Dividend reinvestment plan	**79,918**	**927**	105,370	1,315
Stock options exercised	**16,833**	**148**	187,459	1,677
Stock issued for acquisitions	**194,774**	**2,390**	-	-
Warrants exercised	**-**	**-**	200	2
Balance, June 30	**54,208,132**	**$395,856**	49,825,850	$344,520
Dividend reinvestment plan	**78,940**	**821**	110,645	1,440
Stock options exercised	**54,933**	**358**	97,135	863
Restricted share units redeemed	**9,359**	**97**	-	-
Warrants exercised	**-**	**-**	816,792	9,998
Balance, September 30	**54,351,364**	**$397,132**	50,850,422	$356,821

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

9. Capital Stock and Contributed Surplus (continued)

Contributed Surplus

	2013	2012
Balance, January 1	**$2,241**	$2,251
Stock options expensed	**17**	43
Stock options exercised	**(36)**	(249)
Restricted share units issued	**260**	65
Balance, March 31	**2,482**	2,110
Stock options expensed	**11**	25
Stock options exercised	**(19)**	(220)
Restricted share units issued	**119**	73
Balance, June 30	**2,593**	1,988
Stock options expensed	**9**	25
Stock options exercised	**(36)**	(114)
Restricted share units issued	**115**	73
Restricted share units redeemed	**(172)**	-
Balance, September 30	**$2,509**	$1,972

10. Share-Based Compensation

Share-based compensation expense for the three and nine months ended September 30, 2013 and 2012 is as follows:

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2013	2012	**2013**	2012
Stock option plan	**$9**	$25	**$37**	$93
Restricted share unit plan	**116**	73	**335**	211
Total share based compensation expense	**$125**	$98	**$372**	$304

Options granted, exercised or forfeited during the three and nine months ended September 30, 2013 and 2012 are as follows:

	2013		2012	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, January 1	**694,756**	**$7.40**	1,180,766	$7.49
Exercised	**(40,083)**	**7.36**	(180,958)	7.53
Outstanding, March 31	**654,673**	**$7.40**	999,808	$7.49
Exercised	**(16,833)**	**7.68**	(187,459)	7.76
Forfeited	-	-	(11,583)	6.94
Outstanding, June 30	**637,840**	**$7.38**	800,766	$9.72
Exercised	**(54,933)**	**5.86**	(97,135)	7.71
Forfeited	-	-	(2,834)	7.24
Outstanding, September 30	**582,907**	**$7.54**	700,797	$7.39

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

10. Share-Based Compensation (continued)

The stock options were exercised throughout the period. The average share price of Killam's commons shares during the three and nine months ended September 30, 2013, was $10.59 and $11.70 (three and nine months ended September 30, 2012 - $13.08 and $12.68).

The following table summarizes the stock options outstanding:

As at	**September 30, 2013**			December 31, 2012		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**128,000**	**0.60 years**	**128,000**	186,749	1.35 years	155,502
$8.11	**-**	**-**	**-**	1,250	0.10 years	1,208
$8.16	**454,907**	**1.65 years**	**369,908**	506,757	2.4 years	326,366
	582,907		**497,908**	694,756		483,076

The exercisable options had a weighted average exercise price of $7.43 at September 30, 2013 (December 31, 2012 - $7.25).

The details of the restricted share units ("RSUs") issued under the RSU plan are shown below:

	2013		2012	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, January 1	**100,209**	**$11.89**	48,082	$10.96
Granted	**31,265**	**12.65**	6,182	12.37
Additional restricted share distributions	**1,206**	**11.94**	555	10.93
Outstanding, March 31	**132,680**	**$12.07**	54,819	$11.12
Granted	**7,120**	**10.75**	6,033	12.68
Forfeited	**(1,003)**	**11.49**	-	-
Additional restricted share distributions	**1,626**	**12.07**	628	11.12
Outstanding, June 30	**140,423**	**$12.01**	61,480	$11.13
Granted	**7,067**	**10.82**	5,848	13.08
Redeemed	**(16,886)**	**10.82**	-	-
Additional restricted share distributions	**1,868**	**12.05**	686	11.27
Outstanding, September 30	**132,472**	**$12.10**	68,014	$11.43

11. Home Sales

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	2012	**2013**	2012
Home sales revenues	**$591**	$575	**$2,007**	$1,637
Cost of home sales	**(550)**	(484)	**(1,707)**	(1,295)
New home placement fees	**15**	30	**-**	93
Operating expenses	**(12)**	(28)	**(43)**	(67)
Income from home sales	**$44**	$93	**$257**	$368

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

12. Financing Costs

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Mortgage, loan and construction loan interest	**$7,802**	$6,925	**$22,433**	$21,598
Amortization of fair value adjustments on assumed debt	**(109)**	(131)	**(314)**	(131)
Convertible debenture interest	**1,675**	1,659	**5,011**	4,971
Subordinated debenture interest	**-**	174	**10**	528
Capitalized interest	**(93)**	(327)	**(970)**	(648)
	$9,275	$8,300	**$26,170**	$26,318

13. Per Share Information

The following is the weighted average number of shares outstanding for the three and nine months ended September 30, 2013 and 2012. The fully diluted amounts shown below exclude stock options and warrants whose exercise price exceeded the average market price for the period and are considered anti-dilutive.

For the three months ended September 30,	**2013**	2012
Weighted average shares outstanding - basic	**54,265,652**	50,330,423
Unexercised dilutive options	**221,723**	804,821
Restricted share units	**134,068**	61,885
Convertible debentures	**7,441,730**	7,441,730
Weighted average shares outstanding - diluted	**62,063,173**	58,638,859

For the nine months ended September 30,	**2013**	2012
Weighted average shares outstanding - basic	**54,057,858**	49,779,213
Unexercised dilutive options	**249,600**	575,993
Restricted share units	**125,772**	55,469
Convertible debentures	**7,441,730**	7,441,730
Weighted average shares outstanding - diluted	**61,874,960**	57,852,405

The following is the adjustment to net income applicable to common shareholders used in the diluted earnings per share calculation.

For the three months ended September 30,	**2013**	2012
Net income applicable to common shareholders	**$12,117**	$12,662
Adjustment for dilutive effect of convertible debentures	**1,172**	1,162
Adjusted net income for diluted per share amounts	**$13,289**	$13,824

For the nine months ended September 30,	**2013**	2012
Net income applicable to common shareholders	**44,323**	$41,302
Adjustment for dilutive effect of convertible debentures	**3,507**	3,480
Adjusted net income for diluted per share amounts	**$47,830**	$44,782

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

14. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The Company also operates in the manufactured home sales segment; information on this segment is provided in the unaudited condensed consolidated statements of income and comprehensive income and Note 3.

The accounting policies of these segments are the same as those described in the summary of significant accounting policies noted in the Company's 2012 Annual Report. The segments are analyzed based on net operating income before interest, amortization and administration costs. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

For the three months ended September 30, 2013	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$31,043**	**$5,916**	**$136**	**$37,095**
Property operating expenses	**(11,717)**	**(2,052)**	**(76)**	**(13,845)**
Net rental income	**$19,326**	**$3,864**	**$60**	**$23,250**
Home sales, equity income & corporate income	-	-	**528**	**528**
Financing costs	**(6,542)**	**(1,028)**	**(1,705)**	**(9,275)**
Depreciation and amortization	**(242)**	**(71)**	**(266)**	**(579)**
Administration	**(351)**	**(85)**	**(1,624)**	**(2,060)**
Income before fair value gains, gain on disposition and income taxes	**$12,191**	**$2,680**	**$(3,007)**	**$11,864**
Capital expenditures	**$4,892**	**$724**	**$-**	**$5,616**

For the three months ended September 30, 2012	Apartments	MHCs	Other	Total
Property revenue	$27,877	$5,887	$130	$33,894
Property operating expenses	(10,305)	(2,171)	24	(12,452)
Net rental income	$17,572	$3,716	$154	$21,442
Home sales, equity income & corporate income	-	-	532	532
Financing costs	(5,704)	(1,026)	(1,570)	(8,300)
Depreciation and amortization	(231)	(69)	(252)	(552)
Administration	(441)	(87)	(1,637)	(2,165)
Income before fair value gains, loss on disposition and income taxes	$11,196	$2,534	$(2,773)	$10,957
Capital expenditures	$5,536	$673	$-	$6,209

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

14. Segmented Information (continued)

For the nine months ended September 30, 2013	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$89,322**	**$15,125**	**$406**	**$104,853**
Property operating expenses	**(37,286)**	**(5,706)**	**(217)**	**(43,209)**
Net rental income	**$52,036**	**$9,419**	**$189**	**$61,644**
Home sales, equity income & corporate income	**-**	**-**	**2,134**	**2,134**
Financing costs	**(18,314)**	**(3,227)**	**(4,629)**	**(26,170)**
Depreciation and amortization	**(692)**	**(196)**	**(764)**	**(1,652)**
Administration	**(1,042)**	**(262)**	**(4,391)**	**(5,695)**
Income before fair value gains, gain on disposition and income taxes	**$31,988**	**$5,734**	**$(7,461)**	**$30,261**
Capital expenditures	**$11,298**	**$2,491**	**$11**	**$13,800**

For the nine months ended September 30, 2012	Apartments	MHCs	Other	Total
Property revenue	$81,808	$18,088	$385	$100,281
Property operating expenses	(32,907)	(6,559)	70	(39,396)
Net rental income	$48,901	$11,529	$455	$60,885
Home sales, equity income & corporate income	-	-	1,561	1,561
Financing costs	(17,193)	(4,037)	(5,088)	(26,318)
Depreciation and amortization	(647)	(497)	(436)	(1,580)
Administration	(1,241)	(355)	(4,875)	(6,471)
Income before fair value gains, loss on disposition and income taxes	$29,820	$6,640	$(8,383)	$28,077
Capital expenditures	$11,831	$2,336	$5	$14,172

As at		**September 30, 2013**		
	Apartments	**MHCs**	**Other**	**Total**
Total assets	**$1,359,388**	**$156,494**	**$59,067**	**$1,574,949**
Total liabilities	**$676,184**	**$80,141**	**$203,049**	**$959,374**

As at		December 31, 2012		
	Apartments	MHCs	Other	Total
Total assets	$1,244,087	$188,834	$10,207	$1,443,128
Total liabilities	$585,050	$84,148	$185,494	$854,692

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

14. Segmented Information (continued)

The apartment segment is further analyzed on property revenue, property operating expenses and fair value of investment property by region:

For the three months ended September 30, 2013	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	**$13,541**	**$(4,389)**	**$9,152**	**$602,603**
Moncton, NB	**3,585**	**(1,686)**	**1,899**	**131,108**
Fredericton, NB	**3,275**	**(1,484)**	**1,791**	**130,421**
Saint John, NB	**2,327**	**(1,163)**	**1,164**	**70,410**
St. John's, NL	**2,059**	**(606)**	**1,453**	**107,172**
Charlottetown, PE	**2,254**	**(842)**	**1,412**	**97,918**
Ontario	**2,965**	**(1,154)**	**1,811**	**160,830**
Other Atlantic	**1,037**	**(393)**	**644**	**26,510**
	$31,043	**$(11,717)**	**$19,326**	**$1,326,972**

For the three months ended September 30, 2012	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$12,852	$(4,239)	$8,613	$542,855
Moncton, NB	3,339	(1,565)	1,774	118,309
Fredericton, NB	3,156	(1,350)	1,806	102,479
Saint John, NB	2,392	(1,129)	1,263	71,995
St. John's, NL	1,696	(501)	1,195	79,138
Charlottetown, PE	1,665	(597)	1,068	67,415
Ontario	1,755	(522)	1,233	108,021
Other Atlantic	1,022	(402)	620	26,472
	$27,877	$(10,305)	$17,572	$1,116,684

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Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

14. Segmented Information (continued)

For the nine months ended September 30, 2013	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**
Halifax, NS	**$40,060**	**$(15,066)**	**$24,994**
Moncton, NB	**10,349**	**(5,207)**	**5,142**
Fredericton, NB	**9,636**	**(4,445)**	**5,191**
Saint John, NB	**7,069**	**(3,980)**	**3,089**
St. John's, NL	**5,629**	**(1,792)**	**3,837**
Charlottetown, PE	**5,900**	**(2,557)**	**3,343**
Ontario	**7,579**	**(2,888)**	**4,691**
Other Atlantic	**3,100**	**(1,351)**	**1,749**
	$89,322	**$(37,286)**	**$52,036**

For the nine months ended September 30, 2012	Property Revenue	Property Operating Expenses	Net Operating Income
Halifax, NS	$37,477	$(13,583)	$23,894
Moncton, NB	9,710	(4,818)	4,892
Fredericton, NB	9,384	(4,142)	5,242
Saint John, NB	7,297	(3,785)	3,512
St. John's, NL	4,979	(1,607)	3,372
Charlottetown, PE	5,102	(2,087)	3,015
Ontario	4,816	(1,483)	3,333
Other Atlantic	3,043	(1,402)	1,641
	$81,808	$(32,907)	$48,901

There are no transactions with a single tenant that account for 10% or more of the Company's revenues.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

15. Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	**2013**	2012
Net income items related to investing and financing activities				
Interest paid on mortgages payable and other	**$7,553**	$6,807	**$21,782**	$21,511
Interest paid on convertible debentures	**-**	-	**2,878**	2,878
Interest paid on subordinated debentures	**-**	**-**	**8**	**-**
	$7,553	$6,807	**$24,668**	$24,389
Changes in non-cash operating assets and liabilities				
Rent and other receivables	**$700**	$590	**$704**	$(1,000)
Income tax receivable	**-**	5	36	24
Inventory	**164**	241	**126**	297
Other current assets	**1,060**	2,861	**(5,071)**	(1,424)
Accounts payable and other liabilities	**(7,183)**	1,076	**(2,270)**	5,368
	$(5,259)	$4,773	**$(6,475)**	$3,265

16. Financial Risk Management Objectives and Policies

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

The Company may also enter into derivative transactions, primarily natural gas and oil swap contracts, to manage the price risk arising from fluctuations in these commodities. The Company did not enter into any derivative transactions in 2013 or 2012. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, and liquidity risk. These risks are managed as follows:

(i) Interest rate risk

The Company is exposed to interest rate risk as a result of its mortgages and loans payable, however this risk is mitigated through the Company's strategy to have the majority of its mortgages payable in fixed-term arrangements. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rate volatility in any one year.

As at September 30, 2013, no mortgages or vendor debt had floating interest rates except for four demand loans totaling $3.9 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2012 - prime plus 1.0% - 1.5%). Killam also has one construction loan of $14.8 million with a floating interest rate of prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on this loan.

An annualized 1% change in the interest rate on Killam's entire mortgage and vendor debt at September 30, 2013, would affect financing costs by approximately $7.4 million per year. However, only $149.7 million of Killam's fixed mortgage and vendor debt matures in the next twelve months and assuming these mortgages are refinanced at similar terms, but at a 1% higher interest rate, financing costs would increase by $1.5 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. The Company 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 the Company 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 Company's exposure to bad debt is not significant. The Company's bad debt expense experience has historically been less than 0.4% of revenues. None of Killam's tenants account for more than 1% of the tenant receivables as at each of the period-ends presented in these financial statements. 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 the Company's cash resources based on financial forecasts and anticipated cash flows. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for Canada Mortgage and Housing Corporation ("CMHC") insured debt, thereby reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not expect to be faced with liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

16. Financial Risk Management Objectives and Policies (continued)

During the three and nine months ended September 30, 2013, the Company refinanced $16.6 million and $42.5 million of maturing apartment mortgages with new mortgages totaling $16.9 million and $61.5 million for net proceeds of $6.3 million and $19.1 million. As well, during the three and nine months ended September 30, 2013, the Company refinanced $2.1 million and $8.1 million of maturing MHC mortgages for net proceeds of $Nil million and $2.8 million.

The following table presents the contractual maturities of the Company's liabilities over the next five years:

For the twelve months ended September 30,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2014	$165,038	$14,775	$-	**$179,813**
2015	137,099	-	-	**137,099**
2016	91,974	-	-	**91,974**
2017	84,793	-	-	**84,793**
2018	75,225	-	103,500	**178,725**
Thereafter	182,586	-	-	**182,586**
	$736,715	$14,775	$103,500	**$854,990**

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, issue new shares, issue debt securities or adjust mortgage financing on properties.

The Company monitors capital using a total debt to total assets ratio. The Company's strategy is to maintain its total debt to total assets ratio between 55-65%. The calculation of the total debt to total assets is summarized as follows:

As at	September 30, 2013	December 31, 2012
Mortgages, loans payables and construction loans	**$741,790**	$639,143
Convertible debentures	**96,035**	94,924
Subordinated debentures	**-**	9,998
Total debt	**$837,825**	$744,065
Total assets	**$1,574,949**	$1,443,128
Total debt as a percentage of total assets	**53.2%**	51.6%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, Cap-Rate changes. A 10 basis point increase in weighted average Cap-Rate as at September 30, 2013, would increase the debt as a percentage of assets by 80 basis points.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

16. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The following table presents the classification, subsequent measurement, carrying values and fair values of the Company's financial assets and liabilities:

		September 30, 2013		December 31, 2012	
Classification	**Subsequent Measurement**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Other Financial Liabilities:					
Mortgages (b)	Amortized Cost	**$727,015**	**$776,818**	$625,081	$687,119
Convertible debentures (a)	Amortized Cost	**$96,035**	**$100,269**	$98,042	$102,942
Subordinated debentures (b)	Amortized Cost	**$-**	**$-**	$9,998	$10,104

Cash and cash equivalents are classified as held for trading and carried at their fair values. The Company's short-term financial instruments, comprising accounts receivable, restricted cash, accounts payable and accrued liabilities, security deposits, loans and construction loans are carried at amortized cost which, due to their short-term nature, approximates their fair value.

(a) The fair value of the convertible debentures are based on a quoted market price as at the balance sheet date.

(b) The mortgages and subordinated debentures 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 the Company might pay or receive in actual market transactions.

The interest rates used to discount the estimated cash flows, when applicable, are based on the 5-year government yield curve at the reporting date, plus an adequate credit spread, and were as follows:

As at	**September 30, 2013**	December 31, 2012
Mortgages - Apartments	**2.64%**	2.27%
Mortgages - MHCs	**4.49%**	4.02%

As at September 30, 2013, the Company did not have any financial assets or liabilities measured at fair value on the condensed consolidated statement of financial position.

17. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on the new construction project in St. John's, NL. APM was previously the Project Manager on The Plaza which was completed in May 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the three and nine months ended September 30, 2013, Killam has paid APM $Nil and $0.2 million for construction management services (three and nine months ending September 30, 2012 - $0.2 million and $0.5 million).

Killam has a 50% interest in a commercial complex which houses its head office. The remaining 50% interest is owned by a Company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee.

18. Subsequent Events

On October 18, 2013, the Company announced a dividend of $0.04833 per share, payable on November 15, 2013, to shareholders of record on October 31, 2013.

On October 30, 2013, Killam entered into an unconditional agreement to sell a New Brunswick MHC portfolio of 10 communities totaling 2,308 sites, with a scheduled closing date of November 29, 2013. The total sale price is $69.0 million.