# Condensed Consolidated Interim Financial Statements

**[unaudited]**

## For the three and nine months ended September 30, 2017 and 2016

# Condensed Consolidated Interim Statements of Financial Position

***In thousands of Canadian dollars, [unaudited]***

| | Note | **September 30, 2017** | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | [4] | **$2,160,200** | $1,942,809 |
| Property and equipment | | **5,013** | 4,787 |
| Other non-current assets | | **950** | 950 |
| | | **$2,166,163** | $1,948,546 |
| **Current assets** | | | |
| Cash | | **$4,546** | $24,652 |
| Rent and other receivables | | **3,651** | 2,895 |
| Other current assets | | **12,767** | 11,540 |
| | | **20,964** | 39,087 |
| **TOTAL ASSETS** | | **$2,187,127** | $1,987,633 |
| **EQUITY AND LIABILITIES** | | | |
| Unitholders' equity | [11] | **$865,520** | $750,450 |
| Accumulated other comprehensive loss ("AOCL") | | **(52)** | (97) |
| Non-controlling interest | | **123** | 113 |
| **Total Equity** | | **$865,591** | $750,466 |
| **Non-current liabilities** | | | |
| Mortgages and loans payable | [6] | **$952,127** | $885,652 |
| Convertible debentures | [9] | — | 46,690 |
| Other liabilities | | **10,987** | 12,563 |
| Exchangeable units | [10] | **50,957** | 46,158 |
| Deferred income tax | [15] | **95,554** | 84,547 |
| Deferred unit-based compensation | [13] | **4,481** | 2,988 |
| | | **$1,114,106** | $1,078,598 |
| **Current liabilities** | | | |
| Mortgages and loans payable | [6] | **$139,646** | $111,862 |
| Credit facilities | [7] | **3,000** | — |
| Construction loans | [8] | **30,863** | 18,509 |
| Accounts payable and accrued liabilities | | **33,921** | 28,198 |
| | | **207,430** | 158,569 |
| **Total Liabilities** | | **$1,321,536** | $1,237,167 |
| **TOTAL EQUITY AND LIABILITIES** | | **$2,187,127** | $1,987,633 |
| **Commitments and contingencies** | [20] | | |
| **Financial guarantees** | [21] | | |

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

Approved on behalf of the Board of Trustees

(signed) "G. Wayne Watson"
Trustee

(signed) "Philip D. Fraser"
Trustee

# Condensed Consolidated Interim Statements of Income and Comprehensive Income

*In thousands of Canadian dollars, [unaudited]*

| | Note | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|---|
| **Property revenue** | | **$48,595** | $45,078 | **$138,798** | $131,133 |
| **Property operating expenses** | | | | | |
| Operating expenses | | **(7,620)** | (7,752) | **(22,403)** | (21,664) |
| Utility and fuel expenses | | **(3,658)** | (3,781) | **(14,442)** | (15,122) |
| Property taxes | | **(5,571)** | (5,195) | **(16,480)** | (15,295) |
| | | **(16,849)** | (16,728) | **(53,325)** | (52,081) |
| **Net operating income** | | **$31,746** | $28,350 | **$85,473** | $79,052 |
| Other income | | **228** | 313 | **630** | 1,012 |
| Financing costs | [14] | **(8,021)** | (8,735) | **(24,810)** | (28,015) |
| Depreciation | | **(207)** | (224) | **(562)** | (651) |
| Amortization of deferred financing costs | | **(431)** | (383) | **(1,276)** | (1,116) |
| Administration | | **(3,783)** | (3,051) | **(9,458)** | (9,719) |
| **Income before fair value adjustments, loss on disposition and income taxes** | | **$19,532** | $16,270 | **$49,997** | $40,563 |
| Fair value adjustment on convertible debentures | | **—** | (104) | **690** | 658 |
| Fair value adjustment on unit-based compensation | | **(81)** | 181 | **(404)** | (979) |
| Fair value adjustment on exchangeable units | [10] | **(1,739)** | 2,428 | **(4,831)** | (8,354) |
| Fair value adjustment on investment properties | [4] | **—** | 1,144 | **32,718** | (888) |
| Loss on disposition | | **—** | — | **(238)** | (264) |
| **Income before income taxes** | | **17,712** | 19,919 | **77,932** | 30,736 |
| Deferred tax (expense) recovery | [15] | **(3,063)** | (1,953) | **(11,022)** | 36,065 |
| **Net income** | | **$14,649** | $17,966 | **$66,910** | $66,801 |
| **Other comprehensive income** | | | | | |
| **Item that may be reclassified subsequently to net income** | | | | | |
| Amortization of loss in AOCL to financing costs | | **15** | 15 | **45** | 45 |
| **Comprehensive income** | | **$14,664** | $17,981 | **$66,955** | $66,846 |
| **Net income attributable to:** | | | | | |
| Unitholders | | **14,645** | 17,964 | **66,900** | 63,336 |
| Non-controlling interest | | **4** | 2 | **10** | 3,465 |
| | | **$14,649** | $17,966 | **$66,910** | $66,801 |
| **Comprehensive income attributable to:** | | | | | |
| Unitholders | | **14,660** | 17,979 | **66,945** | 63,381 |
| Non-controlling interest | | **4** | 2 | **10** | 3,465 |
| | | **$14,664** | $17,981 | **$66,955** | $66,846 |

*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, 2017** | **Trust Units** | **Contributed Surplus** | **Retained Earnings** | **AOCL** | **Non-controlling Interest** | **Total Equity** |
|---|---|---|---|---|---|---|
| As at January 1, 2017 | **$560,197** | **$795** | **$189,458** | **($97)** | **$113** | **$750,466** |
| Exchange of exchangeable units | **32** | — | — | — | — | **32** |
| Distribution reinvestment plan | **8,294** | — | — | — | — | **8,294** |
| Restricted trust unit plan | **227** | — | — | — | — | **227** |
| Issued for cash | **73,575** | — | — | — | — | **73,575** |
| Net income | — | — | **66,900** | — | **10** | **66,910** |
| Amortization of loss on forward interest rate hedge | — | — | — | **45** | — | **45** |
| Distributions declared and paid | — | — | **(30,069)** | — | — | **(30,069)** |
| Distributions payable | — | — | **(3,889)** | — | — | **(3,889)** |
| **At September 30, 2017** | **$642,325** | **$795** | **$222,400** | **($52)** | **$123** | **$865,591** |

| Nine months ended September 30, 2016 | Trust Units | Capital Stock | Contributed Surplus | Other Paid-in Capital | Retained Earnings | AOCL | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2016 | $— | $484,133 | $2,150 | $5,681 | $177,863 | ($157) | $15,658 | $685,328 |
| REIT conversion | 447,566 | (484,133) | (1,355) | (5,681) | (12,463) | — | — | (56,066) |
| Exchange of exchangeable units | 11,043 | — | — | — | — | — | — | 11,043 |
| Distribution reinvestment plan | 4,742 | — | — | — | — | — | — | 4,742 |
| Restricted trust unit plan | 208 | — | — | — | — | — | — | 208 |
| Issued for cash | 93,623 | — | — | — | — | — | — | 93,623 |
| Net income | — | — | — | — | 63,336 | — | 3,465 | 66,801 |
| Amortization of loss on forward interest rate hedge | — | — | — | — | — | 45 | — | 45 |
| Distributions on non-controlling interest | — | — | — | — | — | — | (505) | (505) |
| Acquisition of non-controlling interest | — | — | — | — | (5,599) | — | (18,496) | (24,095) |
| Distributions declared and paid | — | — | — | — | (24,704) | — | — | (24,704) |
| Distributions payable | — | — | — | — | (3,395) | — | — | (3,395) |
| At September 30, 2016 | $557,182 | $— | $795 | $— | $195,038 | ($112) | $122 | $753,025 |

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

# Condensed Consolidated Interim Statements of Cash Flows

***In thousands of Canadian dollars, [unaudited]***

| | Note | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|---|
| | **Note** | **2017** | 2016 | **2017** | 2016 |
| **OPERATING ACTIVITIES** | | | | | |
| Net income | | **$14,649** | $17,966 | **$66,910** | $66,801 |
| **Add (deduct) items not affecting cash** | | | | | |
| Fair value adjustments | | **1,820** | (3,649) | **(28,173)** | 9,563 |
| Depreciation and amortization | | **638** | 607 | **1,838** | 1,767 |
| Non-cash compensation expense | | **265** | 174 | **747** | 1,218 |
| Deferred income taxes | | **3,063** | 1,953 | **11,022** | (36,065) |
| Loss on disposition | | **—** | — | **238** | 264 |
| Interest expense on exchangeable units | | **599** | 663 | **1,784** | 2,079 |
| Net change in non-cash operating activities | [17] | **3,577** | 4,295 | **1,688** | 449 |
| **Cash provided by operating activities** | | **$24,611** | $22,009 | **$56,054** | $46,076 |
| **FINANCING ACTIVITIES** | | | | | |
| Deferred financing costs paid | | **(1,068)** | (1,265) | **(3,660)** | (3,533) |
| Net proceeds on issuance of units | | **4** | (205) | **73,567** | 93,495 |
| Cash paid on vesting of restricted units | | **(21)** | (30) | **(242)** | (214) |
| Redemption of convertible debentures | | **—** | (57,500) | **(46,000)** | (57,500) |
| Proceeds of repayment of mezzanine loan | | **—** | 4,000 | **—** | 4,000 |
| Mortgage financing | | **53,901** | 36,896 | **168,168** | 139,592 |
| Mortgages repaid on maturity | | **(19,305)** | (23,225) | **(67,058)** | (74,969) |
| Mortgage principal repayments | | **(8,942)** | (8,034) | **(26,209)** | (23,419) |
| Proceeds from construction loans | | **8,458** | 841 | **22,071** | 4,402 |
| Advances from credit facility | | **3,000** | — | **3,000** | — |
| Construction loans repaid on maturity | | **—** | — | **(9,717)** | — |
| Distributions paid to non-controlling interest | | **—** | — | **—** | (24,610) |
| Distributions to unitholders | | **(10,218)** | (9,363) | **(26,964)** | (25,133) |
| **Cash provided by (used in) financing activities** | | **$25,809** | ($57,885) | **$86,956** | $32,111 |
| **INVESTING ACTIVITIES** | | | | | |
| (Increase) decrease in restricted cash | | **(1,236)** | 56,302 | **346** | (443) |
| Acquisition of investment properties, net of debt assumed | | **(37,981)** | — | **(118,265)** | (32,832) |
| Disposition of investment property | | **—** | — | **16,616** | 8 |
| Development of investment properties | | **(16,230)** | (3,634) | **(41,631)** | (15,024) |
| Capital expenditures | | **(8,133)** | (10,274) | **(20,182)** | (22,194) |
| **Cash (used in) provided by investing activities** | | **($63,580)** | $42,394 | **($163,116)** | ($70,485) |
| **Net (decrease) increase in cash** | | **(13,160)** | 6,518 | **(20,106)** | 7,702 |
| Cash, beginning of period | | **17,706** | 15,482 | **24,652** | 14,298 |
| **Cash, end of period** | | **$4,546** | $22,000 | **$4,546** | $22,000 |

*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 and manufactured home communities ("MHCs") in Canada.

The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at and for the nine months ended September 30, 2017. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Trust's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

## 2. Significant Accounting Policies

**(A) Statement of Compliance**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote 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, 2017, were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on November 7, 2017.

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

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Trust's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the consolidated financial statements for the year ended December 31, 2016, and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of results that may be expected for the full year ended December 31, 2017, due to seasonal variations in property expenses and other factors.

## 3. Future Accounting Policy Changes

The following new or amended accounting standards under IFRS have been issued or revised by the IASB; however, they are not yet effective and as such have not been applied to the condensed consolidated interim financial statements.

*IFRS 15, Revenue from Contracts with Customers (IFRS 15)*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 15 on the consolidated financial statements and related note disclosure. Killam's current assessment is that the following key areas may be in scope of IFRS 15 including, but are not limited to, common area maintenance recoveries and MHC home sales. Killam intends to adopt the new standard on the required effective date.

***Dollar amounts in thousands of Canadian dollars***

## 3. Future Accounting Policy Changes (continued)

*IFRS 9, Financial Instruments (IFRS 9)*
In July 2014, the IASB issued the final version of IFRS 9, which introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Killam has formed an internal working group and started a more in-depth assessment of the impact of IFRS 9 on its consolidated financial statements. Killam is currently assessing the impact of IFRS 9 and its current assessment is that the following key areas may be in scope of IFRS 9 including, but not limited to, mortgages and loans payable, exchangeable units and accumulated other comprehensive income as a component of equity. Killam intends to adopt the new standard on the required effective date.

*IFRS 16, Leases (IFRS 16)*
In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard would be effective for Killam's annual periods beginning after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on its consolidated financial statements. Killam does not expect a significant impact to its consolidated financial statements on adoption of this IFRS.

## 4. Investment Properties

**As at September 30, 2017**

| **Segment** | **Apartments** | **MHCs** | **Other** | **IPUC** | **Total** |
|---|---|---|---|---|---|
| **Balance, beginning of period** | **$1,721,399** | **$133,634** | **$32,269** | **$55,507** | **$1,942,809** |
| Fair value adjustment on investment properties | **33,221** | **(214)** | **(289)** | **—** | **32,718** |
| Acquisitions | **124,330** | **—** | **3,849** | **12,050** | **140,229** |
| Dispositions | **(16,616)** | **—** | **—** | **—** | **(16,616)** |
| Capital expenditure on investment properties | **17,168** | **1,932** | **329** | **—** | **19,429** |
| Capital expenditure on IPUC [1] | **—** | **—** | **—** | **40,358** | **40,358** |
| Interest capitalized on IPUC | **—** | **—** | **—** | **1,273** | **1,273** |
| **Balance, end of period** | **$1,879,502** | **$135,352** | **$36,158** | **$109,188** | **$2,160,200** |

As at December 31, 2016

| Segment | Apartments | MHCs | Other | IPUC | Total |
|---|---|---|---|---|---|
| Balance, beginning of year | $1,636,744 | $125,648 | $32,188 | $45,676 | $1,840,256 |
| Fair value adjustment on investment properties | (9,188) | 5,896 | (457) | — | (3,749) |
| Acquisitions | 48,214 | — | — | — | 48,214 |
| Dispositions | — | (8) | — | — | (8) |
| Transfer from IPUC | 15,490 | — | — | (15,490) | — |
| Capital expenditure on investment properties | 30,139 | 2,098 | 538 | — | 32,775 |
| Capital expenditure on IPUC | — | — | — | 24,411 | 24,411 |
| Interest capitalized on IPUC | — | — | — | 910 | 910 |
| Balance, end of year | $1,721,399 | $133,634 | $32,269 | $55,507 | $1,942,809 |

(1) Investment properties under construction ("IPUC")

***Dollar amounts in thousands of Canadian dollars***

## 4. Investment Properties (continued)

During the nine months ended September 30, 2017, Killam acquired the following properties:

| Property | Location | Acquisition Date | Year Built | Units | Purchase Price[1] |
|---|---|---|---|---|---|
| Apartments | | | | | |
| Spruce Grove | Calgary | 16-Jan-17 | 1978 | 66 | $12,800 |
| Southport condominium units | Halifax | 16-Feb-17 | 2016 | 5 | 1,070 |
| Kanata Lakes IV & V [2] | Ottawa | 01-Mar-17 | 2016 | 134 | 49,240 |
| 246 / 300 Innovation Drive | Halifax | 04-Jul-17 | 2015 / 2016 | 134 | 31,600 |
| Waybury Park | Edmonton | 18-Aug-17 | 2016 | 124 | 28,277 |
| | | | | 463 | $122,987 |
| Other | | | | | |
| Vacant Land | Edmonton | 13-Apr-17 / 23-Jun-17 | | | 4,050 |
| 1459 Hollis Street[3] | Halifax | 19-Apr-17 | | | 4,600 |
| Gloucester - Land[4] | Ottawa | 21-Apr-17 | | | 8,000 |
| Total Acquisitions | | | | | $139,637 |

(1) Purchase price does not include transaction costs.
(2) Purchase price represents 50% ownership in two buildings with a cumulative total of 268 units; in addition, it includes 35% interest in a shared clubhouse. This building is part of a five-building complex; with this acquisition Killam and its 50/50 partner now own the entire complex.
(3) Included in the acquisition is $0.85 million in land value relating to adjacent development projects - The Alexander & The Governor.
(4) Purchase price represents 50% interest in a multi-phase development site project.

During the three and nine months ended September 30, 2017, Killam capitalized salaries of $0.8 million and $2.4 million (three and nine months ended September 30, 2016 - $0.8 million and $2.2 million), as part of its project improvement, suite renovation and development programs. For the three and nine months ended September 30, 2017, 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 2.91% (September 30, 2016 - 3.18%). Interest costs associated with construction loans were capitalized to respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $2.0 billion as at September 30, 2017 (December 31, 2016 - $1.9 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 4.12% to 8.00%, applied to a stabilized net operating income ("NOI") of $101.6 million (December 31, 2016 - 4.12% to 8.00% and $96.1 million), resulting in an overall weighted average cap-rate of 5.36% (December 31, 2016 - 5.49%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.0% to 98.1% (December 31, 2016 - 93.0% to 98.1%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of $9.0 million (December 31, 2016 - 5.75% to 8.00% and $9.0 million), resulting in an overall weighted average cap-rate of 6.79% (December 31, 2016 - 6.81%). The stabilized occupancy rate used in the calculation of NOI was 97.9% (December 31, 2016 - 97.9%).

***Dollar amounts in thousands of Canadian dollars***

## 4. Investment Properties (continued)

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, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Low** | **High** | **Effective Weighted Average** | Low | High | Effective Weighted Average |
| **Apartments** | | | **5.36%** | | | 5.49% |
| Halifax | 4.85% | 7.25% | 5.35% | 4.85% | 7.33% | 5.51% |
| Moncton | 5.15% | 7.00% | 5.88% | 5.15% | 8.00% | 6.00% |
| Fredericton | 5.15% | 6.50% | 5.98% | 5.15% | 6.50% | 5.98% |
| Saint John | 6.00% | 6.75% | 6.41% | 6.00% | 6.75% | 6.41% |
| St. John's | 5.00% | 6.00% | 5.63% | 5.00% | 6.00% | 5.68% |
| Charlottetown | 5.50% | 6.25% | 5.94% | 5.50% | 6.25% | 5.94% |
| Ontario | 4.12% | 5.02% | 4.50% | 4.12% | 5.02% | 4.63% |
| Alberta | 4.52% | 5.75% | 5.07% | 4.75% | 4.75% | 4.75% |
| Other Atlantic | 5.75% | 8.00% | 6.83% | 5.75% | 8.00% | 6.83% |
| **MHCs** | | | **6.79%** | | | 6.81% |
| Ontario | 7.00% | 8.00% | 7.49% | 7.00% | 8.00% | 7.49% |
| Nova Scotia | 5.75% | 7.00% | 6.14% | 5.75% | 7.00% | 6.17% |
| New Brunswick | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| Newfoundland | 7.00% | 7.00% | 7.00% | 7.25% | 7.25% | 7.25% |

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

| **Class of property** | **Capitalization rate** | |
|---|---|---|
| | *10 basis points increase* | *10 basis points decrease* |
| Apartments | ($34,692) | $36,011 |
| MHCs | ($1,928) | $1,985 |

## 5. Joint Operations and Investments in Joint Venture

Killam has interests in seven buildings 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.

*Dollar amounts in thousands of Canadian dollars*

## 6. Mortgages and Loans Payable

| As at | September 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | **Weighted Average Interest** | **Debt Balance** | Weighted Average Interest | Debt Balance |
| Mortgages and loans payable | | | | |
| Fixed rate | **2.89%** | **$1,073,651** | 3.01% | $989,638 |
| Variable rate | **4.19%** | **12,116** | 4.28% | 7,863 |
| Vendor financing | **5.00%** | **6,006** | 4.43% | 13 |
| **Total** | | **$1,091,773** | | $997,514 |
| Current | | **139,646** | | 111,862 |
| Non-current | | **952,127** | | 885,652 |
| | | **$1,091,773** | | $997,514 |

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, 2017, unamortized deferred financing costs of $25.3 million (December 31, 2016 - $22.9 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.4 million (December 31, 2016 - $0.3 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by twelve-month periods as at September 30, 2017, are as follows:

| | Principal Amount | % of Total Principal |
|---|---|---|
| 2018 | $139,646 | 12.5% |
| 2019 | 169,347 | 15.2% |
| 2020 | 224,138 | 20.1% |
| 2021 | 129,500 | 11.6% |
| 2022 | 161,806 | 14.5% |
| Subsequent to 2022 | 293,074 | 26.2% |
| | $1,117,511 | 100.1% |
| Unamortized deferred financing costs | (25,331) | |
| Unamortized mark-to-market adjustments | (407) | |
| | $1,091,773 | |

## 7. Credit Facilities

Killam has access to two credit facilities with credit limits of $30.0 million and $1.5 million (December 31, 2016 - $30.0 million and $1.5 million) that can be used for acquisition and general business purposes.

The $30.0 million facility bears interest at prime plus 75 bps on prime rate advances or 175 bps over bankers acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at September 30, 2017, Killam has assets with a carrying value of $46.7 million pledged to the line and a balance outstanding of $3.0 million (December 31, 2016 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at September 30, 2017.

*Dollar amounts in thousands of Canadian dollars*

## 7. Credit Facilities (continued)

The $1.5 million facility bears interest at prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2017, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2016 - $1.6 million) and letters of credit totaling $1.2 million outstanding against the facility (December 31, 2016 - $1.2 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at September 30, 2017.

| **As at September 30, 2017** | **Maximum loan amount** | **Amount drawn** | **Letters of credit** | **Amount available** |
|---|---|---|---|---|
| $30 million demand facility | $30,000 | $3,000 | — | $27,000 |
| $1.5 million demand facility | 1,500 | — | 1,200 | 300 |
| **Total** | **$31,500** | **$3,000** | **$1,200** | **$27,300** |

| As at December 31, 2016 | Maximum loan amount | Amount drawn | Letters of credit | Amount available |
|---|---|---|---|---|
| $30 million demand facility | $30,000 | — | — | $30,000 |
| $1.5 million demand facility | 1,500 | — | 1,200 | 300 |
| Total | $31,500 | — | $1,200 | $30,300 |

## 8. Construction Loans

As at September 30, 2017, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects including a $51.8 million construction loan commitment related to The Alexander, where Killam has a 50% ownership interest, and a $18.8 million construction loan commitment related to the Saginaw Gardens II development project. Payments are to be made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625%. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages.

As at September 30, 2017, $30.9 million (December 31, 2016 - $18.5 million) was drawn on The Alexander and Saginaw Gardens II construction loans, at a weighted average interest rate of 3.58% (December 31, 2016 - 3.39%).

## 9. Convertible Debentures

| **Face Interest Rate %** | **Conversion Price** | **Face Amount** | **Maturity Date** | **September 30, 2017** | December 31, 2016[1] |
|---|---|---|---|---|---|
| 5.45% | $14.60 | $46,000 | June 30, 2018 | — | $46,690 |

(1) Recorded at fair value based on closing market trading prices of the debentures.

Killam redeemed its $46.0 million, 5.45% convertible debentures on April 13, 2017.

*Dollar amounts in thousands of Canadian dollars*

## 10. Exchangeable Units

| | Number of Exchangeable Units | Value |
|---|---|---|
| Balance, December 31, 2016 | 3,865,836 | $46,158 |
| Exchangeable units exchanged | (2,500) | (32) |
| Fair value adjustment | — | 4,831 |
| **Balance, September 30, 2017** | **3,863,336** | **$50,957** |

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.

## 11. Unitholders' Equity

By virtue of Killam being an open-ended mutual fund trust, unitholders of trust units are entitled to redeem their trust units at any time at prices determined and payable in accordance with the conditions specified in Killam's DOT. As a result, under IFRS, trust units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the trust units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32.

All trust units outstanding are fully paid, have no par value and are voting trust units. The DOT authorizes the issuance of an unlimited number of trust units. Trust units represent a unitholder's proportionate undivided beneficial interest in Killam. No trust unit has any preference or priority over another. No unitholder has or is deemed to have any right of ownership in any of the assets of Killam. Each unit confers the right to one vote at any meeting of unitholders and to participate pro rata in any distributions and, on liquidation to a pro rata share of the residual net assets remaining after preferential claims thereon of debtholders.

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the nine months ended September 30, 2017 no unitholders redeemed units

The units issued and outstanding are as follows:

| | Number of Trust Units | Value |
|---|---|---|
| December 31, 2016 | 67,869,802 | $560,197 |
| Distribution reinvestment plan | 661,374 | 8,294 |
| Restricted trust units redeemed | 30,356 | 227 |
| Units issued on exchange of exchangeable units | 2,500 | 32 |
| Units issued for cash | 6,088,500 | 73,575 |
| **September 30, 2017** | **74,652,532** | **$642,325** |

***Equity Raise***

On March 13, 2017, Killam closed its public offering of 6,088,500 trust units, at a price of $12.65, for gross proceeds of $77.0 million.

***Distribution Reinvestment Plan ("DRIP")***

Killam's DRIP allows unitholders to acquire additional units of the Trust through the reinvestment of distributions on their units. Unitholders who participate in the DRIP receive additional units equal to 3% of the units reinvested. Units issued with the DRIP are issued directly from the Trust at a price based on the 10-day volume weighted average closing price of the TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration.

*Dollar amounts in thousands of Canadian dollars*

## 12. Distributions

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

For the three and nine months ended September 30, 2017, the distributions declared related to the trust units were $11.7 million and $34.0 million (three and nine months ended September 30, 2016 - $10.1 million and $28.1 million), respectively. For the three and nine months ended September 30, 2017, distributions declared related to the exchangeable units were $0.6 million and $1.8 million (three and nine months ended September 30, 2016 - $0.7 million and $2.1 million). The distribution on the exchangeable units are recorded in financing costs.

## 13. Deferred Unit-based Compensation

Restricted Trust Units ("RTUs"), governed through Killam's RTU Plan, are awarded to members of the senior executive team and director-level employees as a percentage of their compensation. 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 RTUs have a value equal to the volume weighted average price of all trust units traded on the TSX for the five trading days immediately preceding the date on which the compensation is awarded. The RTUs earn distributions based on the same distributions paid on the trust units, and such distributions are used to acquire additional RTUs. The initial RTUs, and RTUs acquired through distribution reinvestment, are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. 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 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 for the nine month period ended September 30, 2017, is $4.5 million (September 30, 2016 - $3.4 million).

For the three and nine months ended September 30, 2017, compensation expense of $0.3 million and $0.7 million (three and nine months ended September 30, 2016 - $0.2 million and $1.2 million) has been recognized in respect of the RTUs.

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

| **For the nine months ended September 30,** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of RTUs** | **Weighted Average Issue Price** | Number of RTUs | Weighted Average Issue Price |
| **Outstanding, beginning of period** | **263,736** | **$10.78** | 184,106 | $10.40 |
| Granted | **238,329** | **12.77** | 149,488 | 10.88 |
| Redeemed | **(50,470)** | **10.69** | (49,781) | 10.51 |
| Forfeited | **—** | **—** | (517) | 10.88 |
| Additional restricted trust unit distributions | **12,821** | **12.54** | 10,168 | 11.20 |
| **Outstanding, end of period** | **464,416** | **$11.94** | 293,464 | $10.65 |

***Dollar amounts in thousands of Canadian dollars***

## 14. Financing Costs

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Mortgage, loan and construction loan | **$8,156** | $7,775 | **$24,091** | $23,317 |
| Interest on exchangeable units | **599** | 663 | **1,784** | 2,079 |
| Amortization of fair value adjustments on assumed debt | **7** | (127) | **(224)** | (394) |
| Amortization of loss on interest rate | **15** | 15 | **45** | 45 |
| Unrealized (gain) loss on derivative | **(206)** | (15) | **(328)** | 116 |
| Convertible debenture interest | **—** | 660 | **715** | 3,552 |
| Capitalized interest | **(550)** | (236) | **(1,273)** | (700) |
| | **$8,021** | $8,735 | **$24,810** | $28,015 |

## 15. 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, 2016, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at September 30, 2017, 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 nine months ended September 30, 2017, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

## 16. Segmented Information

For investment properties, discrete financial information is provided on a property-by-property basis to members of executive management, which collectively comprise the chief operating decision maker. The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHC and other segments. Consequently, Killam is considered to have three reportable segments, as follows:

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Other segment - includes five commercial properties.

Killam's administration costs, other income, financing costs, depreciation and amortization, fair value adjustments, loss on disposition and deferred tax expense are not reported to the members of executive management on a segment basis.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 of the consolidated financial statements for the year ended December 31, 2016. 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, 2017** | **Apartments** | **MHCs** | **Other** | **Total** |
|---|---|---|---|---|
| Property revenue | **$42,555** | **$4,892** | **$1,148** | **$48,595** |
| Property operating expenses | **(14,598)** | **(1,644)** | **(607)** | **(16,849)** |
| Net operating income | **$27,957** | **$3,248** | **$541** | **$31,746** |

| Three months ended September 30, 2016 | Apartments | MHCs | Other | Total |
|---|---|---|---|---|
| Property revenue | $39,112 | $4,803 | $1,163 | $45,078 |
| Property operating expenses | (14,337) | (1,705) | (686) | (16,728) |
| Net operating income | $24,775 | $3,098 | $477 | $28,350 |

*Dollar amounts in thousands of Canadian dollars*

## 16. Segmented Information (continued)

| **Nine months ended September 30, 2017** | **Apartments** | **MHCs** | **Other** | **Total** |
|---|---|---|---|---|
| Property revenue | **$123,682** | **$11,700** | **$3,416** | **$138,798** |
| Property operating expenses | **(47,008)** | **(4,299)** | **(2,018)** | **(53,325)** |
| Net operating income | **$76,674** | **$7,401** | **$1,398** | **$85,473** |

| Nine months ended September 30, 2016 | Apartments | MHCs | Other | Total |
|---|---|---|---|---|
| Property revenue | $116,133 | $11,412 | $3,588 | $131,133 |
| Property operating expenses | (45,731) | (4,305) | (2,045) | (52,081) |
| Net operating income | $70,402 | $7,107 | $1,543 | $79,052 |

| **As at September 30, 2017** | **Apartments** | **MHCs** | **Other** | **Total** |
|---|---|---|---|---|
| Total assets | **$1,989,763** | **$146,136** | **$51,228** | **$2,187,127** |
| Total liabilities | **$1,155,771** | **$82,437** | **$83,328** | **$1,321,536** |

| As at December 31, 2016 | | | | |
|---|---|---|---|---|
| Total assets | $1,802,855 | $142,071 | $42,707 | $1,987,633 |
| Total liabilities | $1,036,995 | $77,634 | $122,538 | $1,237,167 |

## 17. Supplemental Cash Flow Information

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Net income items related to investing and financing activities** | | | | |
| Interest paid on mortgages payable and other | **$8,252** | $7,636 | **$24,015** | $22,773 |
| Interest paid on convertible debentures | **—** | 270 | **715** | 3,148 |
| | **$8,252** | $7,906 | **$24,730** | $25,921 |
| **Net change in non-cash operating assets and liabilities** | | | | |
| Rent and other receivables | **$45** | ($112) | **($756)** | ($103) |
| Other current assets | **3,715** | 3,592 | **(1,573)** | (4,335) |
| Accounts payable and other liabilities | **(183)** | 815 | **4,017** | 4,887 |
| | **$3,577** | $4,295 | **$1,688** | $449 |

## 18. 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 trade receivables and cash, which arise directly from its operations.

Killam may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from Killam's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

**(i) Interest Rate Risk**

Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to 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, 2017, $46.0 million of Killam's debt had variable interest rates, including two construction loans for $30.9 million, six demand loans totaling $12.1 million and a revolving demand facility totaling $3.0 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% (December 31, 2016 - prime plus 0.63% - 2.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage and vendor debt, which matures in the next 12 months, totals $94 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $0.9 million per year.

**(i) 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% of the tenant receivables as at September 30, 2017, or 2016. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

**(ii) Liquidity Risk**

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, reducing the refinancing risk upon mortgage maturities.

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.

***Dollar amounts in thousands of Canadian dollars***

## 18. Financial Risk Management Objectives and Policies (continued)

During the nine months ended September 30, 2017, Killam refinanced $54.7 million of maturing apartment mortgages with new mortgages totaling $75.2 million generating net proceeds of $20.5 million. As well, Killam refinanced $5.7 million of maturing MHC mortgages with new mortgages totaling $10.5 million for net proceeds of $4.9 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

| For the twelve months ending September 30, | Mortgage and loans payable | Construction loans | Total |
|---|---|---|---|
| 2018 | $142,646 | $22,251 | $164,897 |
| 2019 | 169,347 | 8,611 | 177,958 |
| 2020 | 224,138 | — | 224,138 |
| 2021 | 129,500 | — | 129,500 |
| 2022 | 161,806 | — | 161,806 |
| Thereafter | 293,074 | — | 293,074 |
| | $1,120,511 | $30,862 | $1,151,373 |

### 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 below 50%. The calculation of the total debt to total assets is summarized as follows

| As at | **September 30, 2017** | December 31, 2016 |
|---|---|---|
| Mortgages, loans payables, credit facilities and construction loans(1) | **$1,114,511** | $1,011,623 |
| Convertible debentures | **—** | $46,000 |
| Total debt | **$1,114,511** | $1,057,623 |
| Total assets(1) | **$2,168,398** | $1,976,133 |
| Total debt as a percentage of assets | **51.4%** | 53.5% |

(1) Total assets adjusted for Killam's non-controlling interest related to The Alexander - $18.7 million (December 31, 2016 - $11.5 million). Total mortgages, loans payables and construction loans adjusted for Killam's non-controlling interest related to The Alexander - $11.1 million (December 31, 2016 - $4.4 million).

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, 2017, would increase the debt as a percentage of assets by 90 bps.

## 19. Fair Value Measurement

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

***Dollar amounts in thousands of Canadian dollars***

## 19. Fair Value Measurement (continued)

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

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

(iv) the fair value of the deferred unit-based compensation and the exchangeable units is estimated at the reporting date, based on the closing market price of the trust units listed on the TSX. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;

(v) the fair value of the derivative liability 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 of Killam and their carrying values as at September 30, 2017, and December 31, 2016, are as follows:

| **As at** | **September 30, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| **Classification** | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial assets carried at amortized cost:** | | | | |
| Loans[1] | **$950** | **$955** | $950 | $955 |
| **Financial liabilities carried at amortized cost:** | | | | |
| Mortgages payable | **$1,091,773** | **$1,115,453** | $997,514 | $1,036,288 |
| Credit facilities | **$3,000** | **$3,000** | $— | $— |
| **Financial liabilities carried at FVTPL:** | | | | |
| Exchangeable units | **$50,957** | **$50,957** | $46,158 | $46,158 |
| Convertible debentures | **$—** | **$—** | $46,690 | $46,690 |
| Deferred unit-based compensation | **$4,481** | **$4,481** | $2,988 | $2,988 |
| Derivative liability[2] | **$624** | **$624** | $296 | $296 |

(1) The $1.0 million loan receivable is included in the other non-current assets within the condensed consolidated interim financial statements of financial position.

(2) The $0.6 million derivative liability is included in other liabilities 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, 2017** | December 31, 2016 |
|---|---|---|
| Mortgages - Apartments | **2.90%** | 2.34% |
| Mortgages - MHCs | **4.50%** | 3.76% |

*Dollar amounts in thousands of Canadian dollars*

## 19. Fair Value Measurement (continued)

### *Assets and Liabilities Measured at Fair Value*

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the condensed consolidated interim statements of financial position is as follows:

| As at | **September 30, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | | |
| Investment properties | — | — | **$2,160,200** | — | — | $1,942,809 |
| **Liabilities** | | | | | | |
| Exchangeable units | — | **$50,957** | — | | $46,158 | — |
| Convertible debentures | — | — | — | $46,690 | — | — |
| Deferred unit-based compensation | — | **$4,481** | — | | $2,988 | — |
| Derivative liability | — | **$624** | — | — | $296 | — |

The three levels of the fair value hierarchy are described in note 2 to the audited consolidated financial statements for the year ended December 31, 2016. 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 nine months ended September 30, 2017.

## 20. Commitments and Contingencies

Killam has entered into commitments for acquisitions (net of assumed debt) and development costs of $74.1 million as at September 30, 2017 (December 31, 2016 - $26.9 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 and its 50% partner began construction in downtown Halifax on a 240-unit building, The Alexander, in late 2015. This project is scheduled to be completed in late Q2-2018. The cost to develop is approximately $74 million. At the completion of construction and following the achievement of certain leasing conditions, Killam has a commitment in place to purchase the other 50% interest in this development.

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

| **Area** | **Usage Coverage** | **Term** | **Cost** |
|---|---|---|---|
| Ontario | 41% | November 1, 2017 - October 31, 2018 | $0.1059/m3 |
| Ontario | 14% | December 1, 2017 - November 30, 2018 | $0.1059/m3 |
| Ontario | 45% | December 1, 2017 - November 30, 2018 | $0.1439/m3 |

Killam has agreed to acquire a 172 unit property in Edmonton, Alberta. This property is expected to close on November 30, 2017, and the purchase price of $39.2 million is expected to be satisfied with cash and new CMHC 10-year mortgage debt.

## 21. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at September 30, 2017, the maximum potential obligation resulting from these guarantees is $120.6 million, related to long-term mortgage financing (December 31, 2016 - $87.9 million). These loans are secured by a first ranking mortgage over the associated investment properties. Half of the total mortgages for these properties are recorded as a mortgage liability on the condensed consolidated interim financial statements of financial position. Killam is also the guarantor on a joint and several basis for the construction loan related to The Alexander development project. As at September 30, 2017, the maximum potential obligation resulting from this guarantee is $22.3 million (December 31, 2016 - $8.8 million).

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at September 30, 2017, determined that a provision is not required to be recognized in the condensed consolidated interim statements of financial position (December 31, 2016 - $nil).

## 22. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. Killam reclassified, on the condensed consolidated interim statements of cash flows, a portion of cash related to security deposits from "other current assets" to "cash" as these deposits are not required to be held in a restricted account.

## 23. Related Party Transactions

For the three and nine months ended September 30, 2017, Killam paid $17 and $34 thousand in commercial leasing fees to a property management company controlled by an executive and Trustee of Killam (for the three and nine months ended September 30, 2016 - $nil).

During the three and nine months ended September 30, 2017, Killam paid a sales commission, totaling $nil and $0.3 million to a property management company that is 50% owned by an executive and Trustee of Killam (for the three and nine months ended September 30, 2016 - $nil).

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. During 2016 and year-to-date in 2017, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner.

## 24. Subsequent Events

On October 18, 2017, Killam announced a distribution of $0.05167 per unit, payable on November 15, 2017, to unitholders of record on October 31, 2017.