Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis of results of operations and financial condition (MD&A) have been prepared by the management of Killam Apartment REIT in accordance with International Financial Reporting Standards, and include amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented in the MD&A is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2016, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

Ernst & Young LLP, the auditors appointed by the Unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. Their report as auditors is set forth below.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 14, 2017

Philip Fraser
President and Chief Executive Officer

Robert Richardson
Executive Vice President and Chief Financial Officer

Independent auditors' report

To the Unitholders of
Killam Apartment Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of **Killam Apartment Real Estate Investment Trust**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Killam Apartment Real Estate Investment Trust** as at December 31, 2016 and 2015 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Halifax, Canada
February 14, 2017

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

As at December 31,

	Note	2016	2015
ASSETS			
Non-current assets			
Investment properties	[6]	**$1,942,809**	$1,840,256
Property and equipment	[8]	**4,787**	4,973
Other non-current assets	[9]	**950**	4,965
		$1,948,546	$1,850,194
Current assets			
Cash		**$24,652**	$14,298
Rent and other receivables	[11]	**2,895**	2,080
Other current assets	[10]	**11,540**	9,704
		39,087	26,082
TOTAL ASSETS		**$1,987,633**	$1,876,276
EQUITY AND LIABILITIES			
Unitholders'/shareholders' equity		**$750,450**	$669,826
Accumulated other comprehensive loss ("AOCL")		**(97)**	(156)
Non-controlling interest		**113**	15,658
Total Equity		**$750,466**	$685,328
Non-current liabilities			
Mortgages and loans payable	[12] [26]	**$885,652**	$784,629
Convertible debentures	[15]	**46,690**	99,627
Other liabilities		**12,563**	8,723
Exchangeable units	[16]	**46,158**	—
Deferred tax	[19]	**84,547**	112,145
Deferred unit-based compensation	[20]	**2,988**	—
		$1,078,598	$1,005,124
Current liabilities			
Mortgages and loans payable	[12]	**$111,862**	$156,218
Construction loans	[13]	**18,509**	4,115
Accounts payable and accrued liabilities	[14]	**28,198**	25,491
		158,569	185,824
Total Liabilities		**$1,237,167**	$1,190,948
TOTAL EQUITY AND LIABILITIES		**$1,987,633**	$1,876,276
Commitments and Contingencies	[25]		
Financial guarantees	[26]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

G. W. Watson

Trustee

Philip Fraser

Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars,

For the years ended December 31,

	Note	2016	2015
Property revenue		**$175,269**	$166,614
Property operating expenses			
Operating expenses		**(29,097)**	(27,590)
Utility and fuel expenses		**(20,462)**	(21,299)
Property taxes		**(20,286)**	(19,335)
		(69,845)	(68,224)
Net operating income		**$105,424**	$98,390
Other income		**1,227**	1,495
Financing costs	[21]	**(36,193)**	(37,044)
Depreciation		**(884)**	(802)
Amortization of deferred financing costs		**(1,505)**	(1,913)
Administration		**(12,733)**	(11,898)
Income before fair value adjustments, loss on disposition and income taxes		**$55,336**	$48,228
Fair value adjustment on convertible debentures		**1,118**	—
Fair value adjustment on unit-based compensation		**(826)**	—
Fair value adjustment on Exchangeable Units		**(7,774)**	—
Fair value adjustment on investment properties		**(3,749)**	(6,103)
Loss on disposition		**(264)**	(109)
Income before income taxes		**43,841**	42,016
Deferred tax recovery	[19]	**27,598**	(6,216)
Net income		**$71,439**	$35,800
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to finance costs		**59**	42
Comprehensive income		**$71,498**	$35,842

Net income attributable to:		
Unitholders/common shareholders	**67,982**	34,557
Non-controlling interest	**3,457**	1,243
	$71,439	$35,800
Comprehensive income attributable to:		
Unitholders/common shareholders	**68,041**	34,599
Non-controlling interest	**3,457**	1,243
	$71,498	$35,842

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

For the year ended December 31, 2016

	Trust Units	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2016	**$—**	**$484,132**	**$2,150**	**$5,681**	**$177,863**	**($156)**	**$15,658**	**$685,328**
REIT conversion - See note 3	**447,566**	**(484,132)**	**(1,355)**	**(5,681)**	**(12,463)**	**—**	**—**	**(56,065)**
Unit capital								
Exchange of exchangeable units	**11,043**	**—**	**—**	**—**	**—**	**—**	**—**	**11,043**
Distribution reinvestment plan	**6,482**	**—**	**—**	**—**	**—**	**—**	**—**	**6,482**
Restricted trust unit plan	**323**	**—**	**—**	**—**	**—**	**—**	**—**	**323**
Issued for cash	**93,623**	**—**	**—**	**—**	**—**	**—**	**—**	**93,623**
Issuance of units for acquisitions	**1,160**	**—**	**—**	**—**	**—**	**—**	**—**	**1,160**
Net income	**—**	**—**	**—**	**—**	**67,982**	**—**	**3,457**	**71,439**
Amortization of loss on forward interest rate hedge	**—**	**—**	**—**	**—**	**—**	**59**	**—**	**59**
Distributions on non-controlling interest	**—**	**—**	**—**	**—**	**—**	**—**	**(505)**	**(505)**
Acquisition of non-controlling interest	**—**	**—**	**—**	**—**	**(5,599)**	**—**	**(18,497)**	**(24,096)**
Distributions on trust units								
Distributions declared and paid	**—**	**—**	**—**	**—**	**(34,908)**	**—**	**—**	**(34,908)**
Distributions payable	**—**	**—**	**—**	**—**	**(3,417)**	**—**	**—**	**(3,417)**
As at December 31, 2016	**$560,197**	**$—**	**$795**	**$—**	**$189,458**	**($97)**	**$113**	**$750,466**

For the year ended December 31, 2015

	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2015	$459,138	$2,417	$5,681	$180,793	($198)	$14,852	$662,683
Share capital							
Dividend reinvestment plan	6,907	—	—	—	—	—	6,907
Stock options exercised	3,458	(486)	—	—	—	—	2,972
Issuance of shares for acquisitions	14,535	—	—	—	—	—	14,535
Restricted share units issued	—	797	—	—	—	—	797
Restricted share units redeemed	286	(530)	—	—	—	—	(244)
Repurchase through normal course issuer bid	(192)	(48)	—	—	—	—	(240)
Net income	—	—	—	34,557	—	1,243	35,800
Amortization of loss on forward interest rate hedge	—	—	—	—	42	—	42
Distribution to non-controlling interest	—	—	—	—	—	(437)	(437)
Dividends declared and paid	—	—	—	(34,326)	—	—	(34,326)
Dividends payable	—	—	—	(3,161)	—	—	(3,161)
At December 31, 2015	$484,132	$2,150	$5,681	$177,863	($156)	$15,658	$685,328

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

For the years ended December 31,

	Note	**2016**	2015
OPERATING ACTIVITIES			
Net income		**$71,439**	$35,800
Add (deduct) items not affecting cash			
Fair value adjustments	[6], [16], [17]	**11,231**	6,103
Depreciation and amortization		**2,389**	2,715
Non-cash compensation expense	[20]	**896**	316
Deferred income taxes		**(27,598)**	6,216
Loss on disposition		**264**	109
Net change in non-cash operating activities	[23]	**4,963**	(312)
Cash provided by operating activities		**$63,584**	$50,947
FINANCING ACTIVITIES			
Deferred financing costs paid		**(4,685)**	(3,852)
Proceeds on issuance of units/common shares		**93,491**	2,874
Repurchase common shares through normal course issuer bid		**—**	(241)
Redemption of convertible debentures		**(57,500)**	—
Proceeds of repayment of mezzanine loan		**4,000**	—
Mortgage financing		**200,537**	201,797
Mortgages repaid on maturity		**(105,831)**	(91,134)
Mortgage principal repayments		**(31,662)**	(28,809)
Proceeds from construction loans		**10,558**	15,383
Construction loans repaid on maturity		**—**	(43,214)
Distributions paid to non-controlling interest		**(24,610)**	(437)
Distributions to unitholders/shareholders	[18]	**(31,515)**	(30,413)
Cash provided by financing activities		**$52,783**	$21,954
INVESTING ACTIVITIES			
Increase in restricted cash		**(340)**	(908)
Net proceeds on sale of land		**—**	50
Acquisition of investment properties, net of debt assumed		**(46,897)**	(23,889)
Disposition of investment property		**8**	—
Development of investment properties		**(25,324)**	(21,853)
Capital expenditures		**(33,460)**	(32,778)
Cash used in investing activities		**($106,013)**	($79,378)
Net increase (decrease) in cash		**10,354**	(6,477)
Cash, beginning of year		**14,298**	20,775
Cash, end of year		**$24,652**	$14,298

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars
(except unit/share amounts, or as noted)

1. Organization of the Trust

Killam Apartment Real Estate Investment Trust ("Killam" or the "Trust") is an unincorporated open-ended mutual fund trust created pursuant to the amended and restated Declaration of Trust ("DOT"), dated November 27, 2015, under the laws of the Province of Ontario. Killam specializes in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada.

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

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

2. Significant Accounting Policies

(A) Statement of Compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Trust for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 14, 2017.

(B) Basis of Presentation
The consolidated financial statements of Killam have been prepared on a historical cost basis, except for investment properties, unit-based compensation, convertible debentures and Exchangeable Units, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The 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 per unit, per share amount or as noted.

(C) Basis of Consolidation
(i) *Subsidiaries*
The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interests represent the portion of profit or loss and net assets not held by Killam, and are presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from unitholders'/shareholders' equity.

Subsidiaries are entities controlled by Killam. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Killam. In certain circumstances, Killam has control over entities in which it does not own more than 50% of the voting power.

In its evaluation, Management considers whether Killam controls the entity by virtue of the following circumstances:

a) Power over more than half of the voting rights by virtue of an agreement with other investors;
b) Power to govern the financial and operating policies of the entity under a statute or an agreement;
c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; and
d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Dollar amounts in thousands of Canadian dollars

2. Significant Accounting Policies (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Killam owns 50% of the shares of a Corporation, which owns a property under development. Killam has determined that it controls the Corporation and therefore consolidates the Corporation's assets, liabilities and the results of its operations. As Killam will purchase the remaining 50% of the shares in the Corporation upon the completion of the development, the non-controlling interest is recorded as a liability and is included in other non-current long-term liabilities.

Killam's investment in subsidiaries, all of which are incorporated in Canada, are listed in the following table:

Subsidiary	% Interest
Killam Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
661047 N.B Inc.	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Blackshire Court Limited Partnership	96.94%
Killam KamRes (Silver Spear) Inc.	50%
Killam KamRes (Grid 5) Inc.	50%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Killam - Keith Development Ltd.	50%

(ii) Joint arrangements
Killam has joint arrangements in and joint control of five properties. Killam has assessed the nature of its joint arrangements as at December 31, 2016, and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

(D) Property Asset Acquisitions
At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to Killam. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, Killam applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties.

2. Significant Accounting Policies (continued)

When an acquisition does not represent a business as defined under IFRS 3, Killam classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date, except for financial instruments that are recognized initially at fair value. Acquisition-related transaction costs are capitalized to the property.

All of Killam's acquisitions have been classified as asset acquisitions.

(E) Revenue Recognition
(i) Rental income
Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from investment properties is recognized on a straight-line basis over the lease term. Killam has not transferred substantially all of the benefits and risks of ownership of its rental properties, and therefore accounts for leases with its tenants as operating leases.

(ii) Other Income
Other corporate income includes interest and management fees. Interest income is recognized as earned and management fees are recorded as services are provided.

(iii) Service charges and expenses recoverable from tenants
Income arising from expenses recovered from tenants is recognized gross of the related expenses in the period in which the expense can be contractually recovered. Revenue related to laundry and parking are included gross of the related costs.

(iv) Manufactured home sales
Where revenue is obtained from the sale of manufactured homes, it is recognized when the significant risks and rewards have been transferred to the buyer. This will normally take place on the closing date of the home sale. Such sales are considered sales of goods, and not sales of real estate, as Killam does not manufacture these homes.

(F) Tenant Inducements
Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are amortized on a straight-line basis over the term of the lease as a reduction of rental revenue.

(G) Investment Properties
Investment properties include multi-family residential properties, manufactured home communities and commercial properties held to earn rental income and properties that are under construction or development for future use as investment properties. Killam considers its income properties to be investment properties under International Accounting Standard ("IAS") 40, *Investment Property* ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation.

Killam's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with the economies of scale from owning a large portfolio or the consolidation of value from having compiled a large portfolio of properties over a long period of time, many through individual property acquisitions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include deed transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are recorded at fair value. Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains and losses arising from changes in fair values are included in the consolidated statements of income and comprehensive income in the year in which they arise. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statements of income and comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the commencement of operating leases. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of redevelopment.

2. Significant Accounting Policies (continued)

(i) Investment properties under construction ("IPUC")
Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises the amount of cash, or the fair value of other consideration, paid to acquire the property, including transaction costs. Subsequent to acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on both specific and general debt. Direct and indirect borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare am asset for development or redevelopment begin, and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If Killam is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization costs continues until such improvements are completed. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Interest capitalized using Killam's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

Properties under development are also adjusted for fair value at each consolidated balance sheet date with fair value adjustments recognized in net earnings.

(H) Property and Equipment
Property and equipment are stated at historical cost less accumulated depreciation and consist mainly of head office buildings, leasehold improvements and information technology systems. The estimated useful lives, residual values and depreciation methods are reviewed at each year-end, with the effect of any changes in estimates accounted for prospectively. These items are categorized into the following classes and their respective useful economic life is used to calculate the amount of depreciation or amortization for each period.

Category	Useful Life / Depreciation Rate	Depreciation method used
Building	40 years	Straight-line
Heavy equipment	7.5%	Declining balance
Vehicles	10%	Declining balance
Furnitures, fixtures and office equipment	10% to 30%	Declining balance
Computer software	100%	Declining balance
Leaseholds	Lease term	Straight-line

(I) Inventory
Inventory represents manufactured homes available for sale. The manufactured homes are valued at the lower of cost (purchase price plus delivery and setup costs) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business based on market prices at the reporting date less costs to complete and the estimated costs of sale.

(J) Consolidated Statements of Cash Flows
Cash consists of cash on hand and bank account balances. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated financial statements.

(K) Unit-based Compensation
Unit-based compensation benefits in the form of restricted trust units ("RTUs") are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the RTUs are presented as a liability on the consolidated statements of financial position as the Trust is obliged to provide the holder with Trust Units once the RTUs vest. Compensation expense is recognized over the vesting period and included in administration costs.

Dollar amounts in thousands of Canadian dollars

2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Financial liabilities are classified as FVTPL if they meet certain conditions and are designated as such by Management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Loans and receivables
Such receivables arise when Killam provides services to a third party, such as a tenant, and are included in other current assets, except for those with maturities more than 12 months after the consolidated statement of financial position date, which are classified as other non-current assets. Loans and receivables are accounted for at amortized cost.

Other financial liabilities
Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount of the initial recognition.

Trust Units
Killam's Trust Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. Killam's Trust Units meet the conditions of IAS 32 as

2. Significant Accounting Policies (continued)

they are the most subordinate to all other classes of instruments and are, therefore, presented as equity on the consolidated statements of financial position.

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

Exchangeable Units
The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date is reported under other current liabilities on the consolidated statements of financial position. On initial recognition, the Exchangeable Units are measured at fair value, with the related fair value gain being recorded through retained earnings. Subsequently, the Exchangeable Units are remeasured at each reporting date at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income.

Mortgages and loans payable
Mortgages and loans payable are initially recognized at fair value less directly attributable transaction costs. After initial recognition, mortgages and loans payable are subsequently measured at amortized cost using the effective interest rate method. Mortgage maturities and repayments due more than 12 months after the consolidated statements of financial position date are classified as non-current.

Financing costs
Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate calculation.

Prepaid insurance premiums
Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are presented within other non-current assets. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial period is typically 25 years) and are included in interest and other financing costs in the consolidated statements of income and comprehensive income.

Transaction costs
Transaction costs related to financial assets classified as FVTPL are expensed as incurred. Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method. Transaction costs relating to available-for-sale financial assets are included in the cost of the asset on initial recognition.

Determination of fair value
The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. Killam classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and Killam’s own assumptions about market value. See note 6 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

Derivatives
Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. For Killam's accounting policy on hedging, see the Hedging Relationships section below. Derivatives not designated in a hedging relationship are measured at fair value with changes therein recognized directly through the consolidated statements of income and comprehensive income.

2. Significant Accounting Policies (continued)

Embedded derivatives
Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized within net income in the consolidated statements of income and comprehensive income.

(M) Hedging Relationships
Killam uses interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, Killam formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how Killam will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges
For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity through other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statements of income and comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

(N) Comprehensive Income
Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

(O) Accumulated Other Comprehensive Loss
AOCL is included in the consolidated statements of financial position as equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges.

(P) Distributions
Distributions represent the monthly cash distributions on outstanding Trust Units and Exchangeable Units.

(Q) Provisions
In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), a provision is a liability of uncertain timing or amount. Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

2. Significant Accounting Policies (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the date of the consolidated statements of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect Killam's best estimate at the reporting date. Killam's provisions are immaterial and are included in other payables.

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

(i) Current income tax
Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and tax laws enacted or substantively enacted at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax
Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits, or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Killam determines the deferred tax consequences associated with temporary differences relating to investment properties as if the carrying amount of the investment property is recovered entirely through sale. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

(S) Earnings Per Unit
As a result of the redemption feature of Killam's Trust Units, these Units are considered financial liabilities under IAS 33, Earnings per share, and they may not be considered as equity for the purposes of calculating net income on a per Unit basis. Consequently, Killam has elected not to report earnings per Unit calculation, as permitted under IFRS.

Dollar amounts in thousands of Canadian dollars

3. REIT Conversion Adjustments

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

Exchangeable Units
Effective January 1, 2016, 4,748,061 Exchangeable Units were issued and $36.6 million was reclassified from unitholders' equity to Exchangeable Units on the consolidated statements of financial position. The Exchangeable Units were recorded at fair value using Killam's unit price on January 4, 2016, and a fair value loss of $12.9 million was recorded through retained earnings. Effective January 1, 2016, $1.4 million was reclassified from contributed surplus to unit-based compensation and a fair value gain of $0.4 million was recorded through retained earnings. The unit-based compensation was calculated using Killam's unit price on the TSX on January 4, 2016.

Convertible debentures
Effective January 1, 2016, Killam elected to record the full outstanding amount of each convertible debenture at fair value using the closing trading price for each convertible debenture on the TSX on each reporting date with changes in fair value recognized in the consolidated statements of income and comprehensive income.

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

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

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

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

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

4. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations (see *Key Accounting Estimates and Assumptions* below) that have been made in applying the Trust's accounting policies and that have the most significant effect on the reported amounts in the consolidated financial statements:

(i) Income taxes
The Trust applies judgment in determining the tax rates applicable to its corporate subsidiaries and identifying the temporary differences in each of such legal subsidiaries in respect of which deferred income taxes are recognized. Deferred taxes related to temporary differences arising from its corporate subsidiaries are measured based on the tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences that are expected to reverse in the future and arise from differences between accounting and tax asset values.

4. Critical Accounting Judgments, Estimates and Assumptions (continued)

(ii) Investment property and internal capital program
The Trust's accounting policy relating to investment properties is described in note 2(g). In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the Trust's investment properties. Additionally, judgment is applied in determining the appropriate classes of investment properties in order to measure fair value. The Trust also undertakes internal capital improvements and upgrades. Such work is specifically identified, and the Trust applies judgment in the estimated amount of directly attributable salaries to be allocated to capital improvements and upgrades of its investment properties.

(iii) Financial instruments
The Trust's accounting policies relating to financial instruments are described in note 2(m). Critical judgments inherent in these policies related to applying the criteria set out in IAS 39 to designate financial instruments into categories i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

(iv) Basis of consolidation
The consolidated financial statements of the Trust include the accounts of Killam and its wholly-owned subsidiaries, as well as entities over which the Trust exercises control on a basis other than ownership of voting interest within the scope of IFRS 10, *Consolidated Financial Statements*. Judgment is applied in determining if an entity meets the criteria of control as defined in the accounting standard.

Key Accounting Estimates and Assumptions

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results could differ from estimates.

(i) Valuation of investment properties
The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 6. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and expected maintenance costs) used in the overall capitalization rate valuation method as well as discount rates and forecasted cash flows used in the discounted cash flow valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 6 for sensitivity analysis.

IPUC are also valued at fair value, except if such values cannot be reliably determined. In the case when fair value cannot be reliably determined, such property is recorded at cost. The fair value of IPUC is determined using the direct income capitalization method.

(ii) Deferred unit-based compensation plan
The compensation costs relating to the deferred unit plan are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised.

(iii) Deferred taxes
The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 19.

5. 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 consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Killam plans to adopt the new standard on the effective date. During 2016, Killam performed a high level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to Killam in the future. Overall, Killam expects no significant impact on its statement of financial position.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Killam is in the process of assessing the impact IFRS 15 may have on future financial statements and plans to adopt the new standard on the required effective date; however, Killam does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

IAS 40, Investment Properties ("IAS 40")
During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. These amendments are not expected to have any significant impact on Killam's consolidated financial statements.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard will be effective for Killam's annual periods beginning after January 1, 2019, with earlier adoption permitted so long as IFRS 15 has been adopted by Killam. Killam will perform a detailed analysis which considers any leases that would be affected by this and the impact it may have on the consolidated financial statements.

Dollar amounts in thousands of Canadian dollars

6. Investment Properties

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**

As at December 31, 2015					
Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of year	$1,568,203	$122,629	$2,223	$40,840	$1,733,895
Fair value adjustment on investment properties	(6,837)	734	—	—	(6,103)
Acquisitions	13,020	—	28,904	17,973	59,897
Dispositions	—	—	—	(1,143)	(1,143)
Transfer from IPUC	36,147	—	—	(36,147)	—
Transfer to IPUC	(2,300)	—	—	2,300	—
Capital expenditure on investment properties	28,511	2,285	1,061	—	31,857
Capital expenditure on IPUC	—	—	—	20,764	20,764
Interest capitalized on IPUC	—	—	—	1,089	1,089
Balance, end of year	$1,636,744	$125,648	$32,188	$45,676	$1,840,256

During the year ended December 31, 2016, Killam acquired the following properties:

Property	**Location**	**Acquisition Date**	**Year Built**	**Units**	**Purchase Price(1)**
Apartments					
Kanata Lakes III(2)	Ottawa	10-Jun-16	2015	173	$31,123
270 Parkside Drive	Fredericton	17-Jun-16	1979	28	1,770
Garden Park Apartments(3)	Halifax	30-Jun-16	1979	128	23,724
960/970/980 Cheapside Street	London	22-Dec 16	1960	113	10,250
298 Fairview Avenue & 1447 Trafalgar Street	London	22-Dec-16	1960/1965	40	3,150
Other					
Vacant Land	Halifax	2-Feb-16			340
Vacant Land(4)	Halifax	24-Nov-16			1,160
Total Acquisitions				**482**	**$71,517**

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in a 173-unit building, which includes 2,712 SF of commercial space and a 25% interest in a shared clubhouse. This building is part of a five-building complex. Killam and its 50/50 partner now own three of the buildings and have the two remaining buildings under contract with closings scheduled for Q1-2017.

(3) Purchase price represents Killam's acquisition of the remaining 51.02% interest in Garden Park Apartments. Post acquisition, Killam has a 100% interest in the 246-unit building, which includes 8,159 SF of commercial space.

(4) Purchase price represents Killam's acquisition of the remaining 50% interest in vacant land for future development adjacent to the Brewery Market and The Alexander development.

6. Investment Properties (continued)

During the twelve months ended December 31, 2016, Killam capitalized salaries of $3.0 million (December 31, 2015 - $3.0 million) as part of its project improvement, suite renovation and development programs.

For the twelve months ended December 31, 2016, 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 3.11% (December 31, 2015 - 3.60%). Interest costs associated with construction loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1.9 billion as at December 31, 2016, (December 31, 2015 - $1.8 billion) have been pledged as collateral against Killam's mortgages, construction loans and credit facilities.

Valuation methodology and processes

Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all investment properties are classified as Level 3 assets.

Killam's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for investment properties during the year.

Killam's internal valuation team consists of individuals who are knowledgeable and have recent experience in the fair value techniques for investment properties. Killam's internal valuation team is responsible for determining the fair value of investment properties every quarter. The team reports directly to the Executive Vice President & Chief Financial Officer ("EVP") and the internal valuation team's valuation processes and results are reviewed by Management at least once every quarter, in line with Killam's quarterly reporting dates.

Killam has also engaged leading independent national real estate appraisal firms with representation and expertise across Canada to provide appraisals on approximately 20% of its portfolio by value annually. Properties are rotated annually to ensure that every property is externally valued at least once every five years. These external valuations take place as at December 31 and are prepared to comply with the requirements of IAS 40, IFRS 13, *Fair Value Measurement*, and International Valuation Standards. On a quarterly basis, for properties that are not valued externally, appraisals are updated by Killam's internal valuation team for current leasing and market assumptions, utilizing market capitalization rates as provided by the independent valuation firms. The externally appraised properties reflect a representative sample of the Killam's portfolio, and such appraisals and valuation metrics are then applied to the entire portfolio by the internal valuation team.

At each external valuation date, the internal valuation team:
- Verifies all major inputs to the independent valuation report;
- Assesses property valuation movements when compared to the prior year valuation report; and
- Holds discussions with the independent appraiser.

Changes in fair values are analyzed at each reporting date during the quarterly valuation discussions between the EVP and the internal valuation team. As part of this discussion, the internal valuation team presents a report that explains the reasons for the fair value movements.

Valuation techniques underlying Management's estimation of fair value

The investment properties were valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income ("NOI") of each property is divided by an overall capitalization rate. The significant unobservable inputs include:

- Stabilized net operating income: based on the location, type and quality of the properties and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on CMHC's 10-year average rents by region and expected maintenance costs; and

- Capitalization rate: based on location, size and quality of the properties and taking into account market data at the valuation date.

Dollar amounts in thousands of Canadian dollars

6. Investment Properties (continued)

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 NOI of $96.1 million (December 31, 2015 - 4.12% to 8.00% and $91.3 million), resulting in an overall weighted average cap-rate of 5.49% (December 31, 2015 - 5.52%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.0% to 98.1% (December 31, 2015 - 93.2% to 97.9%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of $9.0 million (December 31, 2015 - 5.75% to 8.00% and $8.5 million), resulting in an overall weighted average cap-rate of 6.81% (December 31, 2015 - 6.82%). The stabilized occupancy rate used in the calculation of NOI was 97.9% (December 31, 2015 - 97.5%).

Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table by region:

	December 31, 2016			December 31, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.49%**			5.52%
Halifax	4.85%	7.33%	5.51%	5.00%	7.33%	5.58%
Moncton	5.15%	8.00%	6.00%	5.15%	8.00%	6.04%
Fredericton	5.15%	6.50%	5.98%	5.15%	6.25%	5.90%
Saint John	6.00%	6.75%	6.41%	6.00%	6.75%	6.40%
St. John's	5.00%	6.00%	5.68%	5.00%	6.00%	5.68%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.25%	5.94%
Ontario	4.12%	5.02%	4.63%	4.12%	5.00%	4.63%
Alberta	4.75%	4.75%	4.75%	4.85%	4.85%	4.85%
Other Atlantic	5.75%	8.00%	6.83%	5.75%	7.00%	6.57%
MHCs			**6.81%**			6.82%
Ontario	7.00%	8.00%	7.49%	7.00%	8.00%	7.49%
Nova Scotia	5.75%	7.00%	6.17%	5.75%	7.00%	6.22%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland and Labrador	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation model as at December 31, 2016 and 2015, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2016			December 31, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.49%**	4.12%	8.00%	5.52%
MHCs	**5.75%**	**8.00%**	**6.81%**	5.75%	8.00%	6.82%

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:

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

6. Investment Properties (continued)

Class of property	Capitalization rate	
	10 basis points increase	*10 basis points decrease*
Apartments	$(31,306)	$32,468
MHCs	$(1,913)	$1,971

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

7. Joint Operations and Investments in Joint Venture

Killam has interests in five properties that are subject to joint control and are joint operations. Accordingly, the consolidated statements of financial position and consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses.

8. Property and Equipment

As At	**December 31, 2016** Cost	**Accumulated Depreciation**	December 31, 2015 Cost	Accumulated Depreciation
Land	**$270**	**$—**	$270	$—
Building	**1,913**	**271**	1,836	204
Heavy equipment	**255**	**102**	225	92
Vehicles	**1,547**	**550**	1,318	457
Furniture, fixtures and office equipment	**5,225**	**4,153**	4,847	3,495
Leasehold improvements	**879**	**226**	895	170
	10,089	**5,302**	9,391	4,418
Less: accumulated depreciation	**(5,302)**		(4,418)	
	$4,787		$4,973	

Land and building represents Killam's ownership of a 50% interest in the property 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 carrying value of $1.9 million (December 31, 2015 - $1.9 million) is pledged as collateral against Killam's mortgage payable.

For the years ended December 31,	**2016**	2015
Balance, beginning of the year	**$4,973**	$4,854
Capital expenditures	**698**	921
Depreciation	**(884)**	(802)
Balance, end of year	**$4,787**	$4,973

9. Other non-current assets

Other non-current assets as at December 31, 2016, include a vendor take-back loan issued in June 2015 for $0.95 million and bearing interest at a rate of 6.5%. As at December 31, 2015, Killam had a vendor take-back loan for $0.95 million, bearing interest at a rate of 6.5%, and a $4.0 million mezzanine loan, bearing interest at prime plus 7% or a minimum of 10%, paid quarterly.

Dollar amounts in thousands of Canadian dollars

10. Other Current Assets

As at	**December 31, 2016**	December 31, 2015
Restricted cash	**$7,279**	$6,939
Prepaid expenses	**4,162**	2,734
Inventory	**99**	31
	$11,540	$9,704

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

11. Rent and Other Receivables

As at	**December 31, 2016**	December 31, 2015
Rent receivable	**$1,014**	$864
Other receivables	**1,881**	1,216
	$2,895	$2,080

Included in other receivables are laundry revenue, commission revenue and other non-rental income. The majority of these receivables are less than 60 days old. Killam's policy is to write off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. Killam's bad debt expense experience has historically been less than 0.4% of revenue. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

12. Mortgages and Loans Payable

As at	**December 31, 2016**		December 31, 2015	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.01%**	**$989,638**	3.27%	$923,835
Variable rate	**4.28%**	**7,863**	4.34%	11,778
Vendor financing	**4.43%**	**13**	3.01%	5,234
Total		**$997,514**		$940,847
Current		**111,862**		156,218
Non-current		**885,652**		784,629
		$997,514		$940,847

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

As at December 31, 2016, unamortized deferred financing costs of $22.9 million (December 31, 2015 - $19.8 million) and mark-to-market premiums on mortgages assumed on acquisitions of $0.3 million (December 31, 2015 - $0.8 million) are netted against mortgages and loans payable.

Dollar amounts in thousands of Canadian dollars

12. Mortgages and Loans Payable (continued)

Estimated future principal payments and maturities required to meet mortgage obligations by twelve-month periods as at December 31, 2016 are as follows:

	Principal Amount	% of Total Principal
2017	$111,862	11.0%
2018	125,005	12.3%
2019	196,479	19.3%
2020	193,097	18.9%
2021	131,931	12.9%
Subsequent to 2021	261,741	25.6%
	$1,020,115	100.0%
Unamortized deferred financing costs	(22,947)	
Unamortized mark-to-market adjustments	346	
	$997,514	

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

I. A $30 million revolving demand credit facility to be used for Killam’s acquisition and development program, as well as general business purposes. The interest rate on the credit facility is prime plus 75 bps on prime rate advances or 175 bps over Banker's Acceptance. Killam has assets with an aggregate carrying value of $46.4 million pledged to the line. There is currently no balance drawn on the credit facility. The agreement includes certain covenants and undertakings of which Killam is in compliance.

II. A $1.5 million revolving demand facility that can be used for Killam’s acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2016, Killam had assets with a carrying value of $1.8 million (December 31, 2015 - $1.6 million) pledged as collateral and letters of credit totaling $1.2 million were outstanding against the facility (December 31, 2015 - $1.5 million). The agreement includes certain covenants and undertakings of which Killam is in compliance.

13. Construction Loans

As at December 31, 2016, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects for $10.1 and $51.8 million. The $51.8 million construction loan relates to a joint development project where Killam has a 50% interest. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625% - 0.75%.

Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. As at December 31, 2016, $18.5 million (December 31, 2015 - $4.1 million) was drawn on the construction loans at a weighted average interest rate of 3.39% (December 31, 2015 - 3.45%).

14. Accounts Payable and Accrued Liabilities

As at	**December 31, 2016**	December 31, 2015
Accounts payable and other accrued liabilities	**$19,969**	$17,592
Mortgage interest payable	**2,240**	2,427
Security deposits	**5,989**	5,472
	$28,198	$25,491

Dollar amounts in thousands of Canadian dollars

15. Convertible Debentures

Face Interest Rate %	Conversion Price	Face Amount	Maturity Date	December 31, 2016 (1)	December 31, 2015 (2)
5.65%	$13.40	$57,500	November 30, 2017	**$—**	$55,873
5.45%	$14.60	$46,000	June 30, 2018	**46,690**	45,160
				46,690	101,033
Less: Deferred financing charges				**—**	(1,406)
				$46,690	$99,627

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

On July 4, 2016, Killam completed the redemption of its $57.5 million, 5.65% convertible debentures.

Killam's $46.0 million convertible subordinated debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturity).

Effective January 1, 2016, the convertible debentures were classified as FVTPL and measured at fair value (refer to note 3).

16. Exchangeable Units

The Exchangeable Units, representing an aggregate fair value of $46.2 million as at December 31, 2016 (December 31, 2015 - $nil), are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the units been exchanged for Killam Trust Units.

	2016	
	Number of Exchangeable Units	**Value**
Balance, beginning of year	—	$—
Trust units exchanged for Exchangeable Units on conversion	4,748,061	36,567
Fair value adjustment on conversion	—	12,860
Exchangeable Units exchanged	(882,225)	(11,043)
Fair value adjustment	—	7,774
Balance, end of year	**3,865,836**	**$46,158**

Dollar amounts in thousands of Canadian dollars

17. Unitholders' Equity/Shareholders' Equity

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

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, no unitholders redeemed units.

The units issued and outstanding are as follows:

	Number of Trust Units	Number of Common Shares	Value
Balance, January 1, 2015	—	60,475,979	$459,138
Dividend reinvestment plan	—	667,594	6,907
Stock options exercised	—	367,907	3,458
Shares issued for acquisition	—	1,341,859	14,535
Restricted share units redeemed	—	30,695	286
Repurchase through normal course issuer bid	—	(21,000)	(192)
Balance December 31, 2015	—	62,863,034	$484,132
REIT conversion, January 1, 2016	58,114,973	(4,748,061)	(36,567)
Distribution reinvestment plan	558,182	—	6,482
Restricted trust units redeemed	51,688	—	323
Units issued on exchange of Exchangeable Units	882,225	—	11,043
Units issued for cash	8,165,000	—	93,623
Units issued for acquisitions	97,734	—	1,161
Balance, December 31, 2016	**67,869,802**	**—**	**$560,197**

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 (except unit/share amounts, or as noted)

17. Unitholders' Equity/Shareholders' Equity (continued)

New Units Issued

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (June 2, 2016)	$12.00	$85,200	$3,846	$81,354	7,100,000
Over-allotment (June 2, 2016)	$12.00	12,780	511	12,269	1,065,000
Total		$97,980	$4,357	$93,623	8,165,000

On November 24, 2016 Killam also issued 97,134 units at a price per unit of $11.87 to acquire the remaining 50% interest in a piece of vacant land for future development for $1.2 million.

18. 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 years ended December 31, 2016, the distributions declared related to the Trust Units were $38.3 million (dividends declared for the year ended December 31, 2015 - $37.5). For the year ended December 31, 2016, distributions declared related to the Exchangeable Units were $2.7 million (year ended December 31, 2015 - $nil). Distributions on the Exchangeable Units are recorded in financing costs.

19. 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 January 1, 2016, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2016, 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 year ended December 31, 2016, the deferred tax expense relates to these corporate subsidiaries.

The source of deferred tax balances and movements were as follows:

As at December 31,	**2015**	**Recognized on REIT conversion January 1, 2016**	**Revised opening balance**	**Recognized in statement of income and comprehensive income**	**2016**
Deferred tax assets (liabilities) related to:					
Real estate properties	$108,785	($35,934)	$72,851	$11,111	**$83,962**
Loss carryforwards	(194)	(1,273)	(1,467)	(2,393)	**(3,860)**
Convertible debentures	720	(720)	—	—	**—**
Unrealized capital gains	—	—	—	2,777	**2,777**
Other	2,834	(2,070)	764	904	**1,668**
Net deferred tax liabilities	$112,145	($39,997)	$72,148	$12,399	**$84,547**

Dollar amounts in thousands of Canadian dollars

19. Deferred Income Tax (continued)

As at December 31,	2014	Recognized in equity on issuance of shares	Recognized in statement of income and comprehensive income	Recognized in other comprehensive loss	2015
Deferred tax assets (liabilities) related to:					
Real estate properties	$103,490	$—	$5,295	$—	$108,785
Loss carryforwards	(374)	—	180	—	(194)
Convertible debentures	1,034	—	(314)	—	720
Other	1,808	(46)	1,055	17	2,834
Net deferred tax liabilities	$105,958	($46)	$6,216	$17	$112,145

The deferred tax expense for the year can be reconciled to the accounting profit as follows:

For the years ended December 31,	**2016**	2015
Net income before taxes	**$43,841**	$42,016
Statutory tax rate	**29.7%**	29.2%
Income tax expense at statutory rates	**13,008**	12,260
Amounts not subject to tax	**(12,113)**	(363)
Effect of provincial tax rate changes	**1,186**	(253)
Initial derecognition of deferred tax liability on REIT conversion	**(39,997)**	—
Change to tax basis in excess of book basis	**10,318**	(3,721)
Other	**—**	(1,707)
Total tax (recovery) expense	**($27,598)**	$6,216

Dollar amounts in thousands of Canadian dollars

20. Deferred Unit-based Compensation

Unit/**Stock** ***Option Plan***

Killam replaced its stock option plan with a restricted share unit plan in 2011. All remaining outstanding stock options were exercised in May 2015. For the year ended December 31, 2016, there were no options granted (December 31, 2015 - nil).

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

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

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

Killam will match the elected amount in the form of RTUs having a value equal to the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is payable. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions are used to acquire additional RTUs. The initial RTUs and RTUs acquired through distribution reinvestment are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. The RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. The RTUs shall vest with the following schedule: (a) 50% on the second anniversary of the grant rate; and (b) 50% on the third anniversary of the grant date.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value for the year ended December 31, 2016, is $3.0 million (December 31, 2015 - $nil). As at December 31, 2015, $1.4 million was included in contributed surplus related to the RSUs.

For the year ended December 31, 2016, compensation expense of $1.3 million (December 31, 2015 - $0.5 million) has been recognized in respect of the RTUs/RSUs.

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

	2016		2015	
	Number of RTUs	**Weighted Average Issue Price**	Number of RSUs	Weighted Average Issue Price
Outstanding, beginning of year	**184,106**	**$10.40**	140,513	$11.01
Granted	**155,918**	**10.93**	82,328	10.74
Redeemed	**(89,656)**	**10.44**	(48,957)	12.38
Forfeited	**(530)**	**10.88**	—	—
Additional restricted trust unit/share distributions	**13,898**	**11.89**	10,222	10.42
Outstanding, end of year	**263,736**	**$10.78**	184,106	$10.40

Dollar amounts in thousands of Canadian dollars

21. Financing Costs

For the years ended December 31,	**2016**	2015
Mortgage, loan and construction loan interest	**$30,919**	$31,808
Interest on exchangeable units	**2,659**	—
Amortization of fair value adjustments on assumed debt	**(415)**	(570)
Amortization of loss on interest rate hedge	**59**	59
Unrealized gain on derivative liability	**(297)**	—
Convertible debenture interest	**4,178**	6,836
Capitalized interest	**(910)**	(1,089)
	$36,193	$37,044

22. 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 makers. The individual properties are aggregated into segments with similar economic characteristics such as the nature of the property, vacancy rates, long-term growth rates and other characteristics. Management considers that this is best achieved by aggregating into apartments, MHCs and other segments. Consequently, Killam is considered to have three reportable segments, as follows:

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Other segment - includes three commercial properties, and Killam's head office and regional office administration costs.

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

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 analysed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

For the year ended December 31, 2016	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$155,839**	**$14,715**	**$4,715**	**$175,269**
Property operating expenses	**(61,450)**	**(5,728)**	**(2,667)**	**(69,845)**
Net operating income	**$94,389**	**$8,987**	**$2,048**	**$105,424**

For the year ended December 31, 2015	Apartments	MHCs	Other	Total
Property revenue	$148,846	$14,323	$3,445	$166,614
Property operating expenses	(60,964)	(5,439)	(1,821)	(68,224)
Net operating income	$87,882	$8,884	$1,624	$98,390

As at December 31, 2016	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	**$1,701,080**	**$142,071**	**$144,482**	**$1,987,633**
Total liabilities	**$966,870**	**$61,367**	**$208,930**	**$1,237,167**

As at December 31, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	$1,639,988	$126,394	$109,894	$1,876,276
Total liabilities	$893,914	$59,360	$237,674	$1,190,948

Dollar amounts in thousands of Canadian dollars

23. Supplemental Cash Flow Information

For the years ended December 31,	2016	2015
Net income items related to investing and financing		
Interest paid on mortgages payable and other	**$30,357**	$31,202
Interest paid on convertible debentures	**4,178**	5,756
	$34,535	$36,958
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**($815)**	($126)
Inventory	**—**	108
Other current assets	**(1,495)**	845
Accounts payable and other accrued liabilities	**7,273**	(1,139)
	$4,963	($312)

24. Financial Instruments and Financial Risk Management Objectives and Policies

During Q2-2016, Killam entered into an interest rate swap agreement fixing the rate on one $15.0 million commercial mortgage at 3.14%, which matures in April 2023, for which hedge accounting is not being applied. The mark-to-market gain on the derivative instrument for the year ended December 31, 2016 of $0.3 million has been been recorded in net income and the swap derivative liability is recorded within other non-current liabilities on the consolidated statements of financial position.

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

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

(i) Interest Rate Risk
Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to have the majority of its mortgages payable in fixed-term arrangements, as well as, at times, entering into cash flow hedges. Killam also structures its financings so as to stagger the maturities of its debt, minimizing the exposure to interest rate volatility in any one year.

As at December 31, 2016, no mortgages or vendor debt had floating interest rates except for four demand loans totalling $7.9 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2015 - prime plus 1.0% - 2.0%). As at December 31, 2016, Killam also had two construction loans with balances drawn of $8.8 and $9.7 million with a weighted average floating interest rate of 3.39% and consequently, Killam is exposed to short-term interest rate risk on these loans. An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt as at December 31, 2016 would affect financing costs by approximately $10.1 million per year. However, only $73.1 million of Killam's fixed mortgage and vendor debt matures in the next 12 months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $0.7 million per year.

(ii) Credit Risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that Killam's exposure to bad debt is not significant. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 1% of the tenant receivables as at December 31, 2016 or 2015. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

Dollar amounts in thousands of Canadian dollars

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

(iii) Liquidity Risk

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, thereby reducing the refinancing risk upon mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt; however, MHCs continue to have access to mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the year ended December 31, 2016, Killam refinanced $117.1 million of maturing apartment mortgages with new mortgages totalling $179.4 million for net proceeds of $62.3 million. As well, Killam refinanced $2.9 million of maturing MHC mortgages with new mortgages totalling $7.3 million for net proceeds of $4.4 million.

The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities over the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2017	$111,862	$9,719	$—	$121,581
2018	125,005	8,790	46,000	179,795
2019	196,479	—	—	196,479
2020	193,097	—	—	193,097
2021	131,931	—	—	131,931
Thereafter	261,741	—	—	261,741
	$1,020,115	$18,509	$46,000	$1,084,624

Capital Management

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

Killam monitors capital using a total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. The calculation of the total debt to total assets is summarized as follows:

As at	December 31, 2016	December 31, 2015
Mortgages, loans payables and construction loans	**$1,011,623**	$943,044
Convertible debentures	**$46,000**	$99,627
Total debt	**$1,057,623**	$1,042,671
Total assets(1)	**$1,976,133**	$1,850,076
Total debt as a percentage of assets	**53.5%**	56.4%

(1) Total assets adjusted for Killam's non-controlling interest related to The Alexander - $11.5 million (December 31, 2015 - total assets adjusted for Killam's non-controlling interest related to The Alexander - $7.1 million and Garden Park - $19.1 million). Total Mortgages, loans payables and construction loans adjusted for Killam's non-controlling interest related to The Alexander - $4.4 million (December 31, 2015- $1.9 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 December 31, 2016 would increase the debt as a percentage of assets by 90 bps.

Dollar amounts in thousands of Canadian dollars

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

Fair Value of Financial Instruments

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

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

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

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

(iv) the fair value of the deferred unit-based compensation and the Exchangeable Units are estimates at the reporting date, based on the closing market price of the Trust Units listed on the TSX. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The significant financial instruments of Killam and their carrying values as at December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016		December 31, 2015	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at amortized cost:				
Loans[1]	**$950**	**$955**	$4,950	$4,949
Financial liabilities carried at amortized cost:				
Mortgages	**$997,514**	**$1,036,288**	$940,847	$995,709
Convertible debentures	**$—**	**$—**	$99,627	$102,160
Financial liabilities carried at FVTPL:				
Exchangeable units	**$46,158**	**$46,158**	$—	$—
Convertible debentures	**$46,690**	**$46,690**	$—	$—
Deferred unit-based compensation	**$2,988**	**$2,988**	$—	$—
Derivative liability	**$296**	**$296**	$—	$—

(1)The $0.95 million loan receivable is included in the other non-current assets within the consolidated 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	**December 31, 2016**	December 31, 2015
Mortgages - Apartments	**2.34%**	1.73%
Mortgages - MHC	**3.76%**	3.33%

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 consolidated statements of financial position is as follows:

Dollar amounts in thousands of Canadian dollars

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

As at	December 31, 2016			December 31, 2015		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$1,942,809**	—	—	$1,840,256
Liabilities						
Exchangeable units	—	**$46,158**	—	—	—	—
Convertible debentures	**$46,690**	—	—	—	—	—
Deferred unit-based compensation	—	**$2,988**	—	—	—	—
Derivative liability	—	**$296**	—	—	—	—

The three levels of the fair value hierarchy are described in note 2 to these consolidated financial statements. 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 years ended December 31, 2016 and 2015.

25. Commitments and Contingencies

Commitments primarily related to capital investment in investment properties of $26.9 million were outstanding as at December 31, 2016 (December 31, 2015 - $8.1 million).

Killam is also committed to acquire a 50% interest in two new apartment buildings in Ottawa, the two remaining buildings of the five-building Kanata Lakes Apartments, of which Killam is already a 50% owner. The $50.0 million acquisition for Killam is expected to close in March 2017.

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

Area	Usage Coverage	Term	Cost
Ontario	70%	November 1, 2016 - October 31, 2017	$12.60/m3

26. Financial Guarantees

Killam is the guarantor for 100% mortgage debt held through its joint operations. As at December 31, 2016, the maximum potential obligation resulting from these guarantees is $87.9 million, all related to long‑term mortgage financing (December 31, 2015 - $71.4 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 consolidated financial statements. Killam also is the guarantor for 100% of the construction loan debt related to the Southport Apartments development project. As at December 31, 2016, the maximum potential obligation resulting from this guarantee is $10.9 million.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2016, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2015 ‑ $nil).

Dollar amounts in thousands of Canadian dollars

27. Related Party Transactions

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and Trustee of Killam. In addition, the property manager for the commercial complex is controlled by the executive and Trustee of Killam and is paid an industry standard property management fee of 4.5%. Occasionally, Killam will also pay market leasing placement fees or project management fees, to the company controlled by an executive and director of Killam. Killam paid $nil (2015 - $45,000) in project management fees related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, for $22.3 million, from Halkirk Properties Limited ("Halkirk"), a company that is partially owned by a Trustee of Killam. Killam also acquired a 50% interest in a corporation that owns vacant land adjacent to the Brewery Market for future development for $5.2 million. The remaining 50% is also owned by Halkirk.

During the third quarter of 2015, Killam and Halkirk began development of a 240-unit building on the vacant land adjacent to the Brewery Market. Construction of the development is managed by Killam, and the cost of construction will be funded 50/50 by each partner.

During the fourth quarter of 2016, Killam acquired the remaining 50% interest in a portion of vacant land held in the corporation from Halkirk in exchange for $1.16 million in Killam trust units, as required per the original purchase and sale contract entered into during 2015.

Key management personnel remuneration

The remuneration of directors and other key management personnel, which include the Board of Directors, President & Chief Executive Officer, EVP and Vice-Presidents of Killam, is as follows:

For the years ended December 31,	**2016**	2015
Salaries, board compensation and incentives	**$3,318**	$3,189
Restricted trust/share units	**2,070**	1,613
Total	**$5,388**	$4,802

28. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. Killam reclassified 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.

29. Subsequent Events

On January 16, 2017, Killam acquired Spruce Grove Lane Apartments in Calgary. The property consists of 66 townhouse?style apartments. The acquisition cost was $12.8 million ($195,000 per unit). This acquisition increases Killam’s Calgary portfolio to 373 rental units.

On January 18, 2017, Killam announced a distribution of $0.05 per unit, payable on February 15, 2017, to Unitholders of record on January 31, 2017.

On February 14, 2017, the Board of Trustees approved a 3.3% increase to Killam's annual distribution, to $0.62 per unit from $0.60 per unit. The monthly distribution will be $0.05167 per unit, up from $0.05 per unit. The increase will become effective for the March 2017 distribution, to be paid in April 2017.