Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

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 Properties Inc. 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, 2014, 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 Shareholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Shareholders 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 Directors and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 17, 2015

Philip Fraser
President and Chief Executive Officer

Robert Richardson
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Killam Properties Inc.

We have audited the accompanying consolidated financial statements of **Killam Properties Inc**., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, 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 auditors consider 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 in our audits 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 Properties Inc.** as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Halifax, Canada
February 17, 2015

Chartered accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

As at December 31,

	Note	2014	2013
ASSETS			
Non-current assets			
Investment properties	[5]	**$1,733,895**	$1,476,116
Investments in joint venture	[6]	**-**	11,469
Property and equipment	[8]	**4,854**	4,527
Loan receivable	[9]	**4,000**	-
Other non-current assets		**6**	17
		1,742,755	1,492,129
Current assets			
Cash		**18,847**	27,678
Rent and other receivables	[10]	**1,954**	2,751
Inventory	[11]	**139**	570
Other current assets	[12]	**11,539**	9,303
		32,479	40,302
TOTAL ASSETS		**$1,775,234**	$1,532,431
EQUITY AND LIABILITIES			
Shareholders' equity		**$648,029**	$590,724
Accumulated other comprehensive loss ("AOCL")		**(198)**	-
Non-controlling interest		**14,852**	13,336
Total Equity		**662,683**	604,060
Non-current liabilities			
Mortgages and loans payable	[14]	**729,474**	545,541
Convertible debentures	[16]	**97,967**	96,419
Other liabilities		**1,916**	2,171
Deferred tax		**105,958**	93,221
		935,315	737,352
Current liabilities			
Mortgages and loans payable	[14]	**115,248**	153,589
Construction loans	[15]	**31,944**	14,775
Accounts payable and accrued liabilities	[13]	**30,044**	22,655
		177,236	191,019
Total Liabilities		**1,112,551**	928,371
TOTAL EQUITY AND LIABILITIES		**$1,775,234**	$1,532,431

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board

Director

Director

Consolidated Statements of Income and Comprehensive Income

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

For the Years Ended December 31,

	Note	2014	2013
Property revenue		**$147,507**	$141,112
Property operating expenses		**(62,906)**	(58,072)
Net operating income		**84,601**	83,040
Other income			
Equity income	[6]	**829**	1,296
Home sales	[19]	**61**	323
Corporate income	[20]	**1,175**	746
		2,065	2,365
Other expenses			
Financing costs	[21]	**(34,609)**	(35,231)
Depreciation		**(644)**	(589)
Amortization of deferred financing costs		**(1,711)**	(1,643)
Administration		**(8,525)**	(7,878)
		(45,489)	(45,341)
Income before fair value gains, loss on disposition and income taxes		**41,177**	40,064
Fair value gains	[5]	**4,768**	13,070
Loss on disposition		**(1,257)**	(1,401)
Income before income taxes		**44,688**	51,733
Current tax recovery (expense)		**1,451**	(1,451)
Deferred tax expense		**(13,472)**	(9,350)
Net income		**$32,667**	$40,932
Other comprehensive loss			
Item that may be reclassified subsequently to net income			
Net loss on forward interest rate hedge (net of tax - $82)	[26]	**(198)**	-
Comprehensive income		**$32,469**	$40,932
Net income attributable to:			
Common shareholders		**29,772**	39,779
Non-controlling interest		**2,895**	1,153
		$32,667	$40,932
Comprehensive income attributable to:			
Common shareholders		**29,574**	39,779
Non-controlling interest		**2,895**	1,153
		$32,469	$40,932
Net income per share attributable to common shareholders:			
-basic		**$0.54**	$0.74
-diluted		**$0.53**	$0.69

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, 2014

	Share Capital	**Contributed Surplus**	**Other Paid-in Capital**	**Retained Earnings**	**AOCL**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2014	**$398,181**	**$2,302**	**$5,681**	**$184,560**	**$ -**	**$13,336**	**$604,060**
Net income	**-**	**-**	**-**	**29,772**	**-**	**2,895**	**32,667**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(198)**	**-**	**(198)**
Dividends	**-**	**-**	**-**	**(33,551)**	**-**	**-**	**(33,551)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(910)**	**(910)**
Acquisition of non-controlling interest	**-**	**-**	**-**	**12**	**-**	**(469)**	**(457)**
Dividend reinvestment plan	**2,555**	**-**	**-**	**-**	**-**	**-**	**2,555**
Stock options exercised	**1,274**	**(152)**	**-**	**-**	**-**	**-**	**1,122**
Share-based compensation	**-**	**745**	**-**	**-**	**-**	**-**	**745**
Issuance of shares for cash	**56,035**	**-**	**-**	**-**	**-**	**-**	**56,035**
Issuance of shares for acquisitions	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Restricted share units redeemed	**293**	**(478)**	**-**	**-**	**-**	**-**	**(185)**
At December 31, 2014	**$459,138**	**$2,417**	**$5,681**	**$180,793**	**$(198)**	**$14,852**	**$662,683**

For the Year Ended December 31, 2013

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2013	$391,120	$2,241	$5,681	$176,293	$13,101	$588,436
Net income	-	-	-	39,779	1,153	40,932
Dividends	-	-	-	(31,512)	-	(31,512)
Distributions to non-controlling interest	-	-	-	-	(918)	(918)
Dividend reinvestment plan	3,346	-	-	-	-	3,346
Stock options exercised	1,036	(111)	-	-	-	925
Share-based compensation	-	624	-	-	-	624
Issuance of shares for acquisitions	2,390	-	-	-	-	2,390
Restricted share units redeemed	289	(452)	-	-	-	(163)
At December 31, 2013	$398,181	$2,302	$5,681	$184,560	$13,336	$604,060

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

For the Years Ended December 31,

		2014	2013
OPERATING ACTIVITIES			
Net income		**$32,667**	$40,932
Add (deduct) items not affecting cash			
Fair value gains	[5]	**(4,768)**	(13,070)
Depreciation and amortization		**2,355**	2,233
Non-cash compensation expense		**372**	385
Equity income		**(829)**	(1,296)
Deferred income taxes		**13,472**	9,350
Current tax recovery		**(1,451)**	-
Loss on disposition		**1,257**	1,101
Financing costs	[21]	**34,609**	35,231
Interest paid	[25]	**(34,658)**	(35,156)
Net change in non-cash operating activities	[25]	**8,498**	(630)
Cash provided by operating activities		**$51,524**	$39,080
FINANCING ACTIVITIES			
Increase in deferred financing		**(6,440)**	(3,425)
Proceeds on issuance of common shares		**56,583**	869
Repayment of subordinated debentures		**-**	(10,000)
Mortgage financing		**263,367**	190,152
Mortgages repaid on maturity		**(130,117)**	(70,015)
Mortgage principal repayments		**(26,456)**	(30,043)
Proceeds from construction loans		**21,944**	21,223
Construction loans repaid on maturity		**(4,775)**	(20,511)
Distributions paid to non-controlling interest		**(910)**	(918)
Dividends		**(30,593)**	(28,094)
Cash provided by financing activities		**$142,603**	$49,238
INVESTING ACTIVITIES			
(Increase) decrease in restricted cash		**(1,141)**	3,160
Acquisition of non-controlling interest		**(457)**	-
Increase in loan receivable		**(4,000)**	-
(Increase) decrease in investment in joint venture, net of distributions		**(226)**	116
Net proceeds on sale of investment properties		**17,471**	43,122
Acquisition and development of investment properties, net of debt assumed		**(180,966)**	(141,154)
Capital expenditures		**(33,639)**	(22,610)
Cash used in investing activities		**$(202,958)**	$(117,366)
Net decrease in cash		**(8,831)**	(29,048)
Cash, beginning of the year		**27,678**	56,726
Cash, end of year		**$18,847**	$27,678

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)
For the Years Ended December 31, 2014 and 2013

1. Corporate Information

Killam Properties Inc. ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at December 31, 2014**.** The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The consolidated financial statements of the Company for the year ended December 31, 2014, were authorized for issue in accordance with a resolution of the Board of Directors on February 17, 2015.

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").

(B) Basis of Presentation

The consolidated financial statements of the Company have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The 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 share, per share or as noted amounts. Standards and guidelines not effective for the current accounting period are described in Note 4.

(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 period. 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 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;
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.

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.

2. Significant Accounting Policies (continued)

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

Subsidiary	% Interest
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties M.H.C. Trust	100%
661047 N.B. Inc.	100%
Blackshire Court Limited	100%
Blackshire Court Limited Partnership	96.94%
Killam KFH (180 Mill St.) Inc.	100%
Killam KFH (Kanata Lakes) Inc.	100%
Killam KFH (1355 Silver Spear Road) Inc.	100%

(ii) Joint Arrangements

The Company has joint arrangements in and joint control of a number of properties. The Company has assessed the nature of its joint arrangements at December 31, 2014, and determined them to be joint operations. For joint operations, the Company 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 the Company have been eliminated to the extent of the Company's interest in the joint operations.

At December 31, 2013, the Company had contractual arrangements with other parties which represented joint ventures. These joint ventures were dissolved during 2014. Where a joint venture is established through an interest in a separate vehicle (a jointly controlled entity), the Company recognizes an interest in the entity's net assets using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the consolidated statements of financial position at cost plus changes in the Company's share of the net assets of the joint venture since the acquisition date, less any impairment in the value of the individual investments.

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, the Company 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 the Company. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the Company applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. The basis of this judgmental assessment is set out in Note 3.

When an acquisition does not represent a business as defined under IFRS 3, the Company 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 which 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.

2. Significant Accounting Policies (continued)

(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. The Company 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) 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.

(iii) 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 the Company does not manufacture these homes itself.

(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 capitalized and amortized on a straight-line basis over the term of the lease as a reduction of rental revenue

(G) Investment Properties

Investment properties includes multi-family residential properties and manufactured home communities held to earn rental income and properties that are under construction or development for future use as investment properties.

(i) Completed investment property
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 income statement 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 property are recognized in the 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.

(ii) Investment property under construction ("IPUC")
The cost of development properties includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Under the requirements of International Accounting Standard 40 Investment Property ("IAS 40"), IPUC is measured at fair value at each reporting date, with the recognition of gains or losses in the income statement. If the fair value of IPUC is not reliably determinable, but the Company expects the fair value of the property to be reliably determinable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

2. Significant Accounting Policies (continued)

(iii) Borrowing costs related to IPUC
Although IPUC is measured at fair value, Killam's policy is to present its statements of income and comprehensive income as if borrowing costs related to the construction are capitalized. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are recorded as part of the cost of the respective assets. The interest is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of substantial completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site or property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress. The Company considers substantial completion to have occurred when the property is capable of operating in the manner intended by management.

(H) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and are mainly comprised of head office buildings, leasehold improvements and information technology systems. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for prospectively. These items are amortized on a straight-line basis over their estimated useful lives ranging as follows:

Building	40 years
Heavy equipment	15 years
Vehicles	10 years
Furniture, fixtures and office equipment	5-10 years
Leaseholds	Lease term

(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 and cash equivalents consist of cash on hand and banks 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 annual financial statements.

(K) Share-Based Compensation

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense recognized at the beginning and end of a period is recognized in administration expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2. Significant Accounting Policies (continued)

The dilutive effect of share-based awards is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 23).

(L) Financial Assets and Liabilities

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

Measurement in subsequent periods depends on the classification of the financial instrument as follows:

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Loans and receivables
Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost, using the effective interest method, less a provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the holder. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of income and comprehensive income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Financial liabilities at FVTPL
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.

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.

Fair value measurements recognized in the consolidated statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
Level 3: Valuation techniques for which any significant input is not based on observable market data.

2. Significant Accounting Policies (continued)

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

Type	Classification	Measurement
Rent, loan and other receivables	Loans and Receivables	Amortized cost
Accounts payable and other liabilities	Other Financial Liabilities	Amortized cost
Mortgages, loans payable and construction loans	Other Financial Liabilities	Amortized cost
Convertible debentures	Other Financial Liabilities	Amortized cost

(i) 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 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. Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are amortized over the mortgage amortization period.

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.

(ii) Convertible Debentures
Convertible debentures are separated into liability and equity components based on the terms of the contract. On issuance of the Convertible debenture, the fair value of the liability component is determined using a market rate for an equivalent nonconvertible bond. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debenture based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized. Upon conversion, no gain or loss is recognized.

(M) Derivative Financial Instruments and Hedge Accounting Initial Recognition and Subsequent Measurement

The Company 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, the Company 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 the Company 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.

2. Significant Accounting Policies (continued)

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, while any ineffective portion is recognized immediately in the consolidated statement of 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 statement of 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 loss. Other comprehensive loss 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) Taxation

(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 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.

The Company 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.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

3. Significant Accounting Judgments, Estimates and Assumptions

In the application of Killam's accounting policies, which are described in Note 2, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments Other Than Estimates

In the process of applying the Company's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Property Acquisitions

When investment properties are acquired, Management considers whether the acquisition represents the acquisition of an asset or a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired.

Management believes that the majority of the Company's acquisitions will be classified as asset acquisitions. During the acquisition of most properties, Killam buys the asset itself and any short-term leases that are in place. Generally, Killam does not purchase any business systems or processes with a property. Management considers an acquisition to be a business combination if all the following criteria are met:

- The acquisition includes a property portfolio (multiple buildings),
- A significant staff complement is included, including a maintenance team, leasing representatives and property management personnel, and
- Systems are acquired and continue to be incorporated into operations.

Investment Properties

The Company's accounting policies relating to investment properties are described in Note 2(G). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under construction, identifying the point at which substantial completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

Financial Instruments

The Company's accounting policies relating to financial instruments are described in Note 2(L). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as FVTPL and determining whether the Company has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

Taxes

The Company is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. The Company recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal entity and fall due in approximately the same period.

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Consolidation and joint arrangements

The Company has determined that it controls and consolidates the subsidiaries where it owns a majority of the shares. The Company is part owner of one property in which it has a 49% interest. The Company has determined that it does control this property as it operates and manages the property, governs the financial and operating policies, and has the power to cast the majority of the votes at meetings of the board of directors given the widely held distribution of the remaining ownership percentage. This property is accounted for on a consolidated basis.

Estimates

Valuation of Investment Properties

The fair value of investment properties is partially determined by independent real estate valuation experts (the "External Valuator") using recognized valuation techniques and partially by Management. The External Valuator uses the capitalization of net operating income ("NOI") method to determine the fair market value. In some cases, the fair values are corroborated by recent real estate transactions with similar characteristics and location to those of the Company's assets. Management's internal valuation model is also based on a capitalization of normalized NOI by property, using property specific quarterly capitalization rates ("cap-rates"), provided by an independent qualified valuation professional.

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

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and cap-rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of IPUC. These estimates are based on local market conditions existing at the reporting date. In arriving at their estimates of market values, the External Valuator uses their market knowledge and professional judgment and does not rely solely on historical transaction comparables. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 5.

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Changes in Accounting Policies

The accounting policies applied during the year ended December 31, 2014, are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2013, except for the following new International Financial Reporting Interpretations Committee ("IFRIC") interpretation which was effective for periods beginning on or after January 1, 2014:

IFRIC Interpretation 21 - Levies ("IFRIC 21")

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of this interpretation did not have an impact on the Company's financial position.

4. Future Accounting Policy Changes

As at February 17, 2015, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to Killam for annual reporting periods beginning after December 31, 2014:

IFRS 9 *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Company is in the process of assessing the impact IFRS 9 may have on future financial statements and plans to adopt the new standard on the required effective date.

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

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company 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, the Company does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests ("IFRS 11")*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is in the process of assessing the impact the amendments to IFRS 11 may have on future financial statements.

5. Investment Properties

As at and for the year ended December 31, 2014

Segment	**Apartments**	**MHCs**	**Other**	**IPUC**	**Total**
Level	**3**	**3**	**3**	**3**	
Balance, beginning of year	**$1,334,153**	**$115,414**	**$2,176**	**$24,373**	**$1,476,116**
Fair value (losses) gains included in net income					
Fair value (losses) gains on investment property	**(298)**	**4,730**	**-**	**336**	**4,768**
Acquisitions and dispositions					
Acquisitions(1)	**231,618**	**-**	**-**	**-**	**231,618**
Dispositions	**(41,464)**	**(40)**	**-**	**-**	**(41,504)**
Other movements					
Transfer from IPUC	**14,098**	**-**	**-**	**(14,098)**	**-**
Capital expenditure on investment property	**30,096**	**2,525**	**47**	**-**	**32,668**
Capital expenditure on IPUC	**-**	**-**	**-**	**29,013**	**29,013**
Interest capitalized on IPUC	**-**	**-**	**-**	**1,216**	**1,216**
Balance, end of year	**$1,568,203**	**$122,629**	**$2,223**	**$40,840**	**$1,733,895**

As at and for the year ended December 31, 2013

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,126,189	$168,401	$2,134	$57,941	$1,354,665
Fair value gains included in net income					
Fair value gains on investment property	1,272	11,798	-	-	13,070
Acquisitions and dispositions					
Acquisitions	118,277	1,390	-	7,294	126,961
Dispositions	-	(69,680)	-	-	(69,680)
Other movements					
Transfer from IPUC	70,315	-	-	(70,315)	-
Capital expenditure on investment property	18,100	3,505	42	-	21,647
Capital expenditure on IPUC	-	-	-	28,356	28,356
Interest capitalized on IPUC	-	-	-	1,097	1,097
Balance, end of year	$1,334,153	$115,414	$2,176	$24,373	$1,476,116

(1) Acquisitions include the cost of acquiring a 75% interest in three properties previously held through a joint venture, as well as, the transfer of Killam's 25% interest previously recorded as an investment in a joint venture (refer to Note 6). The subsequent sale of a 50% interest in two of the properties is shown as a disposition.

During the year ended December 31, 2014, the Company capitalized salaries of $3.0 million (2013 - $2.8 million), as part of its project improvement, suite renovation and development programs.

For the year ended December 31, 2014, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 3.93% (December 31, 2013 - 4.38%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

5. Investment Properties (continued)

Investment properties with a fair value of $1,683.4 million at December 31, 2014, (December 31, 2013 - $1,432.7 million) are pledged as collateral against the Company's mortgages payable.

Valuation Process

The management group that determines the Company's valuation policies and procedures for investment property valuations comprises the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

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

- whether a property's fair value can be reliably determined;
- which valuation method should be applied for each property; and
- the assumptions made for unobservable inputs that are used in the valuation methods.

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

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

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

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

Class of property	Fair value at December 31, 2014	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	2014 Inputs	2013 Inputs
Apartments -Level 3	**$1,568,203**	$1,334,153	Capitalization of net income approach	- Capitalization rate (weighted average)	**5.63%**	5.88%
				- Vacancy rate (weighted average)	**3.60%**	3.50%
				- Management fee rate	**3.50%**	3.50%
MHCs -Level 3	**$122,629**	$115,414	Capitalization of net income approach	- Capitalization rate (weighted average)	**6.69%**	6.86%
				- Vacancy rate	**1.70%**	1.70%
				- Management fee rate	**3.00%**	3.00%

The investment property segment defined as Other consists of one commercial property of which the Company has a 50% ownership. The property has a fair value of $2.2 million (December 31, 2013 - $2.2 million).

IPUC includes properties under construction, recorded at fair value of $37.8 million (December 31, 2013 - $21.6 million), and land held for future development, which is recorded at a fair value of $3.0 million (December 31, 2013 - $2.8 million).

5. Investment Properties (continued)

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy include cap-rates, vacancy rates and management fee rates. 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:

	December 31, 2014			December 31, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.63%**			5.88%
Halifax	5.00%	7.00%	5.60%	5.15%	7.00%	5.87%
Moncton	5.15%	8.00%	5.95%	5.56%	8.00%	5.94%
Fredericton	5.15%	6.25%	5.89%	5.15%	6.25%	5.93%
Saint John	6.25%	6.75%	6.53%	6.25%	6.75%	6.63%
St. John's	5.15%	6.00%	5.83%	5.15%	6.25%	5.94%
Charlottetown	5.50%	6.20%	5.89%	5.65%	6.00%	5.88%
Ontario	4.50%	5.10%	4.96%	4.50%	5.25%	5.26%
Alberta	5.00%	5.00%	5.00%	n/a	n/a	n/a
Other Atlantic	5.75%	7.00%	6.83%	6.00%	7.00%	6.76%
MHCs			**6.69%**			6.86%
Ontario	7.00%	8.00%	7.25%	7.00%	8.00%	7.09%
Nova Scotia	5.75%	7.50%	6.25%	6.00%	7.50%	6.61%
New Brunswick	8.00%	8.00%	8.00%	8.25%	8.25%	8.25%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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

Class of property	**Capitalization rate**		**Vacancy rate**	**Management fee rate**
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fees*
Apartments	$(27,322)	$28,311	$22,615	$25,893
MHCs	$(1,805)	$1,860	$1,594	$2,072

6. Investments in Joint Venture

The Company had the following interest in a joint venture, which was measured using the equity method.

Through this joint venture, Killam owned:
a) 25% share in a 127-unit property located in London, Ontario;
b) 25% share in a 140-unit property located in Ottawa, Ontario; and,
c) 25% share in a 199-unit property located in Mississauga, Ontario.

This joint venture was dissolved on December 9, 2014, and Killam purchased the remaining 75% ownership interest in the properties. Subsequent to the purchase, Killam sold a 50% interest in two of the properties to a third-party and these properties are now accounted for as joint operations (Refer to Note 7).

For the years ended December 31,	**2014**	2013
Balance, beginning of year	**$11,469**	$10,289
Additions	**805**	97
Share of net income	**828**	1,296
Distributions	**(579)**	(213)
Dissolution of joint venture	**(12,523)**	-
Balance, end of year	**$-**	$11,469

As at December 31,	**2014**	2013
Current assets	**$-**	$5,920
Long-term assets	**-**	115,425
Current liabilities	**-**	(4,979)
Long-term liabilities	**-**	(70,492)
Net assets	-	45,874
Company's share of net assets of associate	**$-**	$11,469

For the years ended December 31,	**2014**	2013
Property revenue	**$11,502**	$11,968
Property operating expenses	**(6,710)**	(6,696)
Net operating income	**4,792**	5,272
Interest and deferred financing expense	**(2,391)**	(2,774)
Fair value gains	**914**	2,655
Net income and comprehensive income	**3,315**	5,153
Company's share of net income and comprehensive income	**$829**	$1,296

7. Joint Operations

The Company's interests in the following properties are subject to joint control and are joint operations. Accordingly, the Company's consolidated statements of financial position and consolidated statements of income and comprehensive income includes the Company's rights to and obligations for the related assets, liabilities, revenue and expenses of the properties listed below:

			Ownership as at December 31,	
Investment property	**Acquisition Date**	**Location**	**2014**	**2013**
Silver Spear[(1)]	December 9, 2014	Mississauga, ON	50%	25%
Kanata Lakes I[(1)]	December 9, 2014	Ottawa, ON	50%	25%
Kanata Lakes II	September 24, 2014	Ottawa, ON	50%	-%
Grid 5	December 9, 2014	Calgary, AB	50%	-%

(1) Investment properties were previously owned through a joint venture and accounted for using the equity method until December 9, 2014.

Summarized financial information of the Company's jointly controlled operations, which represents the Company's 50% interest, is set out below:

As at December 31,	**2014**	2013
Current assets	**$712**	$-
Non-current assets	**116,571**	-
Current liabilities	**(2,629)**	-
Non-current liabilities	**(66,569)**	-
Net assets	**$48,085**	$-

For the years ended December 31,	**2014**	2013
Revenues	**$826**	$-
Expenses	**(484)**	-
Net income	**$342**	$-

8. Property and Equipment

	December 31, 2014		December 31, 2013	
As at	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,824**	**156**	1,824	106
Heavy equipment	**222**	**81**	198	71
Vehicles	**1,271**	**399**	1,191	308
Furniture, fixtures and equipment	**4,080**	**2,885**	3,588	2,451
Leaseholds	**803**	**95**	428	36
	8,470	**3,616**	7,499	2,972
Less: accumulated depreciation	**(3,616)**		(2,972)	
	$4,854		$4,527	

Land and building represents the Company’s ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property.

8. Property and Equipment (continued)

Property with a carrying value of $2.0 million (December 31, 2013 - $2.0 million) is pledged as collateral against the Company's mortgages payable.

For the years ended December 31,	**2014**	2013
Balance, beginning of year	**$4,527**	$4,574
Disposals	**-**	(420)
Capital expenditures	**971**	962
Depreciation	**(644)**	(589)
Balance, end of year	**$4,854**	$4,527

9. Loan Receivable

On May 23, 2014, the Company provided a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance.

10. Rent and Other Receivables

As at	**December 31, 2014**	December 31, 2013
Rent receivable	**$852**	$879
Insurance receivable	**212**	337
Other receivables	**890**	1,535
	$1,954	$2,751

Included in other receivables are laundry revenue, commission revenues and other non-rental income. The majority of these receivables are less than 60 days old. The Company'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. The Company's bad debt expense experience has historically been less than 0.4% of revenues. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

11. Inventory

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as one stock home (2013 - four stock homes) and related costs. As at December 31, 2014, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

12. Other Current Assets

As at	**December 31, 2014**	December 31, 2013
Restricted cash	**$7,959**	$6,818
Prepaid property tax	**1,466**	1,389
Taxes receivable	**1,124**	-
Other prepaids	**564**	720
Prepaid insurance	**426**	376
	$11,539	$9,303

Restricted cash consists of security deposits, funds held in trust and property tax reserves.

13. Accounts Payable and Other Liabilities

As at	**December 31, 2014**	December 31, 2013
Accounts payable	**$7,401**	$6,024
Mortgage interest payable	**2,332**	2,162
Accrued payables	**10,561**	5,015
Rent received in advance	**1,236**	915
Dividends payable	**3,031**	2,638
Taxes payable	**-**	1,451
Security deposits	**5,228**	4,195
Promissory note payable	**255**	255
	$30,044	$22,655

14. Mortgages and Loans Payable

As at	**December 31, 2014**		December 31, 2013	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.60%**	**$839,813**	4.05%	$694,789
Variable rate	**4.14%**	**4,760**	4.18%	3,853
Vendor financing	**6.81%**	**149**	7.10%	488
Total		**$844,722**		$699,130
Current		**115,248**		153,589
Non-current		**729,474**		545,541
		$844,722		$699,130

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

As of December 31, 2014, unamortized deferred financing costs of $17.2 million (December 31, 2013 - $11.9 million) and mark-to-market premiums on mortgages assumed on acquisitions of $1.2 million (December 31, 2013 – $1.7 million) are netted against mortgages and loans payable.

Estimated future principal payments required to meet mortgage obligations as at December 31, 2014, are as follows:

	Principal repayments by year
2015	$115,248
2016	130,668
2017	95,619
2018	105,562
2019	179,777
Subsequent	233,871
	860,745
Unamortized deferred financing costs	(17,228)
Unamortized mark-to-market adjustments	1,205
	$844,722

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

I. A $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At December 31, 2014, the Company had assets with a carrying value of $1.8 million pledged to the line and a balance outstanding of $Nil (December 31, 2013 - $Nil). The agreement includes certain covenants and undertakings of which the Company is in compliance.

II. A $1.5 million revolving demand facility that can be used for the Company'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, 2014, the Company had assets with a carrying value of $1.1 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2013 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

15. Construction Loans

At December 31, 2014, the Company had access to three floating rate non-revolving demand construction loans totaling $43.2 million for the purpose of financing the development projects. Payments are made monthly on an interest-only basis. The construction loans have interest rates ranging from prime to prime plus 1%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages. As at December 31, 2014, $31.9 million (December 31, 2013 - $14.8 million) was drawn at a weighted average interest rate of 3.84% (December 31, 2013 - 3.75%).

16. Convertible Debentures

Face Interest Rate %	**Effective Interest Rate %**	**Conversion Price**	**Face Amount**	**Maturity**	**December 31, 2014**	December 31, 2013
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$55,108**	$54,395
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,859**	44,576
					99,967	98,971
Less: Deferred financing charges					**(2,000)**	(2,552)
					$97,967	$96,419

Killam's $57.5 million convertible subordinated debentures are redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares 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 common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 7.3%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares 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 common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 6.3%.

17. Capital Stock and Contributed Surplus

Capital Stock

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

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

For the years ended December 31,	**2014**		2013	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**54,458,774**	**$398,181**	53,801,809	$391,120
Issued for cash (i)	**5,487,624**	**56,035**	-	-
Dividend reinvestment plan (ii)	**246,553**	**2,555**	296,004	3,346
Stock options exercised	**182,500**	**1,274**	144,349	1,036
Stock issued for acquisitions	**75,330**	**800**	194,774	2,390
Restricted share units redeemed	**25,197**	**293**	21,838	289
Balance, end of year	**60,475,978**	**$459,138**	54,458,774	$398,181

(i) Net of issue costs of $1.6 million (2013 - $Nil).
(ii) Net of issue costs of $6 (2013 - $31).

Dividends

Killam paid monthly dividends as declared by the Board of Directors on or about the 15th day of each month. An annualized dividend of $0.60 was paid in 2014 (2013 - $0.58).

Dividend Reinvestment Plan ("DRIP")

Killam's DRIP allows common shareholders to elect to have all cash dividends from Killam reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day volume weighted average closing price of Killam's common shares on the Toronto Stock Exchange ("TSX") preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration.

Contributed Surplus

	2014	2013
Balance, beginning of year	**$2,302**	$2,241
Stock options expensed	**4**	44
Stock options exercised	**(152)**	(111)
Restricted share units issued	**741**	580
Restricted share units redeemed	**(478)**	(452)
Balance, end of year	**$2,417**	$2,302

18. Share-Based Compensation

Share-based compensation expense for the year ended December 31, 2014, and 2013 is as follows:

For the years ended December 31,	**2014**	2013
Stock option plan	**$4**	$44
Restricted share unit plan	**461**	421
Total share-based compensation expense	**$465**	$465

Killam did not issue stock options during 2014 or 2013.

Options exercised during the years ended December 31 are as follows:

	2014		2013	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**550,407**	**$7.66**	694,756	$7.40
Exercised	**(182,500)**	**6.64**	(144,349)	6.40
Outstanding, end of year	**367,907**	**$8.16**	550,407	$7.66

The following table summarizes the stock options outstanding:

As at	**December 31, 2014**			December 31, 2013		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	-		-	97,500	0.35 years	97,500
$8.16	**367,907**	**0.40 years**	**367,907**	452,907	1.40 years	399,783
	367,907		**367,907**	550,407		497,283

The exercisable options had a weighted average exercise price of $8.16 at December 31, 2014 (December 31, 2013 - $7.60).

Restricted Share Unit Plan

The Restricted Share Unit ("RSU") 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 directors the right to receive a percentage of their annual retainer, in the form of Restricted Shares in lieu of cash. The Compensation Committee has established the following parameters on the percentage of the annual bonus and annual retainer which may be allocated to Restricted Shares:

	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 Restricted Shares having a value equal to the volume weighted average price of all common shares traded on the TSX for the five trading days immediately preceding the date on which the compensation is payable. The Restricted Shares earn notional dividends based on the same dividends paid on the common shares, and such notional dividends are used to acquire additional Restricted Shares. The initial Restricted Shares and Restricted Shares acquired through notional dividend reinvestment are credited to each person's account and are not issued to the employee or board member until they redeem such Restricted Shares.

18. Share-Based Compensation (continued)

The Restricted Shares will be redeemed and paid out by December 31 of the year in which the Restricted Shares have vested. The Restricted Shares 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 details of the restricted share units issued under the RSU plan are shown below:

For the years ended December 31,	**2014**		2013	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of year	**94,345**	**$12.29**	100,209	$11.89
Granted	**80,734**	**10.37**	50,070	11.90
Redeemed	**(42,856)**	**12.61**	(50,090)	11.09
Forfeited	**-**	**-**	(12,226)	11.78
Additional restricted share distributions	**8,290**	**10.40**	6,382	11.33
Outstanding, end of year	**140,513**	**$11.01**	94,345	$12.29

19. Home Sales

For the years ended December 31,	**2014**	2013
Home sales revenues	**$1,299**	$2,598
Cost of home sales	**(1,174)**	(2,226)
New home placement fees	**-**	17
Operating expenses	**(64)**	(66)
Income from home sales	**$61**	$323

20. Corporate Income

For the years ended December 31,	**2014**	2013
Property management fees	**$576**	$518
Interest and other revenue	**599**	228
	$1,175	$746

21. Financing Costs

For the years ended December 31,	**2014**	2013
Mortgage, loan and construction loan interest	**$29,561**	$30,090
Amortization of fair value adjustments on assumed debt	**(499)**	(459)
Amortization of loss on interest rate hedge	**11**	-
Convertible debenture interest	**6,752**	6,687
Subordinated debenture interest	**-**	10
Capitalized interest	**(1,216)**	(1,097)
	$34,609	$35,231

22. Income Taxes

The income tax provisions differ from that computed using the statutory rates for the following reasons:

For the years ended December 31,		**2014**		2013
Net income before income taxes	**$44,688**		$51,733	
Income tax expense at federal statutory rates	**13,076**	**29.3%**	14,977	29.0%
Change in unrealized capital gains	**(434)**	**(1.0)%**	(4,942)	(9.6)%
Non-taxable non-controlling interest	**(847)**	**(1.9)%**	(333)	(0.6)%
Effect of rate change on opening temporary differences	**96**	**0.2%**	1,608	3.1%
Other	**130**	**0.3%**	(509)	(1.0)%
Tax expense	**$12,021**		$10,801	

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities are as follows:

	Consolidated Statements of Financial Position		**Consolidated Statements of Income**	
	2014	2013	**2014**	2013
Real estate properties	**$103,490**	$90,871	**$12,619**	$3,981
Loss carryforwards	**(374)**	-	**(374)**	3,884
Convertible debentures	**1,034**	1,324	**(290)**	(241)
Other	**1,808**	1,026	**1,517**	1,726
Net deferred tax expense			**$13,472**	$9,350
Net deferred tax liabilities	**$105,958**	$93,221		
Reconciliation of net deferred tax liabilities				
Balance, beginning of year			**$93,221**	$83,871
Recognized in statements of income and comprehensive income			**13,472**	9,350
Recognized in equity on issuance of shares			**(653)**	-
Recognized in other comprehensive loss			**(82)**	-
Balance, end of year			**$105,958**	$93,221

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to $0.1 million (December 31, 2013 - $Nil).

23. Per Share Information

The following is the weighted average number of shares outstanding for the years ended December 31, 2014 and 2013.

For the years ended December 31,	**2014**	2013
Weighted average shares outstanding - basic	**55,393,775**	54,142,897
Unexercised dilutive options	**123,127**	232,877
Restricted share units	**147,204**	126,014
Convertible debentures	**10,087,719**	9,875,954
Weighted average shares outstanding - diluted	**65,751,825**	64,377,742

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

For the years ended December 31,	**2014**	2013
Net income applicable to common shareholders	**$29,772**	$39,779
Adjustment for dilutive effect of convertible debentures	**4,727**	4,681
Adjusted net income for diluted per share amounts	**$34,499**	$44,460

24. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are analyzed based on net operating income before interest, amortization and administration costs. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

For the year ended December 31, 2014	Apartments	MHCs	Other	Total
Property revenue	**$132,950**	**$13,980**	**$577**	**$147,507**
Property operating expenses	**(57,294)**	**(5,255)**	**(357)**	**(62,906)**
Net operating income	**$75,656**	**$8,725**	**$220**	**$84,601**
Home sales, equity income & corporate income	-	-	**2,065**	**2,065**
Financing costs	**(25,913)**	**(2,569)**	**(6,127)**	**(34,609)**
Depreciation and amortization	**(1,086)**	**(198)**	**(1,071)**	**(2,355)**
Administration	**(1,502)**	**(357)**	**(6,666)**	**(8,525)**
Income before fair value gains, loss on disposition and income taxes	**$47,155**	**$5,601**	**$(11,579)**	**$41,177**
Total assets	**$1,572,049**	**$149,058**	**$54,127**	**$1,775,234**
Total liabilities	**$842,283**	**$58,395**	**$211,873**	**$1,112,551**
Capital expenditures on investment properties	**$30,096**	**$2,525**	**$47**	**$32,668**

For the year ended December 31, 2013	Apartments	MHCs	Other	Total
Property revenue	$121,306	$19,253	$553	$141,112
Property operating expenses	(50,435)	(7,336)	(301)	(58,072)
Net operating income	$70,871	$11,917	$252	$83,040
Home sales, equity income & corporate income	-	-	2,365	2,365
Financing costs	(24,837)	(4,116)	(6,278)	(35,231)
Depreciation and amortization	(942)	(254)	(1,036)	(2,232)
Administration	(1,457)	(362)	(6,059)	(7,878)
Income before fair value gains, loss on disposition and income taxes	$43,635	$7,185	$(10,756)	$40,064
Total assets	$1,386,826	$134,760	$10,845	$1,532,431
Total liabilities	$676,072	$53,326	$198,973	$928,371
Capital expenditures on investment properties	$18,100	$3,505	$42	$21,647

24. Segmented Information (continued)

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

2014	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	**$55,843**	**$(21,909)**	**$33,934**	**$648,717**
Moncton, NB	**15,796**	**(8,091)**	**7,705**	**134,465**
Fredericton, NB	**13,936**	**(6,887)**	**7,049**	**143,150**
Saint John, NB	**9,911**	**(5,920)**	**3,991**	**66,596**
St. John's, NL	**8,416**	**(2,652)**	**5,764**	**116,340**
Charlottetown, PE	**9,280**	**(3,962)**	**5,318**	**91,443**
Ontario	**14,966**	**(5,862)**	**9,104**	**277,946**
Alberta	**202**	**(48)**	**154**	**50,036**
Other Atlantic	**4,600**	**(1,963)**	**2,637**	**39,510**
	$132,950	**$(57,294)**	**$75,656**	**$1,568,203**

2013	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$53,705	$(20,089)	$33,616	$593,809
Moncton, NB	14,076	(7,052)	7,024	133,157
Fredericton, NB	13,070	(6,000)	7,070	142,881
Saint John, NB	9,483	(5,485)	3,998	70,074
St. John's, NL	7,687	(2,466)	5,221	103,211
Charlottetown, PE	8,196	(3,507)	4,689	91,984
Ontario	10,921	(4,026)	6,895	158,914
Other Atlantic	4,168	(1,810)	2,358	40,123
	$121,306	$(50,435)	$70,871	$1,334,153

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

25. Supplemental Cash Flow Information

For the years ended December 31,	**2014**	2013
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$28,902**	$29,392
Interest paid on convertible debentures	**5,756**	5,756
Interest paid on subordinated debentures	**-**	8
	$34,658	$35,156
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$798**	$1,016
Inventory	**430**	192
Other current assets	**(1,095)**	(200)
Accounts payable and other liabilities	**8,365**	(1,638)
	$8,498	$(630)

26. Financial Instruments

The Company entered into a fixed forward interest rate swap contract to partially hedge the exposure to changes in future borrowing rates related to two anticipated mortgage refinancings. The interest rate swap contract was designated as a cash flow hedge at inception on March 7, 2014. The fixed interest rate on the 5-year forward swap was 2.36%, while the total notional amount of the mortgage debt subject to the interest rate hedge was $15.0 million.

On September 25, 2014, the forward interest rate swap contract settled and was evaluated as an effective hedge. A net unrealized loss of $209 thousand was recognized in AOCL for the fair value change of the derivative. The loss on the settled hedge will be amortized into net income over the terms of the mortgages. For the year ended December 31, 2014, $11 thousand (net of tax) was reclassified to net income through financing costs (December 31, 2013 - Nil).

For the years ended December 31,	**2014**	2013
Balance, beginning of the year	**$-**	$-
Unrealized loss of forward interest rate hedge (net of tax $86)	**(209)**	-
Reclassification during the year to net income (net of tax $4)	**11**	-
Balance, end of year	**$(198)**	$-

27. Financial Risk Management Objectives and Policies

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

The Company may also enter into derivative transactions, primarily 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. The Company entered into one derivative contract during 2014 and did not enter into any derivative transactions in 2013. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

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

(i) Interest rate risk

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

As at December 31, 2014, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $4.8 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2013 - prime plus 1.0% - 2.0%). Killam also has three construction loans totaling $31.9 million with floating interest rates ranging from prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2014, would affect financing costs by approximately $8.6 million per year. However, only $115.2 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 basis point increase in interest rates, financing costs would increase by $0.9 million per year.

(ii) Credit risk

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

(iii) Liquidity risk

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

27. Financial Risk Management Objectives and Policies (continued)

During the year ended December 31, 2014, the Company refinanced $121.0 million of maturing apartment mortgages with new mortgages totaling $172.4 million for net proceeds of $51.4 million. As well, the Company refinanced $13.5 million of maturing manufactured home community mortgages with new mortgages totaling $20.5 million for net proceeds of $7.0 million.

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

For the twelve months ended December 31,	**Mortgage and loans payable**	**Construction loans**	**Convertible debentures**	**Total**
2015	$115,248	$31,944	$ -	**$147,192**
2016	130,668	-	-	**130,668**
2017	95,619	-	57,500	**153,119**
2018	105,562	-	46,000	**151,562**
2019	179,777	-	-	**179,777**
Thereafter	233,871	-	-	**233,871**
	$860,745	$31,944	$103,500	**$996,189**

Capital Management

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

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

As at	**December 31, 2014**	December 31, 2013
Mortgages, loans payables and construction loans	**$876,666**	$713,905
Convertible debentures	**97,967**	96,419
Total debt	**$974,633**	$810,324
Total assets	**$1,775,234**	$1,532,431
Total debt as a percentage of total assets	**54.9%**	52.9%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 basis point increase in the weighted average cap-rate as at December 31, 2014, would increase the debt as a percentage of assets by 90 bps.

27. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

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

Classification	Subsequent Measurement	December 31, 2014 Carrying Value	December 31, 2014 Fair Value	December 31, 2013 Carrying Value	December 31, 2013 Fair Value
Financial Assets:					
Loan receivable (a)	Amortized cost	**$4,000**	**$4,027**	$ -	$ -
Financial Liabilities:					
Mortgages (b)	Amortized cost	**$844,722**	**$941,158**	$699,130	$748,806
Convertible debentures (c)	Amortized cost	**$97,967**	**$103,996**	$96,419	$100,461

The fair value of cash and cash equivalents, as well as the Company's short-term financial instruments, comprising accounts receivable, restricted cash, accounts payable and accrued liabilities, security deposits, loans and construction loans approximated the carrying value due to their short-term nature or because they are based on current market rates.

(a) The fair value of the loan receivable is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might receive or pay in actual market transactions (level 2).

(b) The fair value of mortgages are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions (level 2).

(c) The fair value of the convertible debentures are based on a quoted market price as at the reporting date (level 1).

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

As at	**December 31, 2014**	December 31, 2013
Mortgages - Apartments	**2.11%**	2.60%
Mortgages - MHCs	**3.91%**	4.45%

As at December 31, 2014, and December 31, 2013, the Company did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

28. Commitments

As at December 31, 2014, Killam has committed development costs of $7.1 million.

The Company 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 the Company. However, actual outcomes may differ from Management's expectations.

29. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on a development project in St. John's, NL. APM was previously the Project Manager on two developments that were completed in 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2014, Killam paid APM $0.4 million for construction management services (December 31, 2013 - $0.5 million).

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 director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees, to the company controlled by an executive and director of Killam, for placement of a commercial tenant in a property owned by Killam.

Key management personnel remuneration

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

For the years ended December 31,	**2014**	2013
Salaries, board compensation and incentives	**$2,635**	$2,371
Restricted share awards	**840**	847
Total	**$3,475**	$3,218

30. Subsequent Events

On January 19, 2015, and February 17, 2015, the Company announced dividends of $0.05 per share, payable on February 17, 2015, and March 16, 2015, to shareholders of record on January 30, 2015, and February 27, 2015.