Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

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, 2015, 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 Trustees and its Audit Committee. This committee meets regularly with Management and the auditors, who have full and free access to the Audit Committee.

February 16, 2016

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, 2015 and 2014, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Killam Properties Inc.** as at December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Halifax, Canada,
February 16, 2016.

Chartered accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars,
As at December 31,

	Note	2015	2014
ASSETS			
Non-current assets			
Investment properties	[5]	**$1,840,256**	$1,733,895
Property and equipment	[7]	**4,973**	4,854
Loans receivable	[8]	**4,950**	4,000
Other non-current assets		**15**	6
		1,850,194	1,742,755
Current assets			
Cash		**11,673**	18,847
Rent and other receivables	[9]	**2,080**	1,954
Other current assets	[10]	**12,329**	11,678
		26,082	32,479
TOTAL ASSETS		**$1,876,276**	$1,775,234
EQUITY AND LIABILITIES			
Shareholders' equity		**$669,827**	$648,029
Accumulated other comprehensive loss ("AOCL")		**(157)**	(198)
Non-controlling interest		**15,658**	14,852
Total Equity		**685,328**	662,683
Non-current liabilities			
Mortgages and loans payable	[12]	**784,629**	729,474
Convertible debentures	[14]	**99,627**	97,967
Other liabilities		**8,723**	1,916
Deferred tax	[19]	**112,145**	105,958
		1,005,124	935,315
Current liabilities			
Mortgages and loans payable	[12]	**156,218**	115,248
Construction loans	[13]	**4,115**	31,944
Accounts payable and accrued liabilities	[11]	**25,491**	30,044
		185,824	177,236
Total Liabilities		**1,190,948**	1,112,551
TOTAL EQUITY AND LIABILITIES		**$1,876,276**	$1,775,234
Commitments and Contingencies	[24]		

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board of Trustees

G.W. Watson
Trustee

Philip Fraser
Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts),
For the Years Ended December 31,

	Note	2015	2014
Property revenue		**$166,614**	$147,507
Property operating expenses			
Operating expenses		**(27,590)**	(24,774)
Utility and fuel expenses		**(21,299)**	(20,906)
Property taxes		**(19,335)**	(17,226)
		(68,224)	(62,906)
Net operating income		**98,390**	84,601
Other income			
Equity income		**-**	829
Home sales	[17]	**78**	61
Corporate income		**1,417**	1,175
		1,495	2,065
Other expenses			
Financing costs	[18]	**(37,044)**	(34,609)
Depreciation		**(802)**	(644)
Amortization of deferred financing costs		**(1,913)**	(1,711)
Administration		**(11,898)**	(8,525)
		(51,657)	(45,489)
Income before fair value (loss) gain on investment property, loss on disposition and income taxes		**48,228**	41,177
Fair value (loss) gain on investment property	[5]	**(6,103)**	4,768
Loss on disposition		**(109)**	(1,257)
Income before income taxes		**42,016**	44,688
Current tax recovery		-	1,451
Deferred tax expense	[19]	**(6,216)**	(13,472)
Net income		**$35,800**	$32,667
Other comprehensive loss			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to finance costs (net of tax - $17)		**42**	-
Net loss on forward interest rate hedge (net of tax - $82)		-	(198)
Comprehensive income		**$35,842**	$32,469
Net income attributable to:			
Common shareholders		**34,557**	29,772
Non-controlling interest		**1,243**	2,895
		$35,800	$32,667
Comprehensive income attributable to:			
Common shareholders		**34,599**	29,574
Non-controlling interest		**1,243**	2,895
		$35,842	$32,469
Net income per share attributable to common shareholders:			
-basic	[20]	**$0.56**	$0.54
-diluted	[20]	**$0.55**	$0.53

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, 2015

	Capital Stock	**Contributed Surplus**	**Other Paid-in Capital**	**Retained Earnings**	**AOCL**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2015	**$459,138**	**$2,417**	**$5,681**	**$180,793**	**$ (198)**	**$14,852**	**$662,683**
Net income	**-**	**-**	**-**	**34,557**	**-**	**1,243**	**35,800**
Amortization of loss on forward interest rate hedge	**-**	**-**	**-**	**-**	**41**	**-**	**41**
Dividends	**-**	**-**	**-**	**(37,487)**	**-**	**-**	**(37,487)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(437)**	**(437)**
Dividend reinvestment plan	**6,907**	**-**	**-**	**-**	**-**	**-**	**6,907**
Stock options exercised	**3,458**	**(486)**	**-**	**-**	**-**	**-**	**2,972**
Restricted share units issued	**-**	**797**	**-**	**-**	**-**	**-**	**797**
Issuance of shares for acquisitions	**14,536**	**-**	**-**	**-**	**-**	**-**	**14,536**
Restricted share units redeemed	**286**	**(530)**	**-**	**-**	**-**	**-**	**(244)**
Repurchase through normal course issuer bid	**(192)**	**(48)**	**-**	**-**	**-**	**-**	**(240)**
At December 31, 2015	**$484,133**	**$2,150**	**$5,681**	**$177,863**	**$(157)**	**$15,658**	**$685,328**

For the Year Ended December 31, 2014

	Capital Stock	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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

For the Years Ended December 31,

	Note	2015	2014
OPERATING ACTIVITIES			
Net income		**$35,800**	$32,667
Add (deduct) items not affecting cash			
Fair value (loss) gain	[5]	**6,103**	(4,768)
Depreciation and amortization		**2,715**	2,355
Non-cash compensation expense		**316**	372
Equity income		**-**	(829)
Deferred income taxes		**6,216**	13,472
Current tax recovery		**-**	(1,451)
Loss on disposition		**109**	1,257
Financing costs	[18]	**37,044**	34,609
Interest paid	[22]	**(36,958)**	(34,658)
Net change in non-cash operating activities	[22]	**(398)**	8,498
Cash provided by operating activities		**$50,947**	$51,524
FINANCING ACTIVITIES			
Increase in deferred financing costs		**(3,852)**	(6,440)
Proceeds on issuance of common shares		**2,874**	56,583
Repurchase common shares through normal course issuer bid		**(241)**	-
Mortgage financing		**201,797**	263,367
Mortgages repaid on maturity		**(91,134)**	(130,117)
Mortgage principal repayments		**(28,809)**	(26,456)
Proceeds from construction loans		**15,383**	21,944
Construction loans repaid on maturity		**(43,214)**	(4,775)
Distributions paid to non-controlling interest		**(437)**	(910)
Dividends		**(30,413)**	(30,593)
Cash provided by financing activities		**$21,954**	$142,603
INVESTING ACTIVITIES			
Increase in restricted cash		**(1,605)**	(1,141)
Acquisition of non-controlling interest		**-**	(457)
Increase in loan receivable		**-**	(4,000)
Increase in investment in joint venture, net of distributions		**-**	(226)
Net proceeds on sale of land		**50**	17,471
Acquisition and development of investment properties, net of debt assumed		**(45,742)**	(180,966)
Capital expenditures		**(32,778)**	(33,639)
Cash used in investing activities		**$(80,075)**	$(202,958)
Net decrease in cash		**(7,174)**	(8,831)
Cash, beginning of the year		**18,847**	27,678
Cash, end of year		**$11,673**	$18,847

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)

1. Corporate Information

Killam Properties Inc. ("Killam") 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, 2015**.** The head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

Effective January 1, 2016, Killam Properties Inc. completed a plan of arrangement (the "Arrangement") to convert to a real estate investment trust, knows as Killam Apartment Real Estate Investment Trust (the "Trust"). Under the Arrangement, each outstanding common share of Killam Properties Inc. was exchanged for one unit of the trust ("Trust Unit"), unless a qualifying shareholder elected to receive exchangeable Class B limited partnership units in Killam Apartment Limited Partnership, a partnership controlled by the Trust in exchange for their common shares.

The consolidated financial statements of Killam for the year ended December 31, 2015, were authorized for issue in accordance with a resolution of the Board of Trustees of Killam Apartments REIT on February 16, 2016.

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 Killam 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 year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interests represent the portion of profit or loss and net assets not held by Killam, and are presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from 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.

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

2. Significant Accounting Policies (continued)

On March 31, 2015, Killam acquired 50% of the shares of a Corporation, which owns vacant land for future development. Killam has determined that it controls the Corporation and therefore consolidated the Corporation's assets, liabilities and the results of its operations. As Killam will purchase the remaining 50% of the shares in the Corporation upon the completion of the development, the non-controlling interest is recorded as a liability and is included in other non-current long-term liabilities.

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

Subsidiary	% Interest
Killam 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 KamRes (Silver Spear) Inc.	50%
Killam KamRes (Grid 5) Inc.	50%
Killam KamRes (Kanata Lakes) Inc.	50%
Killam KamRes (Kanata Lakes II) Inc.	50%
Killam - Keith Development Ltd.	50%

(ii) Joint Arrangements

Killam has joint arrangements in and joint control of four properties. Killam has assessed the nature of its joint arrangements at December 31, 2015, and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of it's interest in the joint operations.

Killam had contractual arrangements with other parties that 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), Killam 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 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, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to Killam. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, Killam applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. 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, Killam classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date, except for financial instruments 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. Killam has not transferred substantially all of the benefits and risks of ownership of its rental properties, and therefore accounts for leases with its tenants as operating leases. Other corporate income includes interest and management fees. Interest income is recognized as earned and management fees are recorded as services are provided.

(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 Killam does not manufacture these homes.

(F) Tenant Inducements

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

(G) Investment Properties

Investment properties 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. Killam considers its income properties to be investment properties under International Accounting Standards ("IAS") 40, Investment Property ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arms-length transaction at the date of valuation.

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

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

(i) Investment property under construction ("IPUC")

The cost of IPUC includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Under the requirements of IAS 40, IPUC is measured at fair value at each reporting date, with the recognition of gains or losses in the consolidated statements of income and comprehensive income. Given the risk related to construction and lease up, fair value often approximates cost.

2. Significant Accounting Policies (continued)

(ii) Borrowing costs related to IPUC

Although IPUC is measured at fair value, Killam's policy is to present its consolidated 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 Killam'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. Killam 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 methods are reviewed at each year-end, with the effect of any changes in estimates 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 bank account balances. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated financial statements.

(K) Share-Based Compensation

Killam 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 Killam’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.

The dilutive effect of share-based awards is reflected as additional share dilution in the computation of diluted earnings per share.

2. Significant Accounting Policies (continued)

(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"). Killam recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at 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:

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.

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

Loans and receivables

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

Other financial liabilities

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

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.

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

Type	Classification	Measurement
Rent, 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

2. Significant Accounting Policies (continued)

(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) Derivatives

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

(N) Embedded derivatives

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

(O) Hedging Relationships

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

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

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 statements of income and comprehensive income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

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

(P) 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.

(Q) 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.

(R) 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. Killam determines the deferred tax consequences associated with temporary differences relating to investment properties as if the carrying amount of the investment property is recovered entirely through sale. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

During 2015 Killam adopted the following standards:

IAS 40, *Investment Property* ("IAS 40")

On January 1, 2015, Killam adopted an amendment with respect to the description of ancillary services in IAS 40, which differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, Business Combinations, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment did not result in a material impact to the consolidated financial statements.

2. Significant Accounting Policies (continued)

IFRS 8, *Operating Segments* ("IFRS 8")

On January 1, 2015, Killam adopted the amendment to IFRS 8. The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by Management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the measure is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments did not result in a material impact to the consolidated financial statements.

3. Critical 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.

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

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 Killam'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.

Property Acquisitions

Management believes that the majority of Killam'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 the following as indicators that an acquisition may be a business combination:

- 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.

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

Taxes

Killam 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. Killam 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.

Consolidation and joint arrangements

Management has determined that Killam controls and consolidates the subsidiaries where it owns a majority of the shares. Killam is part owner of one property in which it has a 49% interest. Management has determined that Killam 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.

Management is required to make an assessment of all joint arrangements to determine the correct classification as a joint operation or joint venture. This determination is based on the rights and obligations of the parties within the arrangement. To be classified as a joint operation, the joint arrangement is such that Killam has rights to the assets, and obligations for the liabilities, relating to the arrangement. To be classified as a joint venture Killam has rights to the net assets of the arrangement. Management has determined that as at December 31, 2015, all joint arrangements are classified as joint operations.

Valuation 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. 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 Killam has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

Other disclosures relating to Killam's exposure to risk and uncertainties include:
- Financial risk management objectives and policies - note 23
- Sensitivity analysis disclosures - note 5, 23

4. Future Accounting Policy Changes

As at February 16, 2016, the following new or amended IFRS have been issued by the IASB and are expected to apply to Killam for annual reporting periods beginning after December 31, 2015:

IFRS 9 *Financial Instruments* ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9 that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Killam 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.

4. Future Accounting Policy Changes (continued)

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Killam is in the process of assessing the impact IFRS 15 may have on future financial statements and plans to adopt the new standard on the required effective date; however, Killam does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

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. These amendments are not expected to have any impact on Killam.

Annual Improvements 2012-2014 Cycle
These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 *Presentation of Financial Statements* (“IAS 1”) clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the consolidated statements of income and comprehensive income and the consolidated statements of financial position may be desegregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statements of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on Killam.

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

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

5. Investment Properties

As at December 31, 2015

Segment	**Apartments**	**MHCs**	**Other**	**IPUC**	**Total**
Level	**3**	**3**	**3**	**3**	
Balance, beginning of year	**$1,568,203**	**$122,629**	**$2,223**	**$40,840**	**$1,733,895**
Fair value gain (loss) on investment properties	**(6,837)**	**734**	**-**	**-**	**(6,103)**
Acquisitions	**13,020**	**-**	**28,904**	**17,973**	**59,897**
Dispositions	**-**	**-**	**-**	**(1,143)**	**(1,143)**
Transfer from IPUC	**36,147**	**-**	**-**	**(36,147)**	**-**
Transfer to IPUC	**(2,300)**	**-**	**-**	**2,300**	**-**
Capital expenditure on investment properties	**28,511**	**2,285**	**1,061**	**-**	**31,857**
Capital expenditure on IPUC	**-**	**-**	**-**	**20,764**	**20,764**
Interest capitalized on IPUC	**-**	**-**	**-**	**1,089**	**1,089**
Balance, end of year	**$1,636,744**	**$125,648**	**$32,188**	**$45,676**	**$1,840,256**

As at 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 (loss) gain on investment properties	(298)	4,730	-	336	4,768
Acquisitions	231,618	-	-	-	231,618
Dispositions	(41,464)	(40)	-	-	(41,504)
Transfer from IPUC	14,098	-	-	(14,098)	-
Capital expenditure on investment properties	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

During 2015, Killam acquired the following investment properties:

Property	**Location**	**Acquisition Date**	**Year Built**	**Units / Square Feet ("SF")**	**Purchase Price[1]**
Apartments					
20 Technology Drive	Saint John	17-Jun-15	2014	59 units	$8,300
1471/1483/1491 Carlton Street	Halifax	5-Aug-15	1863-1951	4 units	$2,100
125 Knightsridge Street	Halifax	1-Dec-15	1986-1987	26 units	$2,175
Commercial properties					
Brewery Market	Halifax	31-Mar-15	1820-1984	158,000 SF	$22,300
Medical Arts Building	Halifax	1-Dec-15	Pre-1960	18,000 SF	$6,350
Other					
Vacant land	Halifax	31-Mar-15			$5,200
Vacant land	Calgary	21-Dec-15			$7,250
Total Acquisitions					**$53,675**

(1) Purchase price on acquisition does not include transaction-related costs.

5. Investment Properties (continued)

During the year ended December 31, 2015, Killam capitalized salaries of $3.0 million (December 31, 2014 - $3.0 million), as part of its project improvement, suite renovation and development programs.

For the year ended December 31, 2015, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development using Killam's weighted average borrowing rate of 3.60% (December 31, 2014 - 3.93%). Interest costs associated with construction loans were capitalized to the respective development using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1.8 billion as at December 31, 2015, (December 31, 2014 - $1.7 billion) are pledged as collateral against Killam's mortgages payable.

Valuation methodology and processes

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

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

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

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

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

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

Valuation techniques underlying Management's estimation of fair value

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

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

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

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

5. Investment Properties (continued)

Using the direct income capitalization method, the apartment properties were valued using capitalization rates in the range of 4.12% to 8.00%, applied to a stabilized NOI of $91.3 million (December 31, 2014 – 4.50% to 8.0% and $88.2 million), resulting in an overall weighted average capitalization rate of 5.52% (December 31, 2014 – 5.61%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.2% to 97.9% (December 31, 2014 – 93.6% to 97.7%).

Using the direct income capitalization method, the MHC properties were valued using capitalization rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of $8.5 million (December 31, 2014 – 5.75% to 8.0% and $8.2 million), resulting in an overall weighted average capitalization rate of 6.82% (December 31, 2014 – 6.79%). The stabilized occupancy rate used in the calculation of NOI was 2.5% (December 31, 2014 – 1.7%).

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

	December 31, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.52%**			5.61%
Halifax	5.00%	7.33%	5.58%	5.00%	7.00%	5.59%
Moncton	5.15%	8.00%	6.04%	5.15%	8.00%	6.04%
Fredericton	5.15%	6.25%	5.90%	5.15%	6.25%	5.86%
Saint John	6.00%	6.75%	6.40%	6.25%	6.75%	6.50%
St. John's	5.00%	6.00%	5.68%	5.15%	6.00%	5.75%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.20%	5.92%
Ontario	4.12%	5.00%	4.63%	4.50%	5.10%	4.95%
Alberta	4.85%	4.85%	4.85%	5.00%	5.00%	5.00%
Other Atlantic	5.75%	7.00%	6.57%	5.75%	7.00%	6.61%
MHCs			**6.82%**			6.79%
Ontario	7.00%	8.00%	7.49%	7.00%	8.00%	7.47%
Nova Scotia	5.75%	7.00%	6.22%	5.75%	7.50%	6.26%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
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 Killam's portfolio of properties given the change in the noted input:

Class of property	**Capitalization rate**	
	10 basis points increase	*10 basis points decrease*
Apartments	$(29,338)	$30,419
MHCs	$(1,802)	$1,856

The investment property segment defined as Other (Level 3) consists of three commercial properties.

6. Joint Operations and Investments in Joint Venture

A joint venture, previously accounted for using the equity method, 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.

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

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

7. Property and Equipment

	December 31, 2015		December 31, 2014	
As at	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,836**	**204**	1,824	156
Heavy equipment	**225**	**92**	222	81
Vehicles	**1,318**	**457**	1,271	399
Furniture, fixtures and equipment	**4,847**	**3,495**	4,080	2,885
Leaseholds	**895**	**170**	803	95
	9,391	**4,418**	8,470	3,616
Less: accumulated depreciation	**(4,418)**		(3,616)	
	$4,973		$4,854	

Land and building represents Killam's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a carrying value of $1.9 million (December 31, 2014 - $2.0 million) is pledged as collateral against Killam's mortgage payable.

For the years ended December 31,	**2015**	2014
Balance, beginning of year	**$4,854**	$4,527
Disposals	**-**	-
Capital expenditures	**921**	971
Depreciation	**(802)**	(644)
Balance, end of year	**$4,973**	$4,854

8. Loans Receivable

Loans receivable as at December 31, 2015, include a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property issued in May 2014, 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. A vendor take-back loan for $0.95 million bearing interest at a rate of 6.5% was also issued in June 2015.

9. Rent and Other Receivables

As at	**December 31, 2015**	December 31, 2014
Rent receivable	**$864**	$852
Other receivables	**1,216**	1,102
	$2,080	$1,954

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. Killam's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. Killam's bad debt expense experience has historically been less than 0.4% of revenues. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

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

10. Other Current Assets

As at	**December 31, 2015**	December 31, 2014
Restricted cash	**$9,564**	$7,959
Prepaid expenses	**2,734**	2,456
Taxes receivable	**-**	1,124
Inventory	**31**	139
	$12,329	$11,678

Restricted cash consists of security deposits, funds held in trust and property tax reserves. Inventory relates to manufactured homes for which sales have not closed at year-end. As at December 31, 2015, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

11. Accounts Payable and Other Liabilities

As at	**December 31, 2015**	December 31, 2014
Accounts payable and other liabilities	**$17,592**	$22,484
Mortgage interest payable	**2,427**	2,332
Security deposits	**5,472**	5,228
	$25,491	$30,044

12. Mortgages and Loans Payable

As at	**December 31, 2015**		December 31, 2014	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.27%**	**$923,835**	3.60%	$839,813
Variable rate	**4.34%**	**11,778**	4.14%	4,760
Vendor financing	**3.01%**	**5,234**	6.81%	149
Total		**$940,847**		$844,722
Current		**156,218**		115,248
Non-current		**784,629**		729,474
		$940,847		$844,722

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

As at December 31, 2015, unamortized deferred financing costs of $19.8 million (December 31, 2014 - $17.2 million) and mark-to-market premiums on mortgages assumed on acquisitions of $0.8 million (December 31, 2014 – $1.2 million) are netted against mortgages and loans payable.

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

12. Mortgages and Loans Payable (continued)

Estimated future principal payments required to meet mortgage obligations as at December 31, 2015, are as follows:

	Principal Amount	% of Total Principal
2016	$156,218	16.3%
2017	101,881	10.6%
2018	117,475	12.2%
2019	186,083	19.4%
2020	185,959	19.4%
Subsequent to 2020	212,222	22.1%
	959,838	100.0%
Unamortized deferred financing costs	(19,752)	
Unamortized mark-to-market adjustments	761	
	$940,847	

Killam 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 Killam'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. As at December 31, 2015, Killam had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $nil (December 31, 2014 - $nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

II. A $1.5 million revolving demand facility that can be used for Killam's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2015, Killam had assets with a carrying value of $1.8 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2014 - $1.5 million). The agreement includes certain covenants and undertakings of which Killam is in compliance.

13. Construction Loans

As at December 31, 2015, Killam had access to a floating rate non-revolving demand construction loan for the purpose of financing a development project. Payments are made monthly on an interest only basis. The construction loan has interest rate of prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loan will be repaid in full and converted into a conventional mortgage. As at December 31, 2015, $4.1 million (December 31, 2014 - $31.9 million) was drawn at a weighted average interest rate of 3.45% (December 31, 2014 - 3.84%). During 2015, Killam received proceeds on construction loans of $11.3 million and repaid $43.2 million of construction loans related to projects completed during the year.

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

14. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	December 31, 2015	December 31, 2014
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$55,873**	$55,108
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**45,160**	44,859
					101,033	99,967
Less: Deferred financing charges					**(1,406)**	(2,000)
					$99,627	$97,967

Killam's $57.5 million convertible subordinated debentures were 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 Killam on the date on which the notice of redemption was given was 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 Trust Units (Refer to note 1) obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or 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 Trust Units of Killam 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 Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending 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 semi-annually, is calculated at 6.3%.

15. 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 Killam:

For the years ended December 31,	**2015**		2014	
	Number of Shares	**Value**	Number of Shares	Value
Balance, Beginning of year	**60,475,979**	**$459,138**	54,458,774	$398,181
Issued for cash(1)	-	-	5,487,624	56,035
Dividend reinvestment plan	**667,594**	**6,907**	246,554	2,555
Stock options exercised	**367,907**	**3,458**	182,500	1,274
Stock issued for acquisitions	**1,341,859**	**14,536**	75,330	800
Restricted share units redeemed	**30,695**	**286**	25,197	293
Repurchase through normal course issuer bid	**(21,000)**	**(192)**	-	-
Balance, end of year	**62,863,034**	**$484,133**	60,475,979	$459,138

(i) Net of issue costs of $nil (2014 - $1.6 million)

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

15. Capital Stock and Contributed Surplus (continued)

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 2015 (2014 - $0.60).

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.

Normal Course Issuer Bid

In July 2015, Killam announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 1,500,000 common shares commencing on July 30, 2015, and ending July 29, 2016. The normal course issuer bid is not affected by the Company's conversion to a REIT (Refer to note 1). All purchases of common shares are made through the facilities of the TSX at the market price of the shares at the time of the acquisition. Daily repurchases by Killam are limited to 23,698 Trust Units, other than block purchase exemptions. Any units acquired will be cancelled. For the year ended December 31, 2015, 21,000 common shares were purchased and cancelled. The shares were purchased at an average price of $9.98.

16. Share-Based Compensation

Share-based compensation expense for the years ended December 31, 2015, and 2014 is as follows:

	2015	2014
Stock option plan	**$-**	$4
Restricted share unit plan	**496**	461
Total share-based compensation expense	**$496**	$465

Killam did not issue stock options during 2014 or 2015.

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

	2015		2014	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**367,907**	**$8.16**	550,407	$7.66
Exercised	**(367,907)**	**$8.16**	(182,500)	6.64
Outstanding, end of year	**-**	**-**	367,907	$8.16

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%

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

16. Share-Based Compensation (continued)

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.

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 restricted share unit plan are shown below:

	2015		2014	
For the years ended December 31**,**	**Number of RSUs**	**Weighted Average Issue Price**	Number of RSUs	Weighted Average Issue Price
Outstanding, beginning of year	**140,513**	**$11.01**	94,345	$12.29
Granted	**82,328**	**10.74**	80,734	10.37
Redeemed	**(48,957)**	**12.38**	(42,856)	12.61
Additional restricted share distributions	**10,222**	**10.42**	8,290	10.40
Outstanding, end of year	**184,106**	**$10.40**	140,513	$11.01

17. Home Sales

For the years ended December 31,	**2015**	2014
Home sales revenue	**$970**	$1,299
Cost of home sales	**(848)**	(1,174)
Operating expenses	**(44)**	(64)
	$78	$61

18. Financing Costs

For the years ended December 31,	**2015**	2014
Mortgage, loan and construction loan interest	**$31,808**	$29,561
Amortization of fair value adjustments on assumed debt	**(570)**	(499)
Amortization of loss on interest rate hedge	**59**	11
Convertible debenture interest	**6,836**	6,752
Capitalized interest	**(1,089)**	(1,216)
	$37,044	$34,609

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

19. Income Taxes

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

For the years ended December 31,	2015		2014	
Net income before income taxes	**$42,016**		$44,688	
Income tax expense at federal statutory rates	**12,260**	**29.2%**	13,076	29.3%
Change in unrealized capital gains	**(3,721)**	**(8.9)%**	(434)	(1.0)%
Non-taxable non-controlling interest	**(363)**	**(0.9)%**	(847)	(1.9)%
Effect of rate change on opening temporary differences	**(253)**	**(0.6)%**	96	0.2%
Other	**(1,707)**	**(4.1)%**	130	0.3%
Tax expense	**$6,216**		$12,021	

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 Killam's deferred income tax assets and liabilities are as follows:

	Consolidated Statements of Financial Position		Consolidated Statements of Income	
	2015	2014	**2015**	2014
Real estate properties	**$108,785**	$103,490	**$5,295**	$12,619
Loss carryforwards	**(194)**	(374)	**180**	(374)
Convertible debentures	**720**	1,034	**(314)**	(290)
Other	**2,834**	1,808	**1,055**	1,517
Net deferred tax expense			**$6,216**	$13,472
Net deferred tax liabilities	**$112,145**	$105,958		
Reconciliation of net deferred tax liabilities				
Balance, beginning of year			**$105,958**	$93,221
Recognized in statements of income and comprehensive income			**6,216**	13,472
Recognized in equity on issuance of shares			**(46)**	(653)
Recognized in other comprehensive loss			**17**	(82)
Balance, end of year			**$112,145**	$105,958

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to $4.8 million (December 31, 2014 - $0.1 million).

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

20. Per Share Information

The following is the weighted average number of shares outstanding for the years ended December 31, 2015, and 2014:

For the years ended December 31,	2015	2014
Weighted average number of shares outstanding - basic	**62,097,208**	55,393,775
Unexercised dilutive options	**82,216**	123,127
Restricted share units	**180,760**	147,204
Convertible debentures	**9,847,764**	10,087,719
Weighted average number of shares outstanding - diluted	**72,207,948**	65,751,825

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,	2015	2014
Net income applicable to common shareholders	**$34,557**	$29,772
Adjustment for dilutive effect of convertible debentures	**4,785**	4,727
Adjusted net income for diluted per share amounts	**$39,342**	$34,499

21. Segmented Information

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

- Apartment segment — acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment — acquires and operates MHC communities in Ontario and Eastern Canada;
- Other segment — includes four commercial properties located in Nova Scotia and head office and regional office administration costs.

Killam's administration costs, homes sales and corporate income, financing costs, depreciation and amortization, fair value (loss) gain on investment property, loss on disposition and deferred tax expense are not reported to the members of executive management on a segment basis. There are no sales between segments.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies. Reportable segment performance is analyzed based on NOI. The operating results, assets and liabilities, and capital expenditures of the reportable segments are as follows:

For the year ended December 31, 2015	Apartments	MHCs	Other	Total
Property revenue	**$148,846**	**$14,323**	**$3,445**	**$166,614**
Property operating expenses	**(60,964)**	**(5,439)**	**(1,821)**	**(68,224)**
Net operating income	**$87,882**	**$8,884**	**$1,624**	**$98,390**
Home sales & corporate income	-	-	**1,495**	**1,495**
Financing costs	**(27,751)**	**(2,487)**	**(6,806)**	**(37,044)**
Depreciation and amortization	**(1,258)**	**(201)**	**(1,256)**	**(2,715)**
Administration	**(1,711)**	**(404)**	**(9,783)**	**(11,898)**
Income before fair value loss, loss on disposition and income taxes	**$57,162**	**$5,792**	**$(14,726)**	**$48,228**
Total assets	**$1,639,988**	**$126,394**	**$109,894**	**$1,876,276**
Total liabilities	**$893,914**	**$59,360**	**$237,674**	**$1,190,948**
Capital expenditures on investment properties	**$28,511**	**$2,285**	**$1,061**	**$31,857**

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

21. Segmented Information (continued)

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 gain, loss on disposition and income taxes	$47,155	$5,601	$(11,579)	$41,177
Total assets	$1,572,049	$121,281	$61,904	$1,755,234
Total liabilities	$842,283	$58,395	$211,873	$1,112,551
Capital expenditures on investment properties	$30,096	$2,525	$47	$32,668

22. Supplemental Cash Flow Information

For the years ended December 31,	**2015**	2014
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$31,202**	$28,902
Interest paid on convertible debentures	**5,756**	5,756
	$36,958	$34,658
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$(126)**	$798
Inventory	**108**	430
Other current assets	**845**	(1,095)
Accounts payable and accrued liabilities	**(1,225)**	8,365
	$(398)	$8,498

23. Financial Risk Management Objectives and Policies

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

Killam may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. Killam entered into one derivative contract during 2014 and has not entered into any derivative transactions in 2015. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken.

23. Financial Risk Management Objectives and Policies (continued)

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

(i) Interest rate risk

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

As at December 31, 2015, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $11.8 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2014 - prime plus 1.0% - 2.0%). As at December 31, 2015, Killam also has a construction loan totaling $4.1 million with floating interest rate of prime to prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on this loan.

An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt as at December 31, 2015, would affect financing costs by approximately $9.5 million per year. However, only $123.0 million of Killam's fixed mortgage and vendor debt matures in the next 12 months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.2 million per year.

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Killam's exposure to bad debt is not significant. Killam'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 December 31, 2015, or 2014. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(iii) Liquidity risk

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

During the year ended December 31, 2015, Killam refinanced $87.2 million of maturing apartment mortgages with new mortgages totaling $128.4 million for net proceeds of $41.2 million. As well, Killam refinanced $4.0 million of maturing MHC mortgages with new mortgages totaling $7.3 million for net proceeds of $3.3 million.

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

23. Financial Risk Management Objectives and Policies (continued)

The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities over the next five years as at December 31, 2015:

For the twelve months ended December 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2016	$156,218	$4,115	$ -	**$160,333**
2017	101,881	-	57,500	**159,381**
2018	117,475	-	46,000	**163,475**
2019	186,083	-	-	**186,083**
2020	185,959	-	-	**185,959**
Thereafter	212,222	-	-	**212,222**
	$959,838	$4,115	$103,500	**$1,067,453**

Capital Management

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

Killam monitors capital using a total debt to total assets ratio. Killam's strategy is for its total debt to total assets ratio to not exceed 65%. The calculation of the total debt to total assets is summarized as follows:

As at	December 31, 2015	December 31, 2014
Mortgages, loans payables and construction loans	**$944,962**	$876,666
Convertible debentures	**99,627**	97,967
Total debt	**$1,044,589**	$974,633
Total assets	**$1,876,276**	$1,775,234
Total debt as a percentage of total assets	**55.7%**	54.9%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at December 31, 2015, would increase the debt as a percentage of assets by 90 bps.

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 Killam's financial assets and liabilities:

		December 31, 2015		December 31, 2014	
Classification	Subsequent Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Loans receivable (a)	Amortized cost	**$4,950**	**$4,949**	$4,000	$4,027
Financial Liabilities:					
Mortgages (b)	Amortized cost	**$940,847**	**$995,709**	$844,722	$941,158
Convertible debentures (c)	Amortized cost	**$99,627**	**$102,160**	$97,967	$103,996

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

23. Financial Risk Management Objectives and Policies (continued)

(a) The fair value of the loans receivable are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts Killam might receive or pay in actual market transactions (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 Killam 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 five-year government yield curve at the reporting date, plus an adequate credit spread, and were as follows:

As at	**December 31, 2015**	December 31, 2014
Mortgages - Apartments	**1.73%**	2.11%
Mortgages - MHCs	**3.33%**	3.91%

As at December 31, 2015, and December 31, 2014, Killam did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

24. Commitments and Contingencies

Commitments primarily related to capital investment in investment properties and IPUC of $8.1 million were outstanding at December 31, 2015 (December 31, 2014 - $7.1 million).

Killam is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of Killam. However, actual outcomes may differ from Management's expectations.

25. Related Party Transactions

Killam contracted APM Construction Services Inc. (“APM”) to act as Project Manager on a development project in St. John's, NL, which was completed in March 2015. APM is an entity controlled by a director of Killam. APM was paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2015, Killam paid APM $25,000 for construction management services (December 31, 2014 - $410,000). As of December 31, 2015, Killam does not have any construction projects on-going with APM.

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 or project management fees, to the company controlled by an executive and director of Killam. Killam paid $45,000 (2014 - $nil) in project management fees during 2015 related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, from Halkirk Properties Limited, for $22.3 million, which is partially owned by a director of Killam. Killam also acquired a 50% interest in a corporation for $5.2 million, which owns vacant land adjacent the Brewery Market for future development. The remaining 50% is also owned by Halkirk. During the fourth quarter of 2015, Killam and Halkirk commenced development of a 240-unit building on the vacant land adjacent the Brewery Market. Construction of the development is managed by Killam and cost of construction will be funded 50/50 by each partner.

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

25. Related Party Transactions (continued)

Key management personnel remuneration

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

For the years ended December 31,	**2015**	2014
Salaries, board compensation and incentives	**$3,189**	$2,635
Restricted share awards	**1,613**	840
Total	**$4,802**	$3,475

26. Subsequent Events

Effective January 1, 2016, the Arrangement to convert Killam Properties Inc. from a corporation to a real estate investment trust ("REIT"), known as Killam Apartment REIT was completed. The units of the Trust began trading on the Toronto Stock Exchange on Thursday, January 7, 2016, under the symbol KMP.UN. Under the terms of the Arrangement, each outstanding common share of Killam Properties Inc. was exchanged for one unit of the Trust, unless a qualifying shareholder elected to receive exchangeable Class B limited partnership units in a partnership controlled by the Trust in exchange for their common shares. On conversion, there were 58,114,973 trust units and 4,748,061 exchangeable units issued.

On January 19, 2016, Killam announced a distribution of $0.05 per unit, payable on February 16, 2016, to unitholders of record on January 29, 2016.