Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Management's Responsibility for Financial Statements

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

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

As at December 31, 2019, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 12, 2020

Philip Fraser
President and Chief Executive Officer

Dale Noseworthy
Chief Financial Officer

Independent auditor's report

To the Unitholders of
Killam Apartment Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of **Killam Apartment Real Estate Investment Trust** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gina Kinsman.

Ernst + Young LLP

Chartered Professional Accountants

Halifax, Canada
February 12, 2020

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Investment properties	[5]	**$3,320,604**	$2,799,693
Property and equipment	[8]	**7,113**	5,659
Other non-current assets		**295**	530
		$3,328,012	$2,805,882
Current assets			
Cash		**$12,801**	$3,789
Rent and other receivables	[10]	**9,025**	3,025
Other current assets	[9]	**16,099**	11,710
		37,925	18,524
Assets held for sale	[6]	**14,163**	—
TOTAL ASSETS		**$3,380,100**	$2,824,406
EQUITY AND LIABILITIES			
Unitholders' equity	[17]	**$1,602,254**	$1,168,814
Non-controlling interest		**113**	136
Total Equity		**$1,602,367**	$1,168,950
Non-current liabilities			
Mortgages and loans payable	[11]	**$1,161,702**	$1,060,082
Lease liabilities	[12]	**8,919**	—
Exchangeable Units	[16]	**78,668**	66,207
Deferred income tax	[23]	**175,048**	134,684
Deferred unit-based compensation	[19]	**5,363**	4,579
		$1,429,700	$1,265,552
Current liabilities			
Mortgages and loans payable	[11]	**$276,568**	$232,394
Credit facilities	[13]	**—**	53,350
Construction loans	[14]	**24,851**	60,502
Accounts payable and accrued liabilities	[15]	**46,614**	43,658
		348,033	389,904
Total Liabilities		**$1,777,733**	$1,655,456
TOTAL EQUITY AND LIABILITIES		**$3,380,100**	$2,824,406
Commitments and contingencies	[28]		
Financial guarantees	[29]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

G. W. Watson　　Philip Fraser

Trustee　　Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	**2019**	2018
Property revenue	[20]	**$241,749**	$215,959
Property operating expenses			
Operating expenses		**(37,187)**	(33,447)
Utility and fuel expenses		**(23,515)**	(21,705)
Property taxes		**(28,711)**	(25,095)
		(89,413)	(80,247)
Net operating income		**$152,336**	$135,712
Other income	[21]	**6,059**	965
Financing costs	[22]	**(47,443)**	(42,648)
Depreciation		**(720)**	(859)
Administration		**(14,881)**	(14,201)
Fair value adjustment on unit-based compensation		**(1,590)**	(553)
Fair value adjustment on Exchangeable Units	[16]	**(12,461)**	(6,373)
Fair value adjustment on investment properties	[5]	**244,130**	134,803
Loss on disposition		**(1,269)**	(197)
Income before income taxes		**324,161**	206,649
Deferred tax expense	[23]	**(40,636)**	(31,478)
Net income		**$283,525**	$175,171
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to financing costs		**—**	37
Comprehensive income		**$283,525**	$175,208
Net income (loss) attributable to:			
Unitholders		**283,536**	175,144
Non-controlling interest		**(11)**	27
		$283,525	$175,171
Comprehensive income (loss) attributable to:			
Unitholders		**283,536**	175,181
Non-controlling interest		**(11)**	27
		$283,525	$175,208

See accompanying notes to the *consolidated* financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

Year ended December 31, 2019	**Trust Units**	**Contributed Surplus**	**Retained Earnings**	**Non-controlling Interest**	**Total Equity**
As at January 1, 2019	**$798,473**	**$795**	**$369,546**	**$136**	**$1,168,950**
Distribution reinvestment plan	**17,651**	**—**	**—**	**—**	**17,651**
Deferred unit-based compensation	**1,298**	**—**	**—**	**—**	**1,298**
Issued for cash	**191,744**	**—**	**—**	**—**	**191,744**
Net income	**—**	**—**	**283,536**	**(11)**	**283,525**
Distributions on non-controlling interest	**—**	**—**	**—**	**(12)**	**(12)**
Distributions declared and paid	**—**	**—**	**(55,349)**	**—**	**(55,349)**
Distributions payable	**—**	**—**	**(5,440)**	**—**	**(5,440)**
As at December 31, 2019	**$1,009,166**	**$795**	**$592,293**	**$113**	**$1,602,367**

Year ended December 31, 2018	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2018	$718,858	$795	$247,965	($37)	$141	$967,722
Exchange of Exchangeable Units	1,054	—	—	—	—	1,054
Distribution reinvestment plan	13,919	—	—	—	—	13,919
Deferred unit-based compensation	678	—	—	—	—	678
Issued for cash	54,852	—	—	—	—	54,852
Issuance of units for acquisitions	9,112	—	—	—	—	9,112
Net income	—	—	175,144	—	27	175,171
Amortization of loss on forward interest rate hedge	—	—	—	37	—	37
Distributions on non-controlling interest	—	—	—	—	(32)	(32)
Distributions declared and paid	—	—	(48,936)	—	—	(48,936)
Distributions payable	—	—	(4,627)	—	—	(4,627)
As at December 31, 2018	$798,473	$795	$369,546	$—	$136	$1,168,950

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

	Note	Year ended December 31, 2019	2018
OPERATING ACTIVITIES			
Net income		**$283,525**	$175,171
Add (deduct) items not affecting cash			
Fair value adjustments		**(230,080)**	(127,877)
Depreciation		**720**	859
Amortization of deferred financing		**3,093**	4,354
Non-cash compensation expense		**1,918**	1,513
Deferred income taxes		**40,364**	31,478
Loss on disposition		**1,269**	197
Loss on derivative liability		**235**	129
Interest expense on Exchangeable Units		**2,727**	2,453
Straight-line rent		**(423)**	154
Interest expense on lease liability		**298**	—
Net change in non-cash operating activities	[20]	**(8,438)**	1,307
Cash provided by operating activities		**$95,208**	$89,738
FINANCING ACTIVITIES			
Deferred financing costs paid		**(5,384)**	(8,429)
Net proceeds on issuance of Units		**191,729**	54,852
Cash paid on vesting of restricted Units		**(1,424)**	(1,289)
Cash paid on lease liabilities		**(133)**	—
Mortgage financing		**332,658**	286,609
Mortgages repaid		**(191,892)**	(85,579)
Mortgage principal repayments		**(44,792)**	(39,662)
Credit facility (repayments) proceeds		**(53,350)**	53,350
Proceeds from construction loans		**28,726**	19,455
Construction loans repayments		**(64,377)**	—
Distributions paid to non-controlling interest		**(12)**	(32)
Distributions to Unitholders and Exchangeable Unitholders		**(45,041)**	(41,618)
Cash provided by financing activities		**$146,708**	$237,657
INVESTING ACTIVITIES			
Decrease in restricted cash		**811**	574
Acquisition of investment properties, net of debt assumed		**(133,426)**	(229,349)
Disposition of investment properties		**11,520**	1,460
Development of investment properties		**(38,390)**	(60,477)
Capital expenditures		**(73,419)**	(47,814)
Cash used in investing activities		**($232,904)**	($335,606)
Net increase (decrease) in cash		**9,012**	(8,211)
Cash, beginning of year		**3,789**	12,000
Cash, end of year		**$12,801**	$3,789

See accompanying notes to the consolidated financial statements.

1. Organization of the Trust

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

The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2019. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8.

2. Significant Accounting Policies

(A) Statement of Compliance

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

The consolidated financial statements of the Trust for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 12, 2020.

(B) Basis of Presentation

The consolidated financial statements of Killam have been prepared on a historical cost basis, except for investment properties, deferred unit-based compensation, a derivative asset and Exchangeable Units, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand ($000), except per unit amounts or as noted.

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interest represents the portion of profit or loss and net assets not held by Killam and is presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from unitholders' 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.

Dollar amounts in thousands of Canadian dollars (except as noted)

2. Significant Accounting Policies (continued)

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

Subsidiary	% Interest
Killam Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
661047 N.B Inc.	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Killam - Keith Development Ltd.	100%
Killam KamRes (Silver Spear) Inc.	100%
Killam KamRes (Grid 5) Inc.	100%
Blackshire Court Limited Partnership	97%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Riotrin Properties (Gloucester 3) Inc.	50%
AKK 4th Avenue Inc.	40%

(ii) Joint arrangements
Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint arrangements. Killam has assessed the nature of its joint arrangements as at December 31, 2019 and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

2. Significant Accounting Policies (continued)

(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.

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. Acquisition-related transaction costs are capitalized to the property. All of Killam’s acquisitions have been classified as asset acquisitions.

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties represents the majority of Killam’s revenue and includes rents from tenants under leases, parking income, laundry income and other miscellaneous income paid by the tenants under the terms of their existing leases. Rental revenue from investment properties is recognized on a straight-line basis over the lease term. Rental payments are due from tenants at the beginning of the month. The operating leases entered into with tenants create a legally enforceable right to control the use of an identified asset by the tenant for a period of time and also require Killam to provide additional services. IFRS 16, Leases (“IFRS 16”), provides guidance on “lease components” such as base rent, realty tax and insurance recoveries, which therefore are outside of the scope of IFRS 15., Revenue from Contracts with Customers ("IFRS 15"). Property management and ancillary income (such as utilities, parking and laundry) are considered non-lease components and are within the scope of IFRS 15, Revenue from Contracts with Customers. The performance obligation for the property management and ancillary services is satisfied over time, which is generally the lease term. The Trust applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(ii) Other income

Other corporate income includes interest income and management fees. Interest income is recognized as earned, and management fees are recorded as services are provided.

(iii) Service charges and expenses recoverable from tenants

Income arising from expenses recovered from tenants is recognized gross of the related expenses in the period in which the expense can be contractually recovered. Revenue related to laundry and parking is included gross of the related costs.

(iv) Manufactured home sales

Where revenue is obtained from the sale of manufactured homes, it is recognized when control has 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.

(v) Straight-line rent

Certain commercial lease agreements contain changes in rental rates over the term of the lease. Total rental income is recorded on a straight-line basis over the life of the lease agreement. An accrued rent receivable is recorded for the difference between the straight-line rent recorded in property revenue and the rent that is contractually due from tenants. Tenant incentives are amortized on a straight-line basis over the term of existing leases and the amortization is shown as a reduction in property revenue.

(vi) Common area maintenance ("CAM") services

Killam has an obligation to commercial tenants to provide CAM services in exchange for CAM recoveries, which are considered non-lease components. CAM services are performed during the period in which the tenants occupy the premises, therefore CAM recoveries are recognized in revenue based on actual costs incurred.

2. Significant Accounting Policies (continued)

(vii) Lease cancellation fees
Amounts payable by tenants to terminate a lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the effective date of the lease termination.

(F) Tenant Inducements

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

(G) Investment Properties

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

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

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

Properties under development are also adjusted for fair value at each consolidated statement of financial position, with fair value adjustments recognized in net income.

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

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

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

2. Significant Accounting Policies (continued)

(H) Assets Held for Sale
Assets held for sale include assets that meet the held for sale criteria in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. These assets have carrying amounts that will be recovered principally through a sale and are available for immediate sale in their present condition. Assets that are classified as assets held for sale are carried at the lower of fair value and cost.

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

Category	Useful Life/Depreciation Rate	Depreciation Method Used
Building	40 years	Straight-line
Heavy equipment	8%	Declining balance
Vehicles	10%	Declining balance
Furniture, fixtures and office equipment	10% to 30%	Declining balance
Leasehold improvements	Lease term	Straight-line

(J) 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.

(K) Consolidated Statements of Cash Flows
Cash consists of cash on hand and bank account balances excluding cash on hand held for security deposits. 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.

(L) Deferred unit-based Compensation
Unit-based compensation benefits are provided to officers, Trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the Restricted Trust Units ("RTUs") are presented as a liability on the consolidated statements of financial position as the Trust Units are considered puttable instruments in accordance with IAS 32.

The fair value of performance-based RTUs is estimated using a Monte Carlo pricing model. The fair value estimate requires determination of the most appropriate inputs to the pricing model including the expected life, volatility, and dividend yield. The grant date fair value of the deferred unit-based compensation is determined based on the market value of the Trust's Units on the date of grant and compensation expense is recognized over the vesting period and included in administration costs. Under IAS 19, *Employee Benefits*, the RTUs are classified at fair value through profit or loss ("FVTPL") and are measured at each reporting period at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income.

2. Significant Accounting Policies (continued)

(M) Financial Instruments
Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7, Financial Instruments: Disclosures, IAS 32, and IFRS 9, *Financial Instruments ("IFRS 9").* Killam recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

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

Type	Classification	Measurement
Rent, loans and other receivables	Financial assets	Amortized cost
Accounts payable, accrued liabilities	Financial liabilities	Amortized cost
Mortgages, loans payable and construction loans	Financial liabilities	Amortized cost
Exchangeable Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Other assets	FVTPL	Fair value

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

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

Financial assets
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.

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 rate method. The effective interest rate method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount of the initial recognition.

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

2. Significant Accounting Policies (continued)

Exchangeable Units
The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date are reported under other current liabilities on the consolidated statements of financial position. The Exchangeable Units are measured at each reporting date at fair value, which is based off of the unit price of the Trust given the Exchangeable Units can be converted into Trust units. Changes in fair value are recognized in the consolidated statements of income and comprehensive income.

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

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

Prepaid insurance premiums
Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are netted against mortgages and loans payable. They are amortized over the amortization period of the underlying mortgage loans on a straight-line basis (initial period is typically 25-30 years) and are included as a component of financing costs. Should Killam refinance an existing mortgage, CMHC premiums associated with the new mortgage will be reflected in deferred financing costs. Other unamortized CMHC premiums and fees associated with the property that are no longer linked to a current mortgage will be amortized in the period in which the refinancing occurs.

Transaction costs
Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

Determination of fair value
The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. Killam classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and Killam’s own assumptions about market value. See note 26 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

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

2. Significant Accounting Policies (continued)

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

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

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

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

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

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

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

(P) 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.

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

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

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

2. Significant Accounting Policies (continued)

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

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

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

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits, or tax losses can be utilized. The carrying values 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.

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

(U) Adoption of Accounting Standards
(i) IFRS 16, *Leases*
On January 13, 2016, the IASB issued IFRS 16, replacing IAS 17 and related interpretations. IFRS 16 provides a comprehensive framework for recognition, measurement and disclosure for accounting for leases. Lessor accounting under IFRS 16 is substantially unchanged and lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where Killam is the lessor.

Killam adopted the standard on January 1, 2019 using the modified retrospective approach and elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4, Determining Whether an Arrangement Contains a Lease at the date of initial application. Killam has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

As part of the adoption of this standard, Killam reviewed all lease contracts in which it is a lessee and concluded that all leases, with the exception of three ground leases, were assets of low value and therefore had no impact upon adoption. The implementation of IFRS 16 resulted in a right-of-use asset and lease liability being recorded in the amount of $7.1 million (current balance sheet amount is $8.9 million). Refer to Note 12 to the consolidated financial statements for additional information.

In accordance with IFRS 16, at the commencement date of any new leases, Killam will recognize a liability to reflect the present value of the lease obligations and an asset representing the right to use the underlying asset during the lease term. Land leases meet the definition of investment property under IAS 40, Investment Property; therefore, the fair value model is applied to these assets. Interest expense on the lease liability and the fair value gain or loss on the right-of-use asset is recognized separately on the consolidated statements of income and comprehensive income.

2. Significant Accounting Policies (continued)

Killam measures lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Killam uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for lease payments made. The carrying amount of lease liabilities are remeasured if there are modifications, a change in the lease terms, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment ("IFRIC 23")*
In June 2017, the IASB issued IFRIC 23, which addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, Income Taxes ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments collectively;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The IFRIC interpretation did not have a material impact on Killam's consolidated financial statements.

3. Critical Accounting Judgments, Estimates and Assumptions

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

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

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

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

(iii) Financial instruments
The Trust's accounting policies relating to financial instruments are described in note 2(M). Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9 and IAS 32 to determine the appropriate recognition model, i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

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

(v) Revenue Recognition
The Trust applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Trust concluded that revenue for property management and ancillary services is to be recognized over time because the tenant simultaneously receives and consumes the benefits provided by the Trust. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is identified as containing more than one performance obligation, the Trust allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

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

(i) Valuation of investment properties
The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 5. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and stabilized net operating income used in the overall capitalization rate valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 5 for sensitivity analysis.

IPUC and land held for development are also valued at fair value, except if such values cannot be reliably determined. In the case when fair value cannot be reliably determined, such property is recorded at cost.

(ii) Deferred unit-based compensation
The compensation costs relating to deferred unit-based compensation are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised, as well as valuation models, which by their nature are subject to measurement uncertainty.

(iii) Deferred taxes
The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 23.

4. Future Accounting Policy Changes

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

Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material
In October 2018, the IASB issued amendments to IAS 8 to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

The amendment is effective for annual reporting periods beginning on or after January 1, 2020. Killam will apply the amendment from its effective date and does not expect a significant impact on its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements, Amendments to classification of liabilities as current or non-current
In January 2020, the IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify the definition of a right to defer settlement and specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. Killam is in the process of assessing the impact the amendments may have on future financial statements and plans to adopt the new standard retrospectively on the required effective date.

Dollar amounts in thousands of Canadian dollars (except as noted)

5. Investment Properties

As at December 31, 2019

Segment	**Apartments**	**MHCs**	**Commercial**	**IPUC**	**Land for Development**	**Total**
Balance, January 1, 2019	**$2,425,158**	**$153,509**	**$122,835**	**$37,163**	**$61,028**	**$2,799,693**
Impact of change in accounting policy [1]	**7,115**	**—**	**—**	**—**	**—**	**7,115**
Restated balance, beginning of year	**2,432,273**	**153,509**	**122,835**	**37,163**	**61,028**	**2,806,808**
Fair value adjustment on investment properties	**208,624**	**38,540**	**(1,549)**	**774**	**(1,663)**	**244,726**
Acquisitions	**149,654**	**3,985**	**32,124**	**—**	**6,200**	**191,963**
Transfer from IPUC	**36,215**	**—**	**—**	**(36,215)**	**—**	**—**
Capital expenditures	**62,317**	**5,016**	**4,162**	**29,341**	**5,700**	**106,536**
Transfer from land for development	**—**	**—**	**—**	**15,050**	**(15,050)**	**—**
Transfer to held for sale	**(15,099)**	**—**	**—**	**—**	**(18,401)**	**(33,500)**
Impact of change in right-of-use asset	**423**	**1,381**	**—**	**—**	**—**	**1,804**
Interest capitalized on IPUC and land for development	**—**	**—**	**—**	**754**	**1,513**	**2,267**
Balance, end of year	**$2,874,407**	**$202,431**	**$157,572**	**$46,867**	**$39,327**	**$3,320,604**

As at December 31, 2018

Segment	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, beginning of year	$1,995,144	$139,783	$36,445	$80,226	$28,165	$2,279,763
Fair value adjustment on investment properties	118,601	5,271	7,301	4,919	1,800	137,892
Acquisitions	167,218	4,789	76,179	—	28,347	276,533
Dispositions	—	—	—	—	(1,460)	(1,460)
Transfer from IPUC	104,283	—	—	(104,283)	—	—
Transfer from land for development	—	—	—	1,273	(1,273)	—
Capital expenditures	39,912	3,666	2,910	53,336	3,972	103,796
Interest capitalized on IPUC and land for development	—	—	—	1,692	1,477	3,169
Balance, end of year	$2,425,158	$153,509	$122,835	$37,163	$61,028	$2,799,693

[1] Refer to note 12- Lease Liabilities

Dollar amounts in thousands of Canadian dollars (except as noted)

5. Investment Properties (continued)

During the year ended December 31, 2019, Killam acquired the following properties:

					Purchase Price [1]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Income-producing Properties**	**Land for Development**
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	**$—**	**$1,500**
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	**8,100**	**—**
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	**23,750**	**—**
Grid 5 [2]	Calgary, AB	14-Jun-19	100%	Apartment	**42,700**	**—**
Silver Spear [2]	Mississauga, ON	14-Jun-19	100%	Apartment & development land	**27,200**	**3,600**
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	**—**	**150**
Dieppe Village [3]	Moncton, NB	27-Jun-19	100%	Apartment & retail	**28,000**	**900**
150 Lian	Fredericton, NB	20-Aug-19	100%	Apartment	**9,250**	**—**
690 University Ave	Charlottetown, PE	15-Oct-19	50%	Retail	**1,150**	**—**
Oceanic	Shediac, NB	1-Nov-19	100%	Seasonal campground	**3,800**	**—**
125 & 145 Canaan	Moncton, NB	22-Nov-19	100%	Apartment	**9,520**	**—**
The Link	Edmonton, AB	25-Nov-19	100%	Apartment	**31,500**	**—**
Total Acquisitions					**184,970**	**6,150**

[1] Purchase price does not include transaction costs.
[2] Killam acquired a 50% interest in each property and now holds 100% ownership.
[3] Dieppe Village includes 127 apartment units ($21.4M) and 45,500 square feet of commercial space ($6.6M).

During the year ended December 31, 2019, Killam capitalized salaries of $3.8 million (December 31, 2018 - $3.1 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2019, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.94% (December 31, 2018 - 2.91%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $3.1 billion as at December 31, 2019 (December 31, 2018 - $2.8 billion) have been pledged as collateral against Killam's mortgages, construction loans and credit facilities.

Valuation methodology

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

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. See note 26 for further details.

5. Investment Properties (continued)

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.

Valuation processes

Internal valuations
Killam measures the vast majority of its investment properties using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of Killam’s management. The internal valuation team's processes and results are reviewed and approved by senior management of Killam, including the President & Chief Executive Officer; Chief Financial Officer; and other executive members, in line with Killam's quarterly reporting dates.

External valuations
Depending on the property asset type and location, management may at times use external valuations to support its fair value, obtaining valuations from independent third-party firms that employ experienced valuation professionals. During the year, Killam obtained a total of 22 external property appraisals, which supported an IFRS fair value of approximately $379.6 million or 12% of Killam's investment property portfolio as at December 31, 2019. The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuator.

Valuation techniques underlying Management’s estimation of fair value

Income properties
The apartment and MHC investment properties were valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income (“SNOI”) of each property is divided by a capitalization rate. The significant unobservable inputs include the following:

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing leases, other contracts or external evidence such as current market rents for similar properties. Budgeted rents and expenses are adjusted to incorporate allowances for vacancy rates, management fees, expected post sale property taxes and market-based maintenance and salary costs. The resulting capitalized value is then adjusted for other costs inherent in achieving and maintaining SNOI, including structural reserves for capital expenditures.

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

IPUC and land for development
Management uses an internal valuation process to estimate the fair value of properties under development and land for development. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma NOI, stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on the following:

- Pro forma SNOI is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties. Vacancy rates are based on expected future market conditions, and estimated maintenance costs are based on management's experience and knowledge of the market conditions.

- Costs to complete are derived from internal budgets based on management's experience and knowledge of the market conditions.

- Capitalization rate is risk-adjusted taking into consideration the inherent risk of the development project 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 as noted)

5. Investment Properties (continued)

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to Killam's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.5% to 8.00%, applied to a SNOI of $137.0 million (December 31, 2018 - 3.75% to 8.00% and $126.0 million), resulting in an overall weighted average cap-rate of 4.76% (December 31, 2018 - 5.15%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 93.5% to 99.0% (December 31, 2018 - 94.0% to 99.0%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.0% to 6.5%, applied to a SNOI of $10.0 million (December 31, 2018 - 5.75% to 8.00% and $10.0 million), resulting in an overall weighted average cap-rate of 5.65% (December 31, 2018 - 6.76%). The stabilized occupancy rate used in the calculation of SNOI was 97.8% (December 31, 2018 - 97.8%).

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, 2019			December 31, 2018		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**4.76%**	3.75%	8.00%	5.15%
Halifax	3.75%	5.60%	4.49%	4.50%	6.00%	5.22%
Moncton	4.99%	7.00%	5.54%	5.15%	7.00%	5.73%
Fredericton	5.00%	6.00%	5.72%	5.00%	6.00%	5.73%
Saint John	5.75%	6.25%	6.04%	5.75%	6.25%	6.04%
St. John's	5.00%	6.00%	5.63%	5.00%	6.00%	5.62%
Charlottetown	5.28%	6.00%	5.77%	5.28%	6.00%	5.74%
Ontario	3.50%	5.08%	4.06%	3.75%	5.08%	4.33%
Alberta	4.47%	5.00%	4.69%	4.50%	5.00%	4.72%
Other Atlantic	5.75%	8.00%	6.65%	5.75%	8.00%	6.67%
MHCs	**5.00%**	**6.50%**	**5.65%**	5.75%	8.00%	6.76%
Ontario	5.00%	6.50%	5.96%	6.50%	8.00%	7.35%
Nova Scotia	5.00%	6.00%	5.30%	5.75%	7.00%	6.21%
New Brunswick	5.80%	6.50%	6.06%	7.50%	7.50%	7.50%
Newfoundland	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%

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 ("bps") increase	*10 basis points ("bps") decrease*
Apartments	($59,153)	$61,692
MHCs	($3,445)	$3,569

Dollar amounts in thousands of Canadian dollars (except as noted)

6. Assets Held for Sale

Killam determined that a parcel of land for development located in Calgary, AB, met the criteria for classification as assets held for sale as at December 31, 2019. The property has a carrying value of $14.2 million (Killam's 40% interest).

7. Joint Operations and Investments in Joint Ventures

Killam has interests in three properties (seven buildings), two development projects and land for future development that are subject to joint control and are joint operations. Accordingly, the consolidated statements of financial position and consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at December 31, 2019, the fair value of the investment properties subject to joint control was $261.2 million (December 31, 2018 - $286.8 million).

8. Property and Equipment

As at		**December 31, 2019**		December 31, 2018
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$—**	$270	$—
Building	**2,119**	**480**	1,922	383
Heavy equipment	**342**	**138**	276	124
Vehicles	**2,540**	**931**	2,156	784
Furniture, fixtures and office equipment	**6,594**	**5,504**	6,320	5,204
Leasehold improvements	**2,818**	**517**	1,613	403
	14,683	**7,570**	12,557	6,898
Less accumulated depreciation	**(7,570)**		(6,898)	
	$7,113		$5,659	

9. Other Current Assets

As at	**December 31, 2019**	December 31, 2018
Restricted cash	**$6,594**	$6,828
Deposits	**4,433**	577
Prepaid expenses	**5,060**	4,029
Inventory	**12**	276
	$16,099	$11,710

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

Dollar amounts in thousands of Canadian dollars (except as noted)

10. Rent and Other Receivables

As at	**December 31, 2019**	December 31, 2018
Rent receivable	**$1,311**	$996
Other receivables	**7,714**	2,029
	$9,025	$3,025

Included in other receivables are laundry revenue, insurance receivables 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 0.3% of revenue. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

11. Mortgages and Loans Payable

As at	**December 31, 2019**		December 31, 2018	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.90%**	**$1,427,470**	2.95%	$1,275,990
Variable rate	**4.63%**	**10,800**	5.42%	16,486
Total		**$1,438,270**		$1,292,476
Current		**276,568**		232,394
Non-current		**1,161,702**		1,060,082
		$1,438,270		$1,292,476

Mortgages are collateralized by a first charge on the properties of Killam.

As at December 31, 2019, unamortized deferred financing costs of $32.2 million (December 31, 2018 - $30.1 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.01 million (December 31, 2018 - $0.4 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending December 31 are as follows:

	Principal Amount	**% of Total Principal**
2020	$276,568	18.8%
2021	173,589	11.8%
2022	149,355	10.2%
2023	212,901	14.5%
2024	238,491	16.2%
Subsequent to 2024	419,529	28.5%
	$1,470,433	100.0%
Unamortized deferred financing costs	($32,170)	
Unamortized mark-to-market adjustments	$7	
	$1,438,270	

Dollar amounts in thousands of Canadian dollars (except as noted)

12. Lease Liabilities

In accordance with the adoption of IFRS 16, right-of-use assets and lease liabilities of $7.1 million were recognized as at January 1, 2019. The lease liabilities were discounted at the incremental borrowing rate as at January 1, 2019. The weighted average discount rate was 4.04%. Killam transitioned to IFRS 16 in accordance with the modified retrospective approach, and as such prior year figures were not adjusted. On November 1, 2019, Killam acquired a property with an existing land lease in place. Killam recognized an addition to the right-of-use assets and lease liabilities of $1.7 million during the year. The addition was discounted at the incremental borrowing rate as at November 1, 2019.

As at December 31, 2019, the right-of-use assets and lease liabilities are $8.9 million. The right-of-use assets are classified as part of investment properties and the lease liabilities are classified in lease liabilities on the consolidated statement of financial position. The total lease payments for the year ended December 31, 2019, were $0.1 million.

Gross lease liabilities at January 1, 2019	**$18,374**
Discounting	**(11,259)**
Lease liabilities at January 1, 2019	**7,115**
Additions	**1,677**
Net change in existing lease liabilities	**127**
Lease liabilities as at December 31, 2019	**$8,919**

13. Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $5.0 million (December 31, 2018 - $70.0 million and $5.0 million) that can be used for acquisition and general business purposes.

The $70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a $30.0 million demand revolver and a $40.0 million committed revolver as well as an accordion option to increase the $70.0 million facility by an additional $20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2019, Killam had assets with a carrying value of $84.1 million pledged as first mortgage ranking and $353.2 million pledged as second mortgage ranking to the line. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

The $5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2019, Killam had assets with a carrying value of $2.2 million pledged as collateral (December 31, 2018 - $2.1 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2019.

As at December 31, 2019	**Maximum Loan Amount** [(1)]	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million demand facility	**$90,000**	**$—**	**$—**	**$90,000**
$5.0 million demand facility	**5,000**	**—**	**1,282**	**3,718**
Total	**$95,000**	**$—**	**$1,282**	**$93,718**

As at December 31, 2018	Maximum Loan Amount [(1)]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	$53,350	—	$36,650
$5.0 million demand facility	5,000	—	958	4,042
Total	$95,000	$53,350	$958	$40,692

[(1)] Maximum loan includes a $20.0 million accordion option, for which collateral is pledged.

Dollar amounts in thousands of Canadian dollars (except as noted)

14. Construction Loans

As at December 31, 2019, Killam had access to two floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $43.5 million. Payments are made monthly on an interest-only basis. The construction loans have an interest rate of 125–201 bps above BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets with a carrying value of $62.6 million are pledged as collateral against these loans.

As at December 31, 2019, $24.9 million was drawn on the two construction loans (December 31, 2018 - $60.5 million). The weighted-average interest rate is 3.32% (December 31, 2018 - 4.28%).

15. Accounts Payable and Accrued Liabilities

As at	**December 31, 2019**	December 31, 2018
Accounts payable and other accrued liabilities	**$28,960**	$27,991
Distributions payable [1]	**5,668**	4,627
Mortgage interest payable	**3,202**	2,852
Security deposits	**8,784**	8,188
	$46,614	$43,658

[1] Includes distributions on exchangeable units.

16. Exchangeable Units

	2019		**2018**	
	Number of Exchangeable Units	**Value**	**Number of Exchangeable Units**	**Value**
Balance, beginning of year	**4,153,520**	**$66,207**	3,863,336	54,937
Issuance of units for acquisitions	**—**	**—**	360,434	5,951
Exchangeable Units exchanged	**—**	**—**	(70,250)	(1,054)
Fair value adjustment	**—**	**12,461**	—	6,373
Balance, end of year	**4,153,520**	**$78,668**	4,153,520	$66,207

The Exchangeable Units are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the Units been exchanged for Killam Trust Units.

17. Unitholders' Equity

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

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

Dollar amounts in thousands of Canadian dollars (except as noted)

17. Unitholders' Equity (continued)

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2019, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	Value
Balance, December 31, 2018	86,058,671	$798,473
Distribution reinvestment plan	931,832	17,651
Restricted Trust Units redeemed	74,241	1,298
Units issued for cash	10,798,500	191,744
Balance, December 31, 2019	**97,863,244**	**$1,009,166**

Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (March 6, 2019)	$17.10	$75,069	$3,356	$71,713	4,390,000
Over-allotment (March 6, 2019)	$17.10	11,260	503	10,757	658,500
Bought-deal (November 4, 2019)	$19.90	100,495	4,524	95,971	5,050,000
Over-allotment (November 14, 2019)	$19.90	13,930	627	13,303	700,000
Total		$200,754	$9,010	$191,744	10,798,500

Distribution Reinvestment Plan ("DRIP")

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

18. Distributions

Killam paid distributions to its unitholders during 2019 in accordance with its DOT. Distributions declared by the Board of Trustees were paid monthly, on or about the 15th day of each month.

For the year ended December 31, 2019, the distributions declared related to the Trust Units were $60.8 million (year ended December 31, 2018 - $53.6 million). For the year ended December 31, 2019, distributions declared related to the Exchangeable Units were $2.7 million (year ended December 31, 2018 - $2.5 million). The distributions on the Exchangeable Units are recorded in financing costs.

Dollar amounts in thousands of Canadian dollars (except as noted)

19. Deferred Unit-based Compensation

Restricted Trust Units ("RTUs") are awarded to members of the senior executive team and director-level employees as a percentage of their compensation. The Trust also grants RTUs subject to performance conditions under the RTU Plan for certain senior executives. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs.

The number of RTUs awarded are based on the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is awarded. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions translate into additional RTUs. The initial RTUs, and RTUs acquired through distribution reinvestment, are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. For employees, the RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. Effective Q3-2017, RTUs issued to Trustees will be redeemed and paid, in the issuance of Trust Units, upon retirement from the Board.

The RTUs subject to performance conditions will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period. Killam accounts for the RTUs subject to performance conditions under the fair value method of accounting, and uses the Monte-Carlo simulation pricing model to determine the fair value, which allows for the incorporation of the market-based performance hurdles that must be met before the RTUs subject to performance conditions vest.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs as at December 31, 2019, is $5.4 million, which includes $1.4 million related to RTUs subject to performance conditions (December 31, 2018 - $5.4 million and $0.5 million). For the year ended December 31, 2019, compensation expense of $1.9 million (year ended December 31, 2018 - $1.5 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

	2019		2018	
For the years ended December 31,	**Number of RTUs**	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of year	**403,730**	**$13.12**	432,688	$12.09
Granted	**98,928**	**17.44**	127,452	13.18
Redeemed	**(151,222)**	**12.64**	(174,467)	10.81
Forfeited	**(1,529)**	**12.83**	(2,380)	12.83
Additional Restricted Trust Unit distributions	**14,968**	**18.88**	20,437	14.91
Outstanding, end of year	**364,875**	**$14.73**	403,730	$13.12

20. Revenue

In accordance with IFRS 15, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

	For the years ended December 31,	
	2019	2018
Rental revenue	**$174,059**	$155,491
Property expense recoveries	**58,020**	51,830
Ancillary revenue	**9,670**	8,638
	$241,749	$215,959

Dollar amounts in thousands of Canadian dollars (except as noted)

21. Other Income

	For the years ended December 31,	
	2019	2018
Insurance claim recovery	**$4,966**	$—
Management fee revenue	**756**	651
Interest revenue	**175**	309
Home sale revenue	**105**	5
	$6,002	$965

Insurance claim recovery represents proceeds realized on an insurance settlement from Killam's insurance providers relating to one building, consisting of 29 apartment units located in Charlottetown, PEI, that was lost by fire earlier in 2019. Killam is currently in the process of redeveloping a 38 unit property at the site.

22. Financing Costs

	For the years ended December 31,	
	2019	2018
Mortgage, loan and construction loan interest	**$41,954**	$37,674
Interest on credit facilities	**1,266**	1,075
Interest on Exchangeable Units	**2,727**	2,453
Amortization of deferred financing costs	**3,093**	4,354
Unrealized loss on derivative asset	**235**	129
Amortization of loss on interest rate hedge	**—**	37
Amortization of fair value adjustments on assumed debt	**137**	95
Interest on lease liabilities	**298**	—
Capitalized interest	**(2,267)**	(3,169)
	$47,443	$42,648

Dollar amounts in thousands of Canadian dollars (except as noted)

23. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2018, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2019, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the year ended December 31, 2019, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

As at December 31,	2018	Recognized in consolidated statement of income and comprehensive income	**2019**
Deferred tax liabilities (assets) related to:			
Real estate properties	$134,662	$45,893	**$180,555**
Loss carryforwards	(6,412)	(6,407)	**(12,819)**
Unrealized capital gains	3,363	513	**3,876**
Other	3,071	365	**3,436**
Net deferred tax liabilities	$134,684	$40,364	**$175,048**

As at December 31,	2017	Recognized in consolidated statement of income and comprehensive income	2018
Deferred tax liabilities (assets) related to:			
Real estate properties	$101,736	$32,926	$134,662
Loss carryforwards	(3,187)	(3,225)	(6,412)
Unrealized capital gains	2,419	944	3,363
Other	2,238	833	3,071
Net deferred tax liabilities	$103,206	$31,478	$134,684

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

For the years ended December 31,	**2019**	2018
Income before income taxes	**$324,161**	$206,649
Statutory tax rate	**29.5%**	29.6%
Income tax expense at statutory rates	**95,692**	61,147
Amounts not subject to tax	**(93,292)**	(58,730)
Income taxed at a lower amount	**(3,876)**	(3,478)
Effect of provincial tax rate changes	**(1,047)**	(17)
Other	**(68)**	(624)
Change to tax basis in excess of book basis	**43,227**	33,180
Total tax expense	**$40,636**	$31,478

Dollar amounts in thousands of Canadian dollars (except as noted)

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

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

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

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 to the consolidated financial statements for the year ended December 31, 2019. Reportable segment performance is analyzed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

Year ended December 31, 2019	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$211,143**	**$16,806**	**$13,800**	**$241,749**
Property operating expenses	**(76,405)**	**(6,342)**	**(6,666)**	**(89,413)**
Net operating income	**$134,738**	**$10,464**	**$7,134**	**$152,336**

Year ended December 31, 2018	Apartments	MHCs	Other	Total
Property revenue	$190,048	$15,850	$10,061	$215,959
Property operating expenses	(69,377)	(6,095)	(4,775)	(80,247)
Net operating income	$120,671	$9,755	$5,286	$135,712

As at December 31, 2019	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	**$2,987,201**	**$234,366**	**$158,533**	**$3,380,100**
Total liabilities	**$1,551,097**	**$100,658**	**$125,978**	**$1,777,733**

As at December 31, 2018	Apartments	MHCs	Other	Total
Total assets	$2,492,830	$177,795	$153,781	$2,824,406
Total liabilities	$1,448,761	$92,184	$114,511	$1,655,456

Dollar amounts in thousands of Canadian dollars (except as noted)

25. Supplemental Cash Flow Information

	Years ended December 31, 2019	2018
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$41,979**	$38,351
Interest paid on credit facilities	**1,266**	1,075
	$43,245	$39,426
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**($5,999)**	($670)
Other current assets	**(5,294)**	(1,326)
Accounts payable and other liabilities	**2,855**	3,303
	($8,438)	$1,307

26. Financial Instruments and Financial Risk Management Objectives and Policies

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

Fair Value of Financial Instruments

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

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

(ii) the fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values;

(iii) the fair value of the derivative asset is calculated based on an estimate of the mid-market arbitrage-free price of the swap. The arbitrage-free price comprises the present value of the future rights and obligations between two parties to receive or deliver future cash flows or exchange other assets or liabilities. Future obligations are valued as the sum of the present values as of the valuation date of contractually fixed future amounts and expected variable future amounts, the expected size of which is calculated from the projected levels of underlying variables. Future rights are valued as the sum of the present values of the expected values of contingent future amounts, the existence and size of which are calculated from the projected levels of underlying variables.

Dollar amounts in thousands of Canadian dollars (except as noted)

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

The significant financial instruments and their carrying values as at December 31, 2019, and December 31, 2018, are as follows:

As at	**December 31, 2019**		December 31, 2018	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset [1]	**$295**	**$295**	$530	$530
Financial liabilities carried at amortized cost:				
Mortgages and loans payable	**$1,438,270**	**$1,478,413**	$1,292,476	$1,319,513
Financial liabilities carried at FVTPL:				
Exchangeable Units	**$78,668**	**$78,668**	$66,207	$66,207
Deferred unit-based compensation	**$5,363**	**$5,363**	$4,579	$4,579

[1] The $0.3 million derivative asset is included in other non-current assets within the consolidated statements of financial position.

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

As at	**December 31, 2019**	December 31, 2018
Mortgages - Apartments	**2.59%**	2.88%
Mortgages - MHCs	**3.84%**	4.68%

Assets and Liabilities Measured at Fair Value

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.

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

As at	**December 31, 2019**			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$3,320,604**	—	—	$2,799,693
Derivative asset	—	**$295**	—	—	$530	—
Liabilities						
Exchangeable Units	—	**$78,668**	—	—	$66,207	—
Deferred unit-based compensation	—	**$3,987**	**$1,376**	—	$3,944	$635

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the year ended December 31, 2019.

Dollar amounts in thousands of Canadian dollars (except as noted)

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

Risk Management

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

(i) Interest Rate Risk

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

As at December 31, 2019, $35.7 million of Killam's debt had variable interest rates, including two construction loans for $24.9 million, and two demand loans totaling $10.8 million. These loans and facilities have interest rates of prime plus 0.55% - 1.00% or 125-201 bps above BAs (December 31, 2018 - prime plus 0.63% - 2.0% or 125 bps above BAs) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage debt, which matures in the next 12 months, totals $223.1 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $2.2 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 for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.3% of revenue. None of Killam's tenants account for more than 4% of the tenant receivables as at December 31, 2019 or 2018. 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 financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for Canadian Mortgage and Housing Corporation ("CMHC") insured debt, reducing the refinancing risk upon mortgage maturities.

Killam's MHCs do not qualify for CMHC insured debt; however, MHCs have access to conventional mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the year ended December 31, 2019, Killam refinanced $154.1 million of maturing apartment mortgages with new mortgages totaling $218.6 million, generating net proceeds of $64.5 million. In addition, during the year ended December 31, 2019, Killam refinanced $9.4 million of maturing MHC mortgages with new mortgages totaling $13.8 million, generating net proceeds of $4.4 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Total
2020	$276,568	$23,120	$299,688
2021	173,589	—	173,589
2022	149,355	1,731	151,086
2023	212,901	—	212,901
2024	238,491	—	238,491
Thereafter	419,529	—	419,529
	$1,470,433	$24,851	$1,495,284

Dollar amounts in thousands of Canadian dollars (except as noted)

27. Capital Management

Capital Management

The primary objective of Killam’s capital management is to ensure a healthy capital structure to support the business and maximize unitholder value. Killam manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Killam may adjust the distribution payment to unitholders, issue additional Units, issue debt securities or adjust mortgage financing on properties.

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

As at	**December 31, 2019**	December 31, 2018
Mortgages and loans payable	**$1,438,270**	$1,292,476
Credit facilities	**—**	53,350
Construction loans	**24,851**	60,502
Total interest bearing debt	**$1,463,121**	$1,406,328
Total assets [1]	**$3,371,477**	$2,824,406
Total debt as a percentage of total assets	**43.4%**	49.8%

[1] Excludes right-of-use asset of $8.9M as at December 31, 2019.

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, 2019, would increase the debt as a percentage of assets by 80 bps.

28. Commitments and Contingencies

Killam has entered into commitments for development costs of $52.0 million as at December 31, 2019 (December 31, 2018 - $7.7 million).

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

Killam owns a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta. At the completion of construction of the first phase and the achievement of certain conditions of Phase 1, Killam has a $55.0 million commitment in place to purchase three, four-storey apartment buildings, containing 233 residential units.

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

Area	**Utility**	**Usage Coverage**	**Term**	**Cost**
Alberta	Hydro	50%	January 1, 2020- December 31, 2020	$58.39/MWh

29. Financial Guarantees

Killam is the guarantor on a joint and several basis for certain mortgage debt held through its joint operations. As at December 31, 2019, the maximum potential obligation resulting from these guarantees is $85.1 million, related to long term mortgage financing (December 31, 2018 - $128.5 million). During 2019, Killam acquired its partners' interest in two of the previous joint operation properties. The loans held through its joint operations are secured by a first ranking mortgage over the associated investment properties. Killam's portion of the total mortgages for these properties are recorded as a mortgage liability on the consolidated statements of financial position.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2019, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2018 - $nil).

Dollar amounts in thousands of Canadian dollars (except as noted)

30. Related Party Transactions

Killam has construction management and development agreements with APM Construction ("APM") and MacLean Contracting Ltd. ("MacLean"), companies owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development and reconstruction of the Harley Street apartment building in PEI. APM will be paid a market rate development and construction management fee. For the year ended December 31, 2019, APM and MacLean were paid $2.4 million in development and construction management fees and construction labour (December 31, 2018 - $0.3 million).

Killam owns a 50% interest in two commercial properties located at 3700 & 3770 Kempt Road in Halifax, NS, the remaining 50% interest in these properties is owned by Bloomfield Holdings Ltd. ("Bloomfield"), a company owned by an executive and Trustee of Killam. These properties are managed by an arm's length third party. Killam's head office occupies approximately 23,000 square feet of one of the buildings with base rent of approximately $13.00 per square foot, of which 50% is paid to the related party based on the ownership interest.

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

For the years ended December 31,	**2019**	2018
Salaries, board compensation and incentives	**$3,928**	$4,079
Deferred unit-based compensation	**1,822**	1,455
Total	**$5,750**	$5,534

31. Subsequent Events

On January 15, 2020, Killam announced a distribution of $0.055 per unit, payable on February 17, 2020, to unitholders of record on January 31, 2020.

On January 15, 2020, Killam acquired a 161-unit apartment building in Greater Victoria, BC, for $54.0 million. The acquisition was funded with cash and Killam's credit facility.

On January 31, 2020, Killam acquired a 54-unit apartment building in Halifax, NS, for $8.8 million. The acquisition was funded with cash and the assumption of $3.5 million of debt.

On February 12, 2020, the Board of Trustees approved a 3.0% increase to Killam's annual distribution, to $0.68 per unit from $0.66 per unit. The monthly distribution will be $0.05667 per unit, up from $0.055 per unit. The increase will become effective for the March 2020 distribution to be paid in April 2020.