Killam APARTMENT REIT

Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

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, 2021, 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 16, 2022

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, 2021 and 2020 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, 2021 and 2020, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. The matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on the matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to the matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
The REIT's investment property portfolio is comprised primarily of multi-residential apartments, manufactured home communities and commercial income-producing properties and properties under construction with a fair value of $4.5B which represents 99% of total assets at December 31, 2021. The valuation methodology for these	With the assistance of our real estate valuation specialists, we evaluated the appropriateness of the underlying valuation methodology, and performed the following audit procedures, among others: • We assessed the competence and objectivity of management's valuation team, and any third-

Key audit matter	How our audit addressed the key audit matter
investment properties is primarily based on an income approach using the direct capitalization method and the discounted cash flow method. Note 2[g] of the consolidated financial statements describes the accounting policy for investment properties. Note 5 describes the valuation method and valuation inputs and discloses the sensitivity of the fair value of investment properties to a change in capitalization rates and stabilized net operating income. The valuation of the REIT's investment property portfolio is a key audit matter given the inherently subjective nature of significant assumptions including capitalization rates, discount rates, terminal capitalization rates, stabilized net operating income, and anticipated cash flow assumptions relating to occupancy and rental rates. These assumptions are influenced by property-specific characteristics including location, type and quality of the properties and tenancy agreements. For properties under development, depending on the complexity and stage of completion, costs to complete as well as leasing and construction risk are additional significant assumptions that impact the final valuation.	party appraisers engaged by the REIT, by reviewing the qualifications and expertise of the individuals involved in the preparation and review of the valuations and assessed the suitability of the valuation methodology utilized. • We selected a sample of properties, including those properties where either the fair value change or lack of change from prior year or significant assumptions fell outside our expectations, based on our understanding of the geographical real estate market for the specific asset type. For this sample of investment properties, we evaluated the significant assumptions by comparison to relevant transactions, the expected real estate market benchmark range for similar assets and tenancies, in similar locations, and the actual and budgeted financial performance of the underlying properties. • We also considered whether there were any additional asset-specific characteristics that may impact the significant assumptions utilized and that these were appropriately considered in the overall assessment of fair value. • For properties under construction, in addition to the procedures performed above, for a sample of properties, we compared construction budgets to actual expenditures and evaluated estimated costs to complete by comparing to contractual arrangements or reference to third party data, as applicable. We also evaluated whether the capitalization rate used to value properties under construction considered the complexity of the development and stage of completion. We compared land held for development fair values to available comparable market transactions. • We evaluated the REIT's critical accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRS.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP
Chartered Professional Accountants

Halifax, Canada
February 16, 2022

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

	Note	December 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Investment properties	[5]	**$4,540,877**	$3,741,918
Property and equipment	[7]	**7,931**	8,349
Other non-current assets	[8]	**4,375**	—
		$4,553,183	$3,750,267
Current assets			
Cash		**$435**	$2,556
Rent and other receivables	[9]	**7,768**	6,561
Other current assets	[8]	**17,121**	17,176
		25,324	26,293
TOTAL ASSETS		**$4,578,507**	$3,776,560
EQUITY AND LIABILITIES			
Unitholders' equity	[16]	**$2,111,327**	$1,768,129
Non-controlling interest		**142**	129
Total Equity		**$2,111,469**	$1,768,258
Non-current liabilities			
Mortgages and loans payable	[10]	**$1,678,391**	$1,430,344
Lease liabilities	[11]	**9,604**	9,573
Exchangeable Units	[15]	**94,461**	70,177
Deferred income tax	[22]	**227,004**	184,611
Deferred unit-based compensation	[18]	**6,376**	4,784
Other non-current liabilities		**20**	188
		$2,015,856	$1,699,677
Current liabilities			
Mortgages and loans payable	[10]	**$236,943**	$201,345
Credit facilities	[12]	**61,730**	7,029
Construction loans	[13]	**77,596**	41,345
Accounts payable and accrued liabilities	[14]	**74,913**	58,906
		451,182	308,625
Total Liabilities		**$2,467,038**	$2,008,302
TOTAL EQUITY AND LIABILITIES		**$4,578,507**	$3,776,560
Commitments and contingencies	[27]		
Financial guarantees	[28]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

Trustee Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	**2021**	2020
Property revenue	[19]	**$290,917**	$261,690
Property operating expenses			
Operating expenses		**(47,482)**	(42,418)
Utility and fuel expenses		**(24,683)**	(23,240)
Property taxes		**(35,517)**	(32,178)
		(107,682)	(97,836)
Net operating income		**$183,235**	$163,854
Other income	[20]	**1,059**	641
Financing costs	[21]	**(51,521)**	(48,919)
Depreciation		**(573)**	(630)
Administration		**(15,988)**	(13,936)
Fair value adjustment on unit-based compensation	[18]	**(1,869)**	59
Fair value adjustment on Exchangeable Units	[15]	**(26,107)**	7,676
Fair value adjustment on investment properties	[5]	**239,684**	46,885
Income before income taxes		**327,920**	155,630
Deferred tax expense	[22]	**(42,393)**	(9,590)
Net income		**$285,527**	$146,040
Comprehensive income		**$285,527**	$146,040
Net income attributable to:			
Unitholders		**285,514**	146,024
Non-controlling interest		**13**	16
		$285,527	$146,040
Comprehensive income attributable to:			
Unitholders		**285,514**	146,024
Non-controlling interest		**13**	16
		$285,527	$146,040

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,

Year ended December 31, 2021	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2021	$1,097,713	$795	$669,621	$129	$1,768,258
Units issued on exchange of Exchangeable Units	1,823	—	—	—	1,823
Distribution reinvestment plan	25,465	—	—	—	25,465
Deferred Unit-based compensation	945	—	—	—	945
Issued for cash	104,361	—	—	—	104,361
Net income	—	—	285,514	13	285,527
Distributions declared and paid	—	—	(68,406)	—	(68,406)
Distributions payable	—	—	(6,504)	—	(6,504)
As at December 31, 2021	$1,230,307	$795	$880,225	$142	$2,111,469

Year ended December 31, 2020	Trust Units	Contributed Surplus	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2020	$1,009,166	$795	$592,293	$113	$1,602,367
Units issued on exchange of Exchangeable Units	815	—	—	—	815
Distribution reinvestment plan	21,372	—	—	—	21,372
Deferred Unit-based compensation	578	—	—	—	578
Issued for cash	65,782	—	—	—	65,782
Net income	—	—	146,024	16	146,040
Distributions declared and paid	—	—	(62,793)	—	(62,793)
Distributions payable	—	—	(5,903)	—	(5,903)
At December 31, 2020	$1,097,713	$795	$669,621	$129	$1,768,258

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars,

		Year ended December 31,	
	Note	**2021**	2020
OPERATING ACTIVITIES			
Net income		**$285,527**	$146,040
Add (deduct) items not affecting cash			
Fair value adjustments		**(211,708)**	(54,620)
Depreciation		**573**	630
Amortization of deferred financing		**3,784**	3,126
Non-cash compensation expense		**2,078**	1,727
Deferred income taxes		**42,393**	9,563
Amortization of fair value adjustments on assumed mortgages		**65**	87
Loss on disposition		**—**	4
(Gain) loss on derivative liability		**(167)**	483
Interest expense on Exchangeable Units		**2,766**	2,784
Straight-line rent		**(306)**	(657)
Interest expense on lease liability		**386**	385
Net change in non-cash operating activities	[24]	**15,469**	13,962
Cash provided by operating activities		**$140,860**	$123,514
FINANCING ACTIVITIES			
Deferred financing costs paid		**(4,122)**	(7,647)
Net proceeds on issuance of Units		**104,361**	65,782
Cash paid on redemption of restricted Units		**(1,566)**	(1,672)
Cash paid on lease liabilities		**(318)**	(314)
Mortgage financing		**381,133**	433,501
Mortgages repaid		**(101,866)**	(187,568)
Mortgage principal repayments		**(62,246)**	(51,592)
Credit facility proceeds		**54,701**	7,029
Proceeds from construction loans		**54,140**	39,613
Construction loan repayments		**(17,889)**	(23,119)
Distributions paid to non-controlling interest		**—**	16
Distributions to Unitholders		**(51,455)**	(49,633)
Cash provided by financing activities		**$354,873**	$224,396
INVESTING ACTIVITIES			
Increase in restricted cash		**(637)**	(255)
Acquisition of investment properties, net of debt assumed		**(338,068)**	(206,274)
Advance on loan receivable		**(4,375)**	—
Development of investment properties		**(77,962)**	(81,975)
Capital expenditures		**(76,812)**	(69,651)
Cash used in investing activities		**($497,854)**	($358,155)
Net decrease in cash		**(2,121)**	(10,245)
Cash, beginning of year		**2,556**	12,801
Cash, end of year		**$435**	$2,556

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, 2021. 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") applicable to the preparation of consolidated annual financial statements. These policies have been consistently applied to all years presented, unless stated otherwise.

The consolidated financial statements of the Trust for the year ended December 31, 2021 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 16, 2022.

(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 liability 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 otherwise noted.

The consolidated financial statements have been prepared considering the impact that the spread of COVID-19 has and continues to have on local, national and worldwide economies. Measures taken to contain the spread of the virus have triggered significant disruptions to businesses worldwide, resulting in an economic uncertainty. Canadian and global stock markets have also experienced great volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. Killam has considered the negative economic outlook and cash flow difficulties that may be experienced as a result of this virus, on its tenants, suppliers and lenders. Killam has used the best information available as at December 31, 2021, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the year. Actual results could differ from those estimates. Killam considers the estimates that could be most significantly impacted by COVID-19 to include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable.

(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 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%
Killam Apartment Subsidiary II Limited Partnership	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 KamRes (Silver Spear) Inc.	100%
Killam KamRes (Grid 5) Inc.	100%
Blackshire Court Limited Partnership	97%
Christie Point Apt. Ltd.	100%
1140459 BC Ltd.	100%

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

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3, is an integrated set of activities and assets that must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. 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 the substance of the assets and activities 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.

2. Significant Accounting Policies (continued)

(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. The performance obligation for the property management and ancillary services is satisfied over time. The Trust applies the practical expedient in 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.

(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.

2. Significant Accounting Policies (continued)

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 to fair value at each consolidated statement of financial position date, 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.

(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. Upon designation as held for sale, the investment property continues to be measured at fair value and is presented separately in the consolidated statement of financial position.

(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.

2. Significant Accounting Policies (continued)

(K) Consolidated Statements of Cash Flows

Cash consists of cash on hand and bank account balances excluding cash on hand held for security deposits.

(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.

(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
Credit facility	Financial liabilities	Amortized cost
Exchangeable Units	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Derivative liabilities	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.

2. Significant Accounting Policies (continued)

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.

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, as they are considered to be puttable instruments under IAS 32, Financial Instruments: Presentation ("IAS 32"). Fair value 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 25 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

2. Significant Accounting Policies (continued)

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.

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) Borrowing Costs and Interest on Mortgages Payable
Financing costs include mortgage interest, which is expensed at the effective interest rate, and transaction costs incurred in connection with the revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate.

(P) 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.

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

2. Significant Accounting Policies (continued)

(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.

(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 does not report earnings per Unit calculations.

(U) Leases

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.

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.

2. Significant Accounting Policies (continued)

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.

(V) Reportable Operating Segments

Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. Killam has determined that its chief operating decision-maker is comprised of members of executive management.

3. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and determining whether an acquisition is a business combination or an asset acquisition. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

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.

(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.

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

(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.

(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, 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 22.

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, 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, 2023. 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, 2021

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2021	**$3,218,369**	**$212,699**	**$139,130**	**$128,100**	**$43,620**	**$3,741,918**
Fair value adjustment on investment properties	**210,829**	**12,844**	**2,937**	**11,097**	**—**	**237,707**
Acquisitions	**382,129**	**404**	**10,495**	**—**	**13,315**	**406,343**
Transfer from IPUC	**17,254**	**—**	**—**	**(17,254)**	**—**	**—**
Capital expenditures	**68,773**	**5,423**	**2,744**	**73,005**	**1,905**	**151,850**
Transfer from land for development	**—**	**—**	**—**	**4,132**	**(4,132)**	**—**
Interest capitalized on IPUC and land for development	**—**	**—**	**—**	**2,239**	**820**	**3,059**
Balance, December 31, 2021	**$3,897,354**	**$231,370**	**$155,306**	**$201,319**	**$55,528**	**$4,540,877**

As at December 31, 2020

	Apartments	MHCs	Commercial	IPUC	Land for Development	Total
Balance, January 1, 2020	$2,874,407	$202,431	$157,572	$46,867	$39,327	$3,320,604
Fair value adjustment on investment properties	53,765	1,820	(14,862)	10,184	(4,022)	46,885
Acquisitions	200,017	4,044	2,555	3,968	1,237	211,821
Transfer from IPUC	22,117	—	—	(22,117)	—	—
Capital expenditures	57,961	4,392	3,340	76,050	3,339	145,082
Transfer between apartment and commercial segment	9,475	—	(9,475)	—	—	—
Transfer from land for development	—	—	—	11,462	(11,462)	0
Transfer from held for sale	—	—	—	—	14,214	14,214
Impact of change in right-of-use asset	627	12	—	—	—	639
Interest capitalized on IPUC and land for development	—	—	—	$1,686	$987	$2,673
Balance, December 31, 2020	$3,218,369	$212,699	$139,130	$128,100	$43,620	$3,741,918

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

5. Investment Properties (continued)

During the year ended December 31, 2021, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest	Property Type	Units/ SF	Purchase Price [1]
Nolan Hill [2]	Calgary, AB	21-Jan-21	100%	Apartment	233	**$49,500**
Sherwood Crossing Land	Charlottetown, PE	29-Jan-21	100%	Development Land	—	**3,400**
1313-1321 Hollis Street [3]	Halifax, NS	29-Jan-21	100%	Development Land	—	**3,000**
54 Assomption Blvd	Moncton, NB	01-Feb-21	100%	Apartment	23	**5,600**
Southport [3]	Stratford, PE	01-Feb-21	100%	Development Land	—	**3,800**
5735 College Street	Halifax, NS	07-May-21	100%	Development Land	—	**1,300**
Charlottetown Mall [4]	Charlottetown, PE	01-Jun-21	25%	Commercial	95,750	**10,100**
38 Pasadena Crescent	St. John's, NL	08-Jun-21	100%	Apartment	40	**4,200**
KWC Portfolio [5]	Kitchener/Waterloo, ON	30-Jun-21	100%	Apartment	785	**190,500**
131 Queensway Drive [6]	Moncton, NB	15-Sept-21	100%	MHC Land	—	**385**
140 Dale Drive	Stratford, PE	06-Oct-21	100%	Apartment	61	**15,300**
Emma Place	Moncton, NB	18-Oct-21	100%	Apartment	118	**31,800**
Heritage Valley	Edmonton, AB	28-Oct-21	100%	Apartment	123	**28,900**
160 Dale Drive[3]	Stratford, PE	29-Oct-21	100%	Development Land	—	**1,500**
Nautical Suites	Edmonton, AB	9-Nov-21	100%	Apartment	180	**42,300**
1350 Hollis Street [3]	Halifax, NS	1-Dec-21	100%	Apartment	3	**1,300**
155 Kedgwick Drive	Moncton, NB	20-Dec-21	100%	Apartment	31	**$6,500**
Total Acquisitions						**$399,385**

[1] Purchase price does not include transaction costs.
[2] Killam had a 10% interest in the Nolan Hill development of $4.8 million and acquired the remaining 90% interest in January 2021, based on the purchase price of $55.0 million for a 100% interest.
[3] Properties with in-place income acquired for future development potential.
[4] Killam acquired an additional 25% interest in the property, with its ownership interest now totalling 75%.
[5] The portfolio of 785 units consists of 297 units located in Kitchener, ON, and 488 units in Waterloo, ON.
[6] Killam acquired a parcel of land adjacent an existing property.

During the year ended December 31, 2020, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest	Property Type	Purchase Price [1]
Christie Point	Victoria, BC	15-Jan-20	100%	Apartment	**$54,000**
9 Carrington	Halifax, NS	31-Jan-20	100%	Apartment	**8,800**
Domaine Parlee	Shediac, NB	23-Mar-20	100%	MHC	**3,950**
1325 Hollis	Halifax, NS	31-Mar-20	100%	Apartment	**3,700**
Crossing at Belmont	Langford, BC	30-Apr-20	100%	Apartment	**60,000**
3644 & 3670 Kempt Rd	Halifax, NS	15-Jul-20	100%	Commercial	**2,500**
Luma	Ottawa, ON	30-Jul-20	50%	Development Land	**4,300**
171 & 181 Leopold	Moncton, NB	26-Oct-20	100%	Apartment	**17,600**
1538 Carlton Street	Halifax, NS	30-Oct-20	100%	Development Land	**1,200**
88 Sunset	Moncton, NB	13-Nov-20	100%	Apartment	**55,000**
Total Acquisitions					**$211,050**

[1] Purchase price does not include transaction costs.

During the year ended December 31, 2021, Killam capitalized salaries of $4.3 million (year ended December 31, 2020 - $3.8 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2021, 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 2.52% (December 31, 2020 - 2.69%). 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 $4.3 billion as at December 31, 2021 (December 31, 2020 - $3.5 billion), have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

5. Investment Properties (continued)

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 fair value measurements. See note 25 for further details.

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 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. Killam obtained a total of 21 external property appraisals throughout the year. The internal valuation team also verifies all major inputs used by the external valuators in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuators.

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 SNOI, 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 current and 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.

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.

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

5. Investment Properties (continued)

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using capitalization rates ("cap-rates") in the range of 3.00% to 7.00%, applied to a stabilized net operating income ("SNOI") of $172.4 million (December 31, 2020 - 3.25% to 7.00% and $150.1 million), resulting in an overall weighted average effective cap-rate of 4.41% (December 31, 2020 - 4.67%). The stabilized occupancy rates used in the calculation of SNOI were in the range of 94.0% to 99.0% (December 31, 2020 - 92.5% 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 $12.5 million (December 31, 2020 - 5.0% to 6.5% and $11.3 million), resulting in an overall weighted average effective cap-rate of 5.59% (December 31, 2020 - 5.65%). The stabilized occupancy rate used in the calculation of SNOI was 97.8% (December 31, 2020 - 97.8%). Using a discounted cash flow model, the stabilized commercial properties were valued using key inputs determined by management based on review of asset performance and comparable assets in relevant markets. Using the discounted cash flow (DCF) method, fair value is estimated using assumptions regarding benefits and liabilities of ownership over the asset's life, including a terminal value. This method involves the projection of stabilized cash flows on each individual property, with market derived discount rates and terminal capitalization rates applied to the stabilized cash flow to establish the present value of the income stream associated with the asset. The weighted average discount rate applied in the period was 7.48%.

Killam reviewed its valuation of investment properties in light of COVID-19 as at December 31, 2021. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes on Killam's business and operations, both in the short-term and in the long-term. In the long-term scenario the aspects which could be impacted include rental rates, occupancy and cap-rates which would impact the underlying valuation of investment properties. Killam has applied judgement in estimating the valuation given the uncertainties surrounding the economic impact of COVID-19.

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, 2021			December 31, 2020		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.00%**	**7.00%**	**4.41%**	3.25%	7.00%	4.67%
Halifax	**3.75%**	**5.60%**	**4.37%**	3.75%	5.60%	4.50%
Moncton	**3.80%**	**7.00%**	**4.86%**	4.50%	7.00%	5.05%
Fredericton	**5.00%**	**5.25%**	**5.10%**	5.00%	6.00%	5.53%
Saint John	**5.25%**	**5.25%**	**5.25%**	5.50%	6.00%	5.79%
St. John's	**5.00%**	**6.00%**	**5.64%**	5.00%	6.00%	5.62%
Charlottetown	**4.42%**	**5.75%**	**5.39%**	5.25%	5.75%	5.50%
Ontario	**3.00%**	**4.87%**	**3.59%**	3.25%	5.00%	3.97%
British Columbia	**3.50%**	**3.50%**	**3.50%**	4.08%	4.35%	4.22%
Alberta	**4.47%**	**5.00%**	**4.65%**	4.47%	5.00%	4.64%
Other Atlantic	**5.50%**	**7.00%**	**6.39%**	5.50%	7.00%	6.38%
MHCs	**5.00%**	**6.50%**	**5.59%**	5.00%	6.50%	5.64%
Ontario	**5.00%**	**6.50%**	**5.86%**	5.00%	6.50%	5.95%
Nova Scotia	**5.00%**	**6.00%**	**5.27%**	5.00%	6.00%	5.30%
New Brunswick	**5.19%**	**6.50%**	**5.77%**	5.19%	6.50%	5.72%
Newfoundland	**6.00%**	**6.00%**	**6.00%**	6.00%	6.00%	6.00%

Fair Value Sensitivity

The following table summarizes the impact of changes in capitalization rates and stabilized NOI on the fair value of Killam's investment properties:

		Change in Stabilized NOI [1]				
		(2.00)%	**(1.00)%**	**— %**	**1.00%**	**2.00%**
Change in Capitalization Rate	**(0.50)%**	$437,724	$485,813	$533,902	$581,991	$630,081
	(0.25)%	160,655	205,917	251,178	296,440	341,702
	—%	(85,500)	(42,750)	—	42,750	85,500
	0.25%	(305,658)	(265,154)	(224,650)	(184,147)	(143,643)
	0.50%	(503,742)	(465,259)	(426,777)	(388,294)	(349,812)

[1] Includes Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method, and commercial assets valued using a discounted cash flow approach.

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

6. Joint Operations and Investments in Joint Venture

Killam has interests in four 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, 2021, the fair value of the investment properties subject to joint control was $371.5 million (December 31, 2020 - $316.0 million).

7. Property and Equipment

	December 31, 2021		**December 31, 2020**	
As at	**Cost**	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
Land	**$270**	**$—**	**$270**	**$—**
Building	**2,245**	**564**	**2,107**	**524**
Heavy equipment	**498**	**203**	**415**	**155**
Vehicles	**2,901**	**1,283**	**2,612**	**1,095**
Furniture, fixtures and office equipment	**6,836**	**5,887**	**6,710**	**5,726**
Leasehold improvements	**3,971**	**853**	**4,456**	**721**
	16,721	**8,790**	**16,570**	**8,221**
Less accumulated depreciation	**(8,790)**		**(8,221)**	
	$7,931		**$8,349**	

8. Other Current Assets and Non-Current Assets

Other Current Assets

As at	**December 31, 2021**	December 31, 2020
Restricted cash	**$7,486**	$6,849
Deposits	**1,575**	3,266
Prepaid expenses	**7,848**	7,052
Inventory	**212**	9
	$17,121	$17,176

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.

Other Non-Current Assets

On June 1, 2021, Killam provided a $4.4 million loan to its 25% joint owner of the Royalty Crossing The loan receivable bears interest at 6.5% to be paid monthly and full repayment of the loan is due within 36 months from the initial advance.

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

9. Rent and Other Receivables

As at	**December 31, 2021**	December 31, 2020
Rent receivable	**$809**	$790
Other receivables	**6,959**	5,771
	$7,768	$6,561

Included in other receivables are laundry revenue, insurance receivables and other non-rental income. The majority of rent receivable is less than 90 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 experience has historically been less than 0.3% of revenue.

10. Mortgages and Loans Payable

As at	**December 31, 2021**		December 31, 2020	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.58%**	**$1,907,064**	2.69%	$1,623,889
Variable rate	**2.37%**	**8,270**	1.98%	7,800
Total		**$1,915,334**		$1,631,689
Current		**236,943**		201,345
Non-current		**1,678,391**		1,430,344
		$1,915,334		$1,631,689

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

As at December 31, 2021, unamortized deferred financing costs of $37.0 million (December 31, 2020 - $36.7 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.8 million (December 31, 2020 - $0.08 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**
2022	236,943	12.1%
2023	329,091	16.8%
2024	337,872	17.4%
2025	352,522	18.0%
2026	218,936	11.2%
Subsequent to 2026	477,788	24.5%
	$1,953,152	100.0%
Unamortized deferred financing costs	($37,028)	
Unamortized mark-to-market adjustments	($790)	
	$1,915,334	

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

11. Lease Liabilities

	2021	2020
Balance, beginning of year	**$9,573**	**$8,919**
Net change in lease liabilities	**31**	**654**
Balance, end of year	**$9,604**	**$9,573**

As at December 31, 2021, the right-of-use assets and lease liabilities are $9.6 million (December 31, 2020 - $9.6 million). The right-of-use assets are classified as part of investment properties and the lease liabilities are classified in other liabilities on the consolidated statement of financial position. The total lease payments for the year ended December 31, 2021, were $0.4 million (December 31, 2020 - $0.3 million).

12. Credit Facilities

Killam has access to two credit facilities with credit limits of $155.0 million ($175.0 million with the accordion feature) and $15.0 million (December 31, 2020 - $110.0 million and $10.0 million) that can be used for acquisition and general business purposes. The $15.0 million facility was increased from $10.0 million during Q3-2021 and the $155.0 million facility was increased from $110.0 million during Q4-2021.

The $155.0 million facility bears interest at prime plus 55 bps on prime rate advances or 155 bps over bankers' acceptances (BAs). The facility includes a $30.0 million demand revolver and a $125.0 million committed revolver, as well as an accordion option to increase the $155.0 million facility by an additional $20.0 million. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2021. The facility was renewed on December 15, 2021.

The $15.0 million demand 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. The agreement includes certain covenants and undertakings with which Killam was in compliance as at December 31, 2021.

As at December 31, 2021	**Maximum Loan Amount[1]**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$155.0 million facility	**$175,000**	**54,500**	**—**	**$120,500**
$15.0 million facility	**15,000**	**7,230**	**1,745**	**6,025**
Total	**$190,000**	**$61,730**	**$1,745**	**$126,525**

As at December 31, 2020	Maximum Loan Amount[1]	Amount Drawn	Letters of Credit	Amount Available
$110.0 million facility	$130,000	5,000	—	$125,000
$10.0 million facility	10,000	2,029	1,773	6,198
Total	$140,000	$7,029	$1,773	$131,198

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

13. Construction Loans

As at December 31, 2021, Killam had access to five variable rate non-revolving demand construction loans, for the purpose of financing development projects, totalling $179.1 million. As at December 31, 2021, $77.6 million was drawn on the construction loans (December 31, 2020 - $41.3 million). Payments are made monthly on an interest-only basis. The weighted-average contractual interest rate on amounts outstanding at December 31, 2021, was 2.01% (December 31, 2020 - 2.37%). Once construction is complete and rental targets achieved, construction financing is expected to be replaced with permanent mortgage financing.

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

14. Accounts Payable and Accrued Liabilities

As at	**December 31, 2021**	December 31, 2020
Accounts payable and other accrued liabilities	**$53,109**	$39,950
Distributions payable	**6,737**	6,136
Mortgage interest payable	**3,873**	3,434
Security deposits	**11,194**	9,386
	$74,913	$58,906

15. Exchangeable Units

	2021		2020	
	Number of Exchangeable Units	**Value**	**Number of Exchangeable Units**	**Value**
Balance, beginning of year	**4,101,520**	**$70,177**	4,153,520	$78,668
Exchangeable Units exchanged for Trust Units	**(97,250)**	**(1,823)**	(52,000)	(815)
Fair value adjustment	**—**	**26,107**	—	(7,676)
Balance, end of year	**4,004,270**	**$94,461**	4,101,520	$70,177

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.

16. 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 Declaration of Trust ("DOT"). As a result, under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32.

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

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Trust Unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2021, no unitholders redeemed Units.

The Units issued and outstanding are as follows:

	Number of Trust Units	**Value**
Balance, December 31, 2020	103,212,327	$1,097,713
Distribution Reinvestment Plan	1,272,661	25,465
Restricted Trust Units redeemed	69,748	945
Units issued on exchange of Exchangeable Units	97,250	1,823
Units issued for cash	5,905,480	104,361
Balance, December 31, 2021	**110,557,466**	**$1,230,307**

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

16. Unitholders' Equity (continued)

Units issued for cash

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (May 31, 2021)	$18.50	$95,001	$4,370	$90,631	5,135,200
Over-allotment (May 31, 2021)	$18.50	14,250	520	13,730	770,280
Total		$109,251	$4,890	$104,361	5,905,480

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.

17. Distributions

Killam paid distributions to its unitholders during 2021 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, 2021, the distributions declared related to the Trust Units were $74.9 million (year ended December 31, 2020 - $68.7 million). For the year ended December 31, 2021, distributions declared related to the Exchangeable Units were $2.8 million (year ended December 31, 2020 - $2.8 million). The distributions on the Exchangeable Units are recorded in financing costs.

18. 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.

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, 2021, is $6.4 million, which includes $2.6 million related to RTUs subject to performance conditions (December 31, 2020 - $4.8 million and $2.1 million). For the year ended December 31, 2021, compensation expense of $2.1 million (year ended December 31, 2020 - $1.7 million) has been recognized in respect of the RTUs.

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

18. Deferred Unit-based Compensation (continued)

The details of the RTUs issued are shown below:

	2021		2020	
For the years ended December 31,	**Number of RTUs**	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of period	**351,734**	**$16.93**	364,875	$14.73
Granted	**143,054**	**18.14**	114,920	19.49
Redeemed	**(148,016)**	**13.09**	(133,531)	13.09
Forfeited	**—**	**—**	(7,988)	18.57
Additional Restricted Trust Unit distributions	**12,400**	**19.92**	13,458	17.82
Outstanding, end of period	**359,172**	**$18.10**	351,734	$16.93

19. 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,	
	2021	2020
Rental revenue [(1)]	**$206,551**	$185,799
Property expense recoveries	**72,729**	65,423
Ancillary revenue	**11,637**	10,468
	$290,917	$261,690

[(1)] Includes base rent, realty taxes and insurance recoveries, which are outside the scope of IFRS 15.

20. Other Income

	For the years ended December 31,	
	2021	2020
Management fee revenue	**701**	593
Interest revenue	**237**	47
Home sale revenue	**121**	1
	$1,059	$641

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

21. Financing Costs

	For the years ended December 31,	
	2021	2020
Mortgage, loan and construction loan interest	**$46,683**	$44,055
Interest on credit facilities	**1,063**	671
Interest on Exchangeable Units	**2,766**	2,784
Amortization of deferred financing costs	**3,784**	3,126
Amortization of fair value adjustments on assumed debt	**65**	88
Unrealized (gain) loss on derivative liability	**(167)**	483
Interest on lease liabilities	**386**	385
Capitalized interest	**(3,059)**	(2,673)
	$51,521	$48,919

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

22. 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, 2020, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2021, 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, 2021, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

As at December 31,	2020	Recognized in consolidated statement of income and comprehensive income	**2021**
Deferred tax liabilities (assets) related to:			
Real estate properties	**$191,953**	$43,812	**$235,765**
Loss carryforwards	**(15,207)**	(2,060)	**(17,267)**
Unrealized capital gains	**3,743**	(107)	**3,636**
Other	**4,122**	748	**4,870**
Net deferred tax liabilities	**$184,611**	$42,393	**$227,004**

As at December 31,	2019	Recognized in consolidated statement of income and comprehensive income	2020
Deferred tax liabilities (assets) related to:			
Real estate properties	$180,555	$11,398	**$191,953**
Loss carryforwards	(12,819)	(2,388)	**(15,207)**
Unrealized capital gains	3,876	(133)	**3,743**
Other	3,436	686	**4,122**
Net deferred tax liabilities	$175,048	$9,563	**$184,611**

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

For the years ended December 31,	**2021**	2020
Income before income taxes	**$327,920**	$155,630
Statutory tax rate	**28.3%**	28.6%
Income tax expense at statutory rates	**92,933**	44,572
Amounts not subject to tax	**(91,409)**	(43,196)
Income taxed at a lower amount	**(3,636)**	(3,742)
Effect of provincial tax rate changes	**(65)**	(6,013)
Other	**21**	(155)
Change to tax basis in excess of book basis	**44,549**	18,097
Total tax expense	**$42,393**	$9,563

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

23. 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 commercial 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
- Commercial segment - includes eight 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. Reportable segment performance is analyzed based on NOI. The operating results, and selected assets and liabilities, of the reportable segments are as follows:

Year ended December 31, 2021	**Apartments**	**MHCs**	**Commercial**	**Total**
Property revenue	**$254,955**	**$18,578**	**$17,384**	**$290,917**
Property operating expenses	**(92,899)**	**(6,824)**	**(7,959)**	**(107,682)**
Net operating income	**$162,056**	**$11,754**	**$9,425**	**$183,235**

Year ended December 31, 2020	Apartments	MHCs	Commercial	Total
Property revenue	$228,915	$17,393	$15,382	$261,690
Property operating expenses	(83,575)	(6,541)	(7,720)	(97,836)
Net operating income	$145,340	$10,852	$7,662	$163,854

As at December 31, 2021	**Apartments**	**MHCs**	**Commercial**	**Total**
Total investment properties [1]	**$4,154,201**	**$231,370**	**$155,306**	**$4,540,877**
Mortgages payable/construction loans	**$1,865,925**	**$83,013**	**$43,992**	**$1,992,930**

As at December 31, 2020	Apartments	MHCs	Commercial	Total
Total investment properties [1]	$3,390,089	$212,699	$139,130	$3,741,918
Mortgages payable/construction loans	$1,562,861	$84,150	$26,023	$1,673,034

[1] Total investment properties for the Apartments segment includes IPUC and land held for development.

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

24. Supplemental Cash Flow Information

	For the years ended December 31,	
	2021	2020
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$47,212**	$44,376
Interest paid on credit facilities	**1,063**	671
	$48,275	$45,047
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**($1,207)**	$2,464
Other current assets	**669**	(794)
Accounts payable and other liabilities	**16,007**	12,292
	$15,469	$13,962

25. 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, 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. For certain of the Trust's financial instruments the carrying value represents fair value due to the short term nature including, loan receivable, construction loans and credit facilities, and as such these items are not included in the table below. 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 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)

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

The significant financial instruments and their carrying values as at December 31, 2021, and December 31, 2020, are as follows:

As at	**December 31, 2021**		December 31, 2020	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial liabilities carried at amortized cost:				
Mortgages and loans payable [1]	**$1,915,334**	**$1,964,015**	$1,631,689	$1,714,740
Financial liabilities carried at FVTPL:				
Exchangeable Units	**$94,461**	**$94,461**	$70,177	$70,177
Derivative liability [2]	**$20**	**$20**	$188	$188
Deferred unit-based compensation	**$6,376**	**$6,376**	$4,784	$4,784

[1] Mortgages and loans payable does not include construction loans and credit facilities, the carrying value of these line items represents fair value.
[2] The $0.02 million derivative liability is included in other non-current liabilities within the consolidated statements of financial position (December 31, 2020 - $0.2 million derivative liability included in other non-current assets).

The interest rates used to discount the estimated cash flows, when applicable, are based on the five-year government yield curve as at December 31, 2021, which is in-line with Killam's weighted average years to maturity of 4.0 years, plus an adequate credit spread, and were as follows:

As at	**December 31, 2021**	December 31, 2020
Mortgages - Apartments	**2.40%**	1.31%
Mortgages - MHCs	**3.00%**	2.31%

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, 2021**			December 31, 2020		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$4,540,877**	—	—	$3,741,918
Liabilities						
Exchangeable Units	—	**$94,461**	—	—	$70,177	—
Derivative liability	—	**$20**	—	—	188	—
Deferred unit-based compensation	—	**$4,859**	**$1,517**	—	$3,601	$1,183

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, 2021.

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

25. 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, 2021, $147.6 million of Killam's debt had variable interest rates, including four construction loans totalling $77.6 million, amounts drawn on credit facilities of $61.7 million and three demand loan totalling $8.3 million. These loans and facilities have interest rates of prime plus 0.4% - 1.25% or 105-245 bps above BAs (December 31, 2020 - prime plus 0.5% - 1.25% or 160-250 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 $164.5 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.6 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, receivable 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, 2021 or 2020.

Killam has considered the cash flow difficulties that may be experienced by commercial and residential tenants due to the impact of COVID-19 and the probability of default and has adjusted its exposure in an allowance for doubtful accounts. The amount adjusted is immaterial.

(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 and commercial assets do not qualify for CMHC insured debt; however, these assets 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, 2021, Killam refinanced $124.0 million of maturing apartment mortgages with new mortgages totaling $172.3 million, generating net proceeds of $48.3 million. In addition, during the year ended December 31, 2021, Killam refinanced $8.0 million of maturing MHC and commercial mortgages with new mortgages totaling $12.2 million, generating net proceeds of $4.2 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 [1]	Credit facilities [2]	Total
2022	236,943	77,596	—	314,539
2023	329,091	—	—	329,091
2024	337,872	—	61,730	399,602
2025	352,522	—	—	352,522
2026	218,936	—	—	218,936
Thereafter	477,788	—	—	477,788
	$1,953,152	$77,596	$61,730	$2,092,478

[1] Construction loans are demand loans, but expected to be repaid once construction is complete and rental targets achieved. Once these targets are achieved each construction loan will be repaid in full and is expected to be replaced with conventional mortgages.

[2] Killam's $155.0 million credit facility was amended and extended on December 15, 2021.

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

26. 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 as a percentage of 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 total debt as a percentage of total assets is summarized as follows:

As at	December 31, 2021	December 31, 2020
Mortgages and loans payable	**$1,915,334**	$1,631,689
Credit facilities	**61,730**	7,029
Construction loans	**77,596**	41,345
Total interest bearing debt	**$2,054,660**	$1,680,063
Total assets [(1)]	**$4,568,903**	$3,766,987
Total debt as a percentage of total assets	**45.0%**	44.6%

(1) Excludes right of use asset of $9.6 million as at December 31, 2021 (December 31, 2020 - $9.6 million).

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. The quantitative sensitivity analysis shown below illustrates the value increase or decrease in Killam's debt to asset ratio given the change in the noted input:

Cap-rate Sensitivity Increase (Decrease)	Fair Value of Investment Properties[(1)]	Total Assets	Total Debt as % of Total Assets	Change (bps)
(0.50)%	$5,158,358	$5,186,384	39.6%	(540)
(0.25)%	$4,882,245	$4,910,271	41.8%	(310)
—%	$4,540,877	$4,568,903	45.0%	—
0.25%	$4,161,252	$4,189,278	49.0%	410
0.50%	$3,964,314	$3,992,340	51.5%	650

(1) The cap-rate sensitivity calculates the impact on Killam's apartment and MHC portfolios, which are valued using the direct income capitalization method and Killam's commercial portfolio which is valued using the discounted cash flow method.

27. Commitments and Contingencies

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 purchased a 10% interest of a planned four-phase 829-unit development project in Calgary, Alberta in 2018. Phase 1 was completed in January 2021 and Killam purchased the remaining 90% interest in the 233 unit property on January 21, 2021. Construction of Phase II commenced in December 2021 and Killam has a $65.0 million commitment in place to purchase the remaining 90% interest following completion of construction and the achievement of certain conditions.

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

Area	Utility	Usage Coverage	Term	Cost
Ontario	Gas	25%	December 1, 2021 - October 31, 2023	$4.70/GJ
Alberta	Gas	25%	December 1, 2021 - November 30, 2023	$3.81/GJ

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

28. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at December 31, 2021, the maximum potential obligation resulting from these guarantees is $75.1 million, related to long term mortgage financing (December 31, 2020 - $83.1 million). 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, 2021, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2020 - $nil).

29. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. Killam reclassified on the consolidated statement of income and comprehensive income, salary expenses of $0.8 million from "administration" to "operating expenses" to reflect the nature of these expenses for the year ended December 31, 2020.

30. Related Party Transactions

From January 1, 2021 to May 7, 2021, Killam paid a former Trustee, that did not offer to stand for re-election at Killam's May 2021 Annual General Meeting, $0.1 million (for the year ended December 31, 2020 - $0.3 million) related to the construction of two apartment buildings and the acquisition of land for future development.

Killam owns a 50% interest in two office properties located at 3700 & 3770 Kempt Road in Halifax, NS, and the other 50% interest is owned by an executive and Trustee of Killam. These properties are managed by a third party. Killam's head office occupies approximately 23,000 SF of one of the buildings with base rent of approximately $14.00 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,	**2021**	2020
Salaries, board compensation and incentives	**$6,162**	$5,138
Deferred unit-based compensation	**2,078**	1,727
Total	**$8,240**	$6,865

31. Subsequent Events

On January 17, 2022, Killam announced a distribution of $0.05833 per unit, payable on February 15, 2022, to unitholders of record on January 31, 2022.

On February 4, 2022, Killam closed a public offering of 4,715,000 trust units for gross proceeds of approximately $98.1 million.