KILLAM APARTMENT REIT

ANNUAL REPORT 2015

ABOUT KILLAM APARTMENT REIT

PROFILE

Killam Apartment Real Estate Investment Trust ("Killam", or "Killam Apartment REIT") is a growth-oriented investment trust owning, operating and developing multi-family apartment buildings and manufactured home communities ("MHCs"). Killam's portfolio includes $1.8 billion in real estate assets located in Atlantic Canada, Ontario and Alberta. Killam Properties Inc. was converted to Killam Apartment REIT effective January 1, 2016.

STRATEGY

Killam's strategy is to maximize its value and long-term profitability by concentrating on three key areas of growth:

- Increasing earnings from its existing portfolio
- Expanding the portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer properties, and
- Developing high-quality properties in its core markets

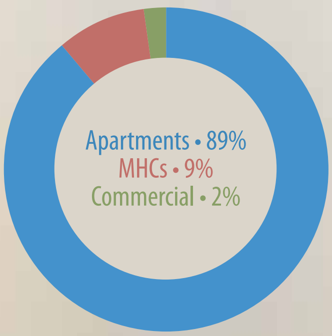
MISSION

To have a team of caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home.

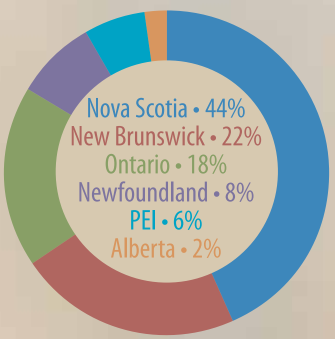
CORE VALUES

- Build Community
- Curb Appeal
- Do the Right Thing
- Strong Customer Relationships
- Creative Solutions

Net Operating Income by Segment



Net Operating Income by Province



CHELSEA PLACE, SAINT JOHN'S, NL | COVER: SOUTHPORT DEVELOPMENT, HALIFAX, NS

THE ALEXANDER DEVELOPMENT, HALIFAX, NS

2015 HIGHLIGHTS

9.7%
Growth in Funds from Operations per Share

4.2%
Increase in Same Store Net Operating Income

$54
Million in Acquisitions Completed

$34
Million in Developments Completed

99.5%
Shareholder Approval for REIT Conversion

92%
Apartment Satisfaction Rating from Tenant Survey

87%
Average Employee Engagement Score from Employee Survey

Letter to Unitholders

Dear Unitholders,

I'm pleased to report that 2015 was a very good year for growth in earnings. We grew funds from operations ("FFO") per share by 9.7%, our highest year-over-year growth in ten years. Many factors came together to help us achieve this: performance from our existing portfolio, our development program, accretive acquisitions, and low interest rates. These factors continue to work in our favour and we are well positioned for another strong year in 2016. This annual report presents Killam's results for 2015 and provides insight into our plans for the year ahead.

We achieved a milestone in 2015 when shareholders voted to approve Killam's conversion from a corporation to a real estate investment trust. The conversion was completed on January 1, 2016, and ensures that Killam is structured in the most tax efficient manner for the future. Despite the change in structure, Killam Apartment REIT's strategy remains the same. We're maximizing Killam's long-term value and profitability by concentrating on three key areas of growth: 1) earnings from our existing portfolio; 2) expanding our portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer assets; and 3) developing high-quality properties in our core markets.

The biggest contributor to our FFO per share growth in 2015 was a 4.2% increase in net operating income from ("NOI") our same store properties. Our portfolio performed very well, with improved occupancy, growth in rental rates, and savings in energy and operating expenses. The entire team at Killam worked hard to achieve these results. We've implemented many initiatives over the last two years to augment our marketing and leasing programs, energy and operating efficiencies, and tenant relations. All of these successes are reflected in our improved NOI. We also benefitted from improved rental fundamentals in many of our core markets. Demand for rental housing is strong in Eastern Canada.

I believe that a big part of our success comes from our commitment to investment in our employees and our properties. This leads to strong customer relationships. Killam's ability to provide exceptional customer service was confirmed by the results of our annual tenant survey. With 92% of tenants being "completely or mostly satisfied with their apartment", we consider our satisfaction levels to be amongst the strongest in the country. I am incredibly proud of our team at Killam and their capacity to provide our residents with quality housing and exceptional service.

Killam Executive

Back L to R

Colleen McCarville
Vice President,
Human Resources

Jeremy Jackson
Vice President, Marketing

Robert Richardson
Executive Vice President
& Chief Financial Officer

Erin Cleveland
Vice President, Finance

Michael McLean
Vice President,
Development

Front L to R

Philip Fraser
President &
Chief Executive Officer

Ruth Buckle
Vice President,
Property Management

Pam Crowell
Vice President,
Tenant Experience
& MHC Management

Dale Noseworthy
Vice President,
Investor Relations
& Corporate Planning

We had another busy year on the acquisition front and are pleased with the $54 million of acquisitions we completed. A highlight was the purchase of the Brewery Market and Keith Hall in downtown Halifax in March 2015. This one-of-a-kind property is a historic gem on Halifax's bustling waterfront. Dating back to the early 1800s, it was the location of the original Keith's brewery and the home of Alexander Keith. It has undergone many expansions and upgrades and today includes 158,000 square feet of unique commercial and retail space. The attraction for us, in addition to owning an irreplaceable asset at a very good return, was the development opportunity. We acquired a 50% interest in land zoned for residential development adjacent the Brewery Market. We have started developing the 240-unit building which will be named The Alexander. You can see a rendering of this project on page three of this annual report. We believe this is one of the very best development sites in Atlantic Canada and are confident it will be in strong demand upon completion in 2017.

Killam's development program is an important component of our strategy. After starting out slowly with our first project in 2010, we have now completed seven developments valued at over $115 million. We're creating unitholder value by building to returns higher than we would be able to achieve through acquisitions. We are also increasing the quality of our portfolio with properties that will have little to no capital requirements for the foreseeable future.

Our investment in developments and the acquisition of new buildings has helped Killam assemble one of the highest quality portfolios of multi-family residential properties in Canada. We have in-house development expertise that differentiates us from many of our peers. As an experienced owner of 176 different apartment complexes, we know what styles, features, and amenities tenants are looking for and we design our developments to meet the demands of specific demographics.

Apartment development starts have picked up in Canada over the last year as investors look for higher yields than they are able to get through acquisitions. We have stayed ahead of the development trend, and as experienced developers we expect to move ahead quickly and efficiently on future projects. With a development pipeline totalling 1,600 apartment units, we anticipate development will remain an important avenue for Killam's growth in the coming years.

We're confident about the year ahead. We have a strong team, a quality portfolio of assets, a focused strategy, and economic and demographic factors working in our favour.

Thank you for your interest and investment in Killam. I invite you to attend our annual unitholders' meeting on May 11th, 2016, at 10 am Atlantic Time at the Halifax Marriott Harbourfont Hotel, either in person or via webcast. I look forward to providing updates on our strategic initiatives over the coming months.

Yours truly,

Philip Fraser

"We have a strong team, a quality portfolio of assets, a focused strategy, and economic and demographic factors working in our favour."

FINANCIAL AND OPERATING HIGHLIGHTS

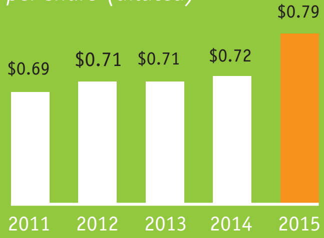
(Dollar values in thousands, except per share amounts)

As at and for the years ended,	**2015**	2014	2013
Operations			
Property revenue	**$166,614**	$147,507	$141,112
Net operating income	**$98,390**	$84,601	$83,040
Funds from operations (FFO)(1)	**$49,016**	$40,162	$38,770
FFO per share (diluted)	**$0.79**	$0.72	$0.71
Adjusted funds from operations (AFFO)(2)	**$42,639**	$34,023	$32,743
AFFO per share (diluted)	**$0.68**	$0.61	$0.60
Dividends declared per share	**$0.60**	$0.60	$0.58
AFFO Payout ratio	**87.7%**	98.1%	96.7%
Financial Position			
Total assets	**1,876,276**	1,775,234	1,532,431
Total liabilities	**1,190,948**	1,112,551	928,371
Total equity	**685,328**	662,683	604,060
Shares outstanding (at Dec 31)	**62,863**	60,476	54,459
Total gross debt as a percent of total assets	**55.7%**	54.9%	52.9%
Interest coverage ratio	**2.34**	2.21	2.15
Portfolio Information			
Apartment units	**13,681**	13,427	12,647
MHC sites	**5,165**	5,165	5,164
Average rent per apartment unit	**$966**	$949	$915
Average rent per MHC site	**$236**	$227	$221

(1) FFO is calculated as net income plus deferred tax expense, depreciation on owner occupied property, fair value loss, loss on disposition and tax planning costs relating to Killam's REIT conversion, less fair value gains and non-controlling interest.
(2) AFFO is a calculated as FFO less $450 per apartment unit and $100 per MHC site for maintenance-related capital costs.

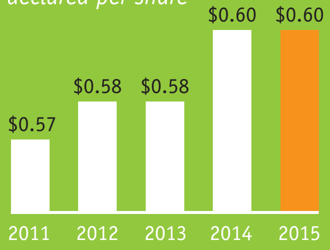
Funds from Operations

per share (diluted)

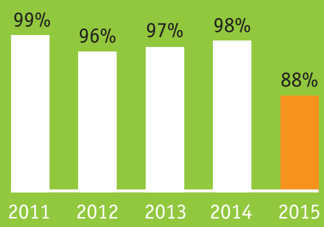


Dividends

declared per share

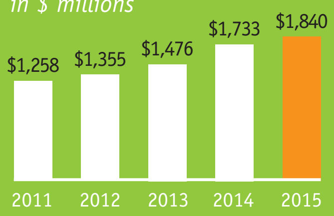


AFFO Payout Ratio

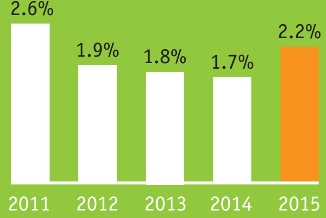


Value of Investment Properties

in $ millions



Same Store Revenue Growth



SAGINAW DEVELOPMENT, CAMBRIDGE, ON

STRATEGY | INCREASE EARNINGS FROM EXISTING PORTFOLIO

One of Killam's key strategies is to maximize net operating income from its same store properties, those properties owned for more than two years. This is accomplished by growing revenues, managing expenses and maintaining the properties. Increased earnings from the same store portfolio generally translates into higher funds from operations per unit and higher net asset values per unit. Killam's same store portfolio performed very well in 2015, achieving 4.2% growth in NOI. Looking forward, Killam expects to achieve NOI growth of between 2% and 4% in most years.

Same Store NOI Growth

4.2%

2014: (0.9%)

Same Store Revenue Growth

2.2%

2014: 1.7%

Apartment Occupancy

95.5%

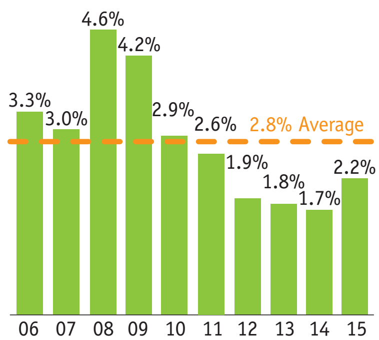
2014: 95.1%

Operating Margin

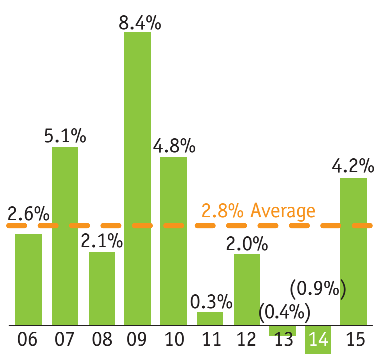
59.1%

2014: 57.4%

Historic Same Store Revenue Growth



Historic Same Store NOI Growth



NOI Growth Influenced by Heating Costs

Killam's exposure to heating oil and natural gas costs contributes to variability in the annual NOI growth of its properties. After absorbing higher than normal natural gas costs in 2013 and 2014, Killam experienced a reduction in natural gas costs in 2015, contributing to the 4.2% growth in same store NOI.

KANATA LAKES, OTTAWA, ON

CHAPTER HOUSE, HALIFAX, NS

180 MILL STREET, LONDON, ON

1355 SILVER SPEAR ROAD, MISSISSAUGA, ON

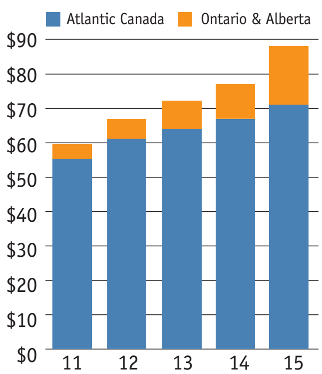
777 GAUVIN ROAD, MONCTON, NB

STRATEGY | ACQUISITIONS

Killam is expanding its portfolio by acquiring centrally located buildings in urban markets, increasing its ownership in Ontario and Alberta, and adding to its established portfolio in Atlantic Canada. Geographic diversification is a priority and Killam's strong operating platform can support a larger and more geographically diverse portfolio. Through strategically acquiring newer properties, Killam has increased the quality of its portfolio on an annual basis.

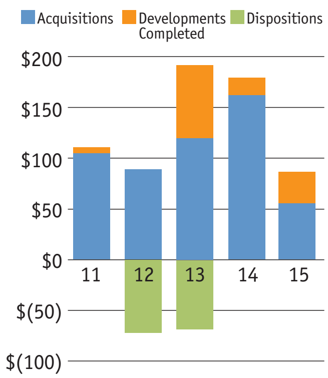
Annual Apartment NOI

$ millions

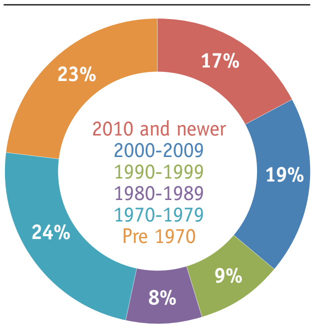


Annual Investment in Acquisitions and Developments

$ millions



Apartment NOI by Year of Construction



BREWERY MARKET, HALIFAX, NS
Acquired March 2015

Percentage of Apartment NOI Earned from Properties Built in 2000 or Later

36.1%

2014: 34%

20 TECHNOLOGY DRIVE, SAINT JOHN, NB
Acquired June 2015

20 TECHNOLOGY DRIVE, COMMON ROOM

NOI Generated Outside Atlantic Canada

18%

2014: 14%

Acquisitions Completed in 2015

$54M

2014: $160 million

Average Monthly Rent for Killam's Apartment Units

$966

2014: $949

STRATEGY | DEVELOPMENTS

Killam enhances its external growth opportunities with development by building high-quality properties designed for people who want the convenience and flexibility of renting, but with the space, quality and amenities typically associated with ownership. Killam has invested over $115 million in developments since its first project, including two buildings completed in 2015. With an experienced team and a development pipeline of 1,600 units, developments will be an important growth component in Killam's future.

CHELSEA PLACE
ST. JOHN'S, NL
Completed March 2015

102
Units

$21.8
Million in Cost

6.0%
Yield [(1)]

$2.3
Million - Fair Value Gain

(1) Measured as year-one NOI divided by development cost.

SAGINAW GARDENS, CAMBRIDGE, ON

Completed June 2015

122
Units

$25.3
Million in Cost

5.8%
Yield (1)

$2.5
Million - Fair Value Gain

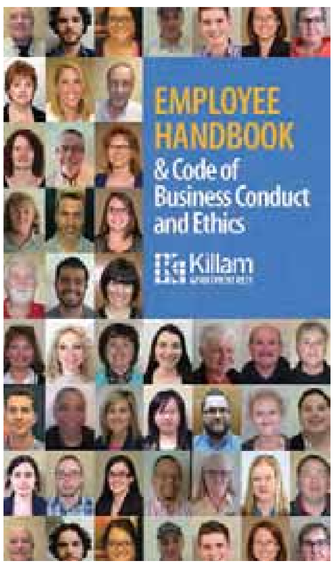
SAGINAW GARDENS, CAMBRIDGE, ON

SUSTAINABILITY | STRONG RELATIONSHIPS

Investing in Employees

Killam's employees are its most valuable asset. Supporting over 500 employees both at work and in their communities is a priority at Killam.

- Killam was twice recognized as a preferred employer in 2015 – as one of "Canada's Top Small & Medium Employers" and as one of the "Best Places to Work in Atlantic Canada".
- In 2015, Killam received an overall engagement score of 87% on its annual employee survey.
- Killam's employee unit purchase plan encourages employees to become unitholders through payroll deductions, and rewards longer-term employees with a 50% match from the Trust.
- Three annual scholarship awards are available to children and grandchildren of Killam employees to help them pursue post-secondary education.



- Killam encourages health and wellness across the organization, including an annual trust-wide team fitness challenge and group participation in community fitness events.
- Killam invests in employee education, such as bringing staff together on a regular basis for training, accessible on-line training and coaching programs, and providing financial assistance for further education.
- Killam promotes employees' involvement in the community by providing a paid leave for employees to volunteer with a charity of their choice.
- Quarterly, Killam recognizes employees who demonstrate their commitment to Killam's core value through its Core Value Awards program.

Tenant Satisfaction

One of Killam's strategic goals is to provide outstanding customer service and to build a sense of community at its properties. Some of the many initiatives in 2015 included:

- $32 million in capital upgrades.
- Increased emphasis on tenant experience and retention.
- Hosted community events throughout the portfolio, including holiday parties, resident barbeques, pizza parties and movie nights.
- Invested in community enrichment at properties, including supporting community gardens, new or enhanced community and fitness rooms, and upgraded recreational facilities and equipment at seasonal resorts.
- Conducted an extensive tenant survey (see below) with 90% of the 1,816 survey participants responding that they were completely or mostly satisfied with Killam.
- Expanded the team of leasing representatives.

HIGHLIGHTS FROM KILLAM'S 2015 TENANT SURVEY*

92%

of tenants are completely or mostly satisfied with their apartment.

I do appreciate the care and interest …in the people of the building as well as the care of the property. Their promptness to the needs of the residents is greatly appreciated.

Saint John Tenant

86%

of tenants would recommend Killam to a friend or family member.

I am proud of renting from Killam. I have recommended many family and friends to rent from them exclusively. Thank you Killam!

Fredericton Tenant

90%

of tenants are completely or mostly satisfied with Killam.

I just love living here. When I call (Resident Manager) to have something fixed it is done so quickly.

Moncton Tenant

* CRA Independent Tenant Survey, November 2015

SUSTAINABILITY | DOING THE RIGHT THING

KILLAM GREEN
MAKING ENERGY EFFICIENT

Environmental Efficiencies

Killam is committed to reducing its environmental footprint and investing in energy efficient solutions. This investment allows for long-term cost savings, and is the right thing to do. Investments in green solutions in 2015 included:

- $1.1 million in energy and water saving initiatives.
- Installed water saving fixtures in over 1,900 apartment units, achieving a reduction in related water consumption of over 25%.
- Invested in advanced building control systems and boiler upgrades, resulting in reduced energy consumption and increased comfort.
- Developed a standard lighting program to phase out inefficient lighting with LED lights across the portfolio.

Corporate Governance

The Board of Trustees believes that its commitment to sound corporate governance practices is in the best interests of its unitholders. Corporate Governance initiatives in 2015 included:

- Approval of the conversion from Killam Properties Inc. to Killam Apartment REIT to maximize the long-term value of the entity for unitholders.
- Approval of a policy relating to the identification and nomination of female trustees and commitment that gender diversity will be a priority for future Trustee appointments.
- Introduction of term limits to ensure ongoing Board renewal.
- 75% of variable pay for the CEO and CFO directly connected to FFO targets.
- Adoption of a majority voting policy in respect of election of trustees at any meeting of the Trust's unitholders.
- Incorporation of best practice governance in Killam Apartment REIT's Declaration of Trust, including a minimum of 25% of Trust units to meet quorum at meetings of unitholders.

Community Matters

Killam is a strong community supporter and believes that giving back to the community is an important part of being a responsible corporate citizen. Killam also supports affordable housing alternatives in its communities.

- Annually, Killam donates six furnished suites to hospitals in its core markets, providing comfortable accommodations to families as they support loved ones through medical treatment.
- Killam initiated the "Pay it Forward" program, in partnership with Phoenix Youth in Halifax, providing two youth who faced barriers to employment and housing with a home, a job at Killam, and access to educational upgrading.
- Killam provides financial support for various charities in its core markets, with an emphasis on supporting employees, tenants and organizations focused on shelter and families.
- In addition to corporate initiatives, Killam's Board of Trustees joins together annually to support a charity or community organization. In 2015, members of the Board of Trustees donated $100,000 to the University of Alberta. So far, the Trustees have donated $600,000 to organizations across Canada.
- Through its nationally recognized supported housing program, Killam has partnered with a variety of non-profit housing agencies, including Capital Health's Mental Health Program, Shelter Nova Scotia, YWCA, and Phoenix House, to provide over 90 subsidized units to previously under-housed individuals.
- Killam's Tenant Assistance Program offers temporary rent relief for tenants who are undergoing short-term financial hardships.
- Killam is providing subsidized housing to over 50 Syrian families.

ASSET PORTFOLIO

Apartment Portfolio

Halifax, NS	Year Built	Units
1 Oak Street	1969	146
10-214 Harlington Crescent	1978	60
125 Knightsridge Drive	1987	26
19 Plateau Crescent	1974	81
159 Radcliffe Drive	1995	25
175-211 Harlington Crescent	1978	60
21 Parkland Drive	2002	98
26 Alton Drive & 36 Kelly Street	1969	80
294-300 Main Street	1969	58
3 Veronica Drive	1983	70
31 Carrington Place	1998	38
3565 Connaught Avenue	1958	19
50 Barkton Lane	1991	63
5206 Tobin Street	1993	47
57 Westgrove Place	1969	41
59 Glenforest/21 Plateau	1978	153
6 Jamieson Street	1965	24
6087 South Street	1999	9
6101 South Street	2002	30
67-141 Harlington Crescent	1978	60
75 Knightsridge Drive	1986	41
85-127 Harlington Crescent	1978	60
9 Bruce Street	1974	60
9 Sybyl Court	1975	22
95 Knightsridge Drive	1984	46
Bedford Apartments	1987	53
Brentwood Apartments	1968	240
Carlton/Hollis Street Houses	n/a	11
Chapter House	2004	41
Dillman Place	1970s	60
Garden Park Apartments (1)	1980	246
Glenforest Apartments	1969	80
Glenbourne Gate	2000	67
Glenmoir Terrace	1972	28
Hillcrest Apartments	1980	50
Kent Street Properties	1950	135
Lakefront Apartments	1954	396
Linden Lea & Pleasant Street	1950	28
Maplehurst Apartments	1965	268
Maplehurst Houses	1965	15
Parker Street Apartments	1960/75	239
Parkridge Place	2002	76
Paxton Place	2000	67
Quinpool Court	1978	198
Quinpool Towers	1978	233
S2	2013	63
Shaunslieve Apartments	1978	154
Sheradon Place	1979	82
Spring Garden Terrace	1964	201
The Aspen	2012	83
The James	2008	108
The Linden	2011	81
The Willow	2014	84
Victoria Gardens	1954	198
Waterview Place	1971	88
Halifax Total		**5,090**
Halifax Average Rent		**$963**

Fredericton, NB	Year Built	Units
25 McKnight Street	2001	64
110 McKnight Street	1996	45
116 & 126 Wilsey Avenue	1975	48
120 McKnight Street	1998	45
127 & 157 Biggs Street	1985/92	46
200 Reynolds Street	2001	52
260 Wetmore Road	1978	38
300 Reynolds Street	2006	52
305 Reynolds Street	2010	52
50,60 Greenfields & 190 Parkside	1977/86	72
75 Greenfields Drive	1980	44
969 Regent Street	1997/01	62
Carrington House	2002	41
Elroy Apartments	1973	194
Forest Hill Towers	1968/79	151
Princess Place	1968/79	141
Southgate Apartments	2003	47
The Plaza	2013	101
Venus Apartments	1965	54
Westwood Apartment	1975	45
Fredericton Total		**1,394**
Fredericton Average Rent		**$898**

Moncton, NB	Year Built	Units
100 Archibald Street	2003	60
101 Archibald Street	1993	60
115 Kedgewick Drive	2009	25
133 Kedgewick Drive	2010	23
135 Gould Street	2011	69
155 Canaan Drive	2008	48
1111 Main Street	1957	16
276-350 Gauvin Road	1991/96	84
303 Normandie Street	1994	70
316 Acadie Avenue	1996	48
360 Acadie Avenue	1998	60
364-368 Gauvin Road	1995	80
46 & 54 Strathmore Avenue	2001	40
65 Bonaccord Street	2004	35
Gauvin Estates	2013	48
Belmar Plaza	2005	50
Buckingham Place	1998	55
Cambridge Court	1994	45
Cambridge Place	1995	63
Cameron Arms	1981	81
Cameron Street	1966/67	81
Eagles Ridge Estates	1994	59
Gordon/Bonaccord Street	1950/84	41
Hester & Church Street	1993	64
Lakeview Estates	1980/81	48
Lorentz Apartments	1969	102
Lutz & Kendra Street	1950/75	40
Pine Glen Apartments	1974	54
Suffolk Street	2000	80
Moncton Total		**1,629**
Moncton Average Rent		**$830**

Saint John, NB	Year Built	Units
20 Technology Drive	2014	59
37 Somerset Place	2007	21
53 Somerset Place	1973	16
115 Woodhaven Drive	1977	24
Blue Rock Estates	2007	60
Carleton Towers	1968	60
Cedar Glen Apartments	1977	204
Ellerdale Apartments	1975	154
Fort Howe Apartments	1970	153
Parkwood Apartments	1947	205
Rocky Hill Apartments	2004	42
Sydney Arms	1961	54
The Anchorage	2003	51
Woodward Gardens	1962	99
Saint John Total		**1,202**
Saint John Average Rent		**$778**

St. John's, NL	Year Built	Units
Bennett House	2013	71
Blackshire Court	1981	69
Chelsea Place	2015	102
Cornwall Manor	1976	31
Freshwater Road Apartments	1972	159
Forest Manor	1978	65
Meadowland Apartments	1976	105
Mount Pleasant Manor	1976	100
Pleasantview Manor	1979	36
Rutledge Manor	1983	53
Torbay Road Apartments	1972	84
Village Manor	1978	40
St. John's Total		**915**
St. John's Average Rent		**$941**

Charlottetown, PE	Year Built	Units
198 Spring Park Road	2006	32
27 Longworth Avenue	1983	24
280 Shakespeare Drive	2010	26
319-323 Shakespeare Drive	2004	22
36 Westridge Crescent	1985	8
505-525 University Avenue	2003	35
Bridlewood Apartments	1998/99	66
Browns Court	1997	52
Brighton House	2013	47
Burns/University	2003	95
Charlotte Court	2011	49
Country Place	1998/02	39
DesBarres House	1978	51
Ducks Landing	2005/12	138
Horton Park	1987	69
Kensington Court	1990	105
Queen Street	1978	48
Charlottetown Total		**906**
Charlottetown Average Rent		**$899**

Cambridge, ON	Year Built	Units
100 Eagle Street	2008	119
200 Eagle Street	2004	106
Saginaw Gardens	2015	122
Cambridge Total		**347**
Cambridge Average Rent		**$1,480**

London, ON		
180 Mill Street	2011	127
Richmond Hill Apartments	2009	137
London Total		**264**
London Average Rent		**$1,657**

Ottawa, ON		
1090 Kristin Way	1974	102
1425 Rosenthal Avenue	1962	54
1440 Mayview Avenue	1960	103
266 Bronson Avenue	1968	43
350 Mayfield Avenue	1959	61
50 Selkirk Street	1959	75
621 Cummings Avenue	1950	44
Kanata Lakes Apartments I (2)	2012	146
Kanata Lakes Apartments II (2)	2014	152
Ottawa Total		**780**
Ottawa Average Rent		**$1,190**

Toronto, ON		
100 Lower Ossington Ave	2012	179
1355 Silver Spear Road (2)	1968	199
Toronto Total		**378**
Toronto Average Rent		**$1,113**

Calgary, AB		
Grid 5 (2)	1965	307
Calgary Average Rent		**$1,354**

Other	Year Built	Units
Cabot House	1974	88
Edward Court	1993	96
Moxham Court	1998	51
Nevada Court	1995	48
Northgate Apartments	2006	38
Ridgeview Terrace Apartments	1975	59
Terrace Apartments	1970/90	89
Other Total		**469**
Other Average Rent		**$833**

Total Apartment Portfolio	**13,681**
Total Apartment Average Rent	**$966**

MHC Portfolio

Nova Scotia	Acres	Units
Amherst Estates	67	300
Birch Hill Estates	73	216
Birchlee Estates	42	222
Cairdeil Estates	37	160
Cowan Place	50	56
Enfield Estates	10	56
Fairview Estates	15	131
Glen Aire Estates	130	265
Greenhill Estates	30	115
Heather Estates	72	217
Kent Drive Estates	10	50
Maple Ridge Estates	18	160
Mountainview Estates	168	353
Shamrock Estates	8	65
Silver Birch Estates	16	64
Valley View Hills	50	196
Nova Scotia Total		**2,626**

New Brunswick		
Camper's City (3)	61	224
New Brunswick Total		**224**

Newfoundland	Acres	Units
Lakeview Court	13	86
Sunset Parkway	43	84
Newfoundland Total		**170**

Ontario	Acres	Units
Cedardale(3)	25	204
Domaine le Village	36	70
Family Paradise (3)	50	214
Holiday Harbour (3)	15	143
Holiday Park Campground (3)	35	290
Lakewood Estates	13	60
Lynnwood Gardens	54	64
Millcreek Estates	35	73
Paradise Valley (3)	109	392
Pinehurst Estates	16	82
Pine Tree Village	38	70
Rockdale Ridge	96	69
Stanley Park	76	107
The Village at Listowel	53	87
Westhill Estates	8	94
Wood Haven Campground (3)	50	126
Ontario Total		**2,145**

Total MHC Portfolio	**5,165**
Total MHC Average Rent	**$236**

Commercial Portfolio

Halifax, NS	Square Feet
3700 Kempt Road (2)	38,000
3770 Kempt Road (2)	34,000
Brewery Market	158,000
Medical Arts Building	18,000
Halifax Total	**248,000**

Notes:
(1) Killam has a 49% ownership interest in the 246-unit Garden Park Apartments.
(2) Killam has a 50% ownership interest.
(3) Seasonal resort community.

100 & 200 EAGLE STREET, CAMBRIDGE, ON

TABLE OF CONTENTS

PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2015, and 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with the Company's 2014 Annual Information Form, are available on SEDAR at www.sedar.com.

Effective January 1, 2016, Killam Properties Inc. completed a plan of arrangement (the "Arrangement") to convert to a real estate investment trust, knows as Killam Apartment Real Estate Investment Trust (the "Trust"). Under the Arrangement, each outstanding common share of Killam Properties Inc. was exchanged for one unit of the trust ("Trust Unit"), unless a qualifying shareholder elected to receive exchangeable Class B limited partnership units ("Exchangeable Units") in Killam Apartment Limited Partnership, a partnership controlled by the Trust in exchange for their common shares. As the Arrangement was effective on January 1, 2016, information presented in this MD&A as at, and for periods prior to, or ending December 31, 2015, references Killam Properties Inc. and information provided at January 1, 2016, and later references the Killam Apartment REIT. Therefore, as the context requires, references to Killam, the Trust, we, or us mean, collectively, Killam Properties Inc. and Killam Apartment REIT.

The discussions in this MD&A are based on information available as at February 16, 2016. This MD&A has been reviewed and approved by Management and the Board of Trustees.

Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in the Company's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors which affect this information, except as required by law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

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

PART II

Financial and Operational Highlights

The following table presents a summary of Killam's key financial IFRS and non-IFRS measures and operational performance:

For the years ended December 31,

	2015	2014	% Change
Operating Performance[1]			
FFO	**$49,016**	$40,162	22.0%
FFO per share (diluted)	**$0.79**	$0.72	9.7%
AFFO per share (diluted)	**$0.68**	$0.61	11.5%
Weighted average number of shares outstanding (diluted) (000's)	**62,360**	55,664	12.0%
AFFO payout ratio (diluted)	**87.7%**	98.1%	(10.6)%
Portfolio Performance			
Property revenue	**$166,614**	$147,507	13.0%
NOI[1]	**$98,390**	$84,601	16.3%
Same store NOI	**$83,153**	$79,817	4.2%
Same store NOI margin	**58.4%**	57.3%	110 bps
Weighted average same store apartment rental increase	**1.3%**	1.2%	10 bps
Stabilized apartment occupancy	**95.5%**	95.1%	40 bps
Leverage Ratios			
Total debt to total assets[2]	**55.7%**	54.9%	80 bps
Weighted average mortgage interest rate[2]	**3.27%**	3.60%	(33) bps
Weighted average years to debt maturity[2]	**4.2**	4.4	(0.2) years
Debt service coverage[3]	**1.35x**	1.34x	0.7%
Interest coverage[3]	**2.34x**	2.21x	5.9%
Other			
Acquisitions completed[5]	**$53,675**	$160,200	(66.5)%
Developments completed	**$33,900**	$13,900	143.9%
Dividends paid per share	**$0.60**	$0.60	- %
Closing price of common shares[2]	**$10.51**	$10.26	2.4%
Market capitalization[4]	**$660,000**	$620,000	6.5%

(1) Net operating income ("NOI"), funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Non-IFRS Financial Measures.)
(2) As at December 31.
(3) Based on the trailing four quarters.
(4) Defined as the closing price of the common shares on the last trading date of the year times the number of common shares outstanding as at December 31.
(5) Purchase price on acquisition does not include transaction-related costs.

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

Summary of 2015 Results and Operations

FFO per Share Growth of 9.7%
Killam generated FFO per share (diluted) of $0.79 in 2015, 9.7% higher than $0.72 generated in 2014. FFO growth was attributable to a 4.2% increase in same store NOI, interest expense savings on refinancings and accretive returns from developments and acquisitions. AFFO also increased in 2015, by 11.5% year-over-year. This robust earnings growth, combined with a stable dividend, is reflected in a significant improvement in Killam's AFFO payout ratio, which was 87.7% in 2015, compared to 98.1% in 2014.

Improved Occupancy, Higher Rents and Lower Energy Costs Led to Strong Same Store NOI Growth
Killam's portfolio of same store properties achieved a 4.2% increase in NOI in 2015, the highest same store growth realized in the last five years, due to a combination of revenue growth and a focus on property expenses. Same store revenue grew by 2.2%, achieved from a 1.3% increase in rental rates, a 40 basis point ("bps") increase in apartment occupancy and a 50 bps reduction in rental incentives. All regions contributed positively to revenue growth with Killam's largest market (by unit count), Halifax, Nova Scotia ("NS") delivering a 2.1% increase in same store property revenue during the year. Same store property operating expenses decreased by 0.4% year-over-year due to water and operating efficiencies, lower natural gas, oil prices, as well as energy. The strong NOI growth is reflected in an improved operating margin in 2015, which increased an impressive 110 bps to 58.4% from 57.3% in 2014.

Lower Interest Rates on Mortgage Refinancings Contributed to FFO per Share Growth
Killam successfully refinanced $91.1 million of maturing mortgages with $135.7 million of new debt at a weighted average interest rate of 2.24%, 227 bps lower than the weighted average interest rate prior to refinancing. These refinancings, combined with lower rates achieved in 2014, contributed to a 6.5% reduction in same store interest expense in the year. Killam's weighted average interest rate decreased to 3.27% at December 31, 2015, from 3.60% at December 31, 2014.

$88 Million in Acquisitions and Developments Added to Killam's Real Estate Portfolio
Killam completed $53.7 million in acquisitions in 2015, including two apartment properties adjacent existing Killam buildings, two commercial properties, which include land for development in Halifax and land for development in Calgary. The acquisition of land increased Killam's development pipeline to over 1,300 units. In addition to acquisitions, Killam completed two developments in 2015, adding $33.9 million of high quality properties (161 units) to its portfolio. Both apartment properties leased up within six months of opening and realized fair value increases upon completion. In addition, Killam invested $14.2 million in two additional developments during 2015.

Shareholder Approval Received for REIT Conversion
Killam received 99.5% support for the plan of arrangement to convert Killam Properties Inc. to Killam Apartment REIT at its shareholder meeting on December 8, 2015. The conversion was completed effective January 1, 2016. The REIT structure is expected to enhance Killam's long-term value by maximizing future cash distributions to investors with maximum tax efficiency.

Performance Compared to 2015 Key Objectives

Same Store NOI Growth	
2015 Target	Same Store NOI growth of 0% to 2% (increased to 2% to 4% in Q2-2015).
2015 Performance	Killam exceeded its NOI target for the year by achieving 4.2% same store NOI growth. Improved NOI was driven by a 2.2% increase in property revenues and a 0.4% decrease in operating expenses.
Portfolio Expansion	
2015 Target	Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget.
2015 Performance	Killam completed $53.7 million in acquisitions during 2015, which was $21.3 million shy of the acquisition target. 2015's low cap-rate environment and high cost of capital did not support all acquisition opportunities in the year. Killam's development target was met with the completion of Chelsea Place, a 102-unit development in St. John's, and Saginaw Gardens, a 122-unit development in Cambridge, ON. Both projects were completed on schedule and on budget and were fully leased within six months of opening.
Geographic Diversification	
2015 Target	50% of 2015 acquisitions to be outside Atlantic Canada, with a focus on Ontario and Alberta.
2015 Performance	13.5% of 2015 acquisitions were outside of Atlantic Canada. Meeting the 50% target was challenged by low cap-rates in Ontario and market weakness in Alberta. These factors, combined with a higher cost of capital, resulted in less acquisitions in Ontario as investments did not meet minimum acquisition targets.

Business Overview

Killam Apartment REIT, based in Halifax, NS, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and manufactured home community ("MHC") properties. Killam's current portfolio includes $1.8 billion in real estate assets. Killam's strategy to maximize its value and long-term profitability includes concentrating on three key areas of growth: 1) increasing the earnings from its existing portfolio, 2) expanding its portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer properties, and 3) developing high-quality properties in its core markets.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario apartment market in 2010 and in 2014 acquired an ownership interest in its first apartment property in Calgary. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings and has completed seven projects to date and currently has two additional properties under construction.

The apartment business is Killam's largest business segment, accounting for 89% of the Company's NOI for the year ended December 31, 2015. At December 31, 2015, Killam's apartment portfolio consisted of 13,681 units. Its 176 apartment properties are located predominantly in Atlantic Canada's six largest urban centres (namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario ("ON") and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.7% market share of the multi-family rental units in its core Atlantic markets. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Killam owns 35 MHC sites, also known as land-lease communities or trailer parks, located in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. The MHC portfolio accounted for 9% of Killam's NOI for the year ended December 31, 2015. Killam also has a small portfolio of commercial properties which accounted for 2% of the Company's NOI in 2015.

Business Strategy

Maximize NOI from Existing Portfolio
Management increases the value of its real estate portfolio by maximizing revenue and generating operating efficiencies. To achieve NOI growth, Killam must address three critical factors; occupancy, rental rates and operating costs. Killam focuses on customer service, investing in its properties, leasing and marketing initiatives and training its employees to maximize these outcomes.

Growth through Acquisitions
Killam is expanding its portfolio by acquiring centrally located buildings in urban markets and expanding its ownership interest in Ontario and Alberta, as well as adding to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on accretive opportunities and access to capital.

Annual Acquisitions ($ millions)

Growth through Development
Killam enhances its external growth opportunities with development. Killam started apartment developments in 2010 and has completed seven projects, including two in 2015. Killam has an experienced development team that oversees all projects. Killam's new property construction emphasis enables Management to directly control the quality and features of its buildings, and generally deliver higher returns than through acquisitions. Management expects to build to a 75-125 bps cap-rate premium over the market value of comparable assets; thereby enhancing shareholder value.

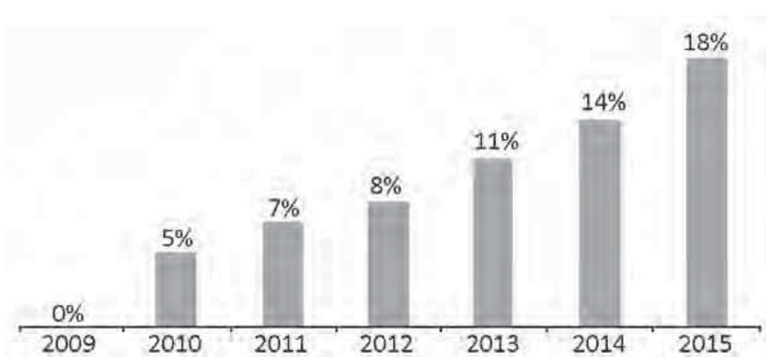
In order to manage the short-term dilution associated with development, and mitigate development risk, Management plans to limit new development to approximately 5% of Killam's balance sheet asset value on an annual basis.

Developments Completed ($ millions)

Investment in New Properties
In addition to developing properties, Killam also acquires newly constructed buildings. Management believes that increasing Killam's ownership in new, high-quality buildings will result in above-market and long-term demand for its properties, reduce annual capital requirements related to deferred maintenance, and transform Killam's portfolio over time into one of the highest quality portfolios in Canada. The majority of the new properties added to Killam's portfolio are condominium quality, providing tenants with features and amenities traditionally associated with ownership. Management believes demand for newer rental accommodations will grow given the increasing number of homeowners reaching retirement age and seeking alternatives to home ownership. Killam is also attracted to the low capital spend requirements from new assets compared to older buildings. In addition, with energy efficient features, the NOI margins are typically higher in newer buildings. With strong demand for the acquisition of apartments in recent years, cap-rates have declined and the pricing differential between older and newer buildings has reduced. This enables Killam to increase the amount of newer apartments in its portfolio without paying a significant premium for these higher quality assets.

Geographic Diversification
Geographic diversification is a priority for Killam. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Killam is actively building a portfolio in targeted markets outside of Atlantic Canada, including Ottawa, the Greater Toronto Area, Southwestern Ontario and in Alberta. Increased investment in Ontario and Western Canada will enhance Killam's diversification and exposure to the urban centres in Canada with higher population growth than Atlantic Canada. Management has set a long-term target to grow the NOI generated outside of Atlantic Canada to 50% of overall NOI.

% of Apartment NOI Generated Outside Atlantic Canada



Key Performance Indicators ("KPIs")

Management measured Killam's performance based on the following KPIs:

1. FFO per Share – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.
2. Rental Increases – Management expects to achieve increases in average annual rental rates and tracks the average rate increases achieved.
3. Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on vacancy cost divided by gross potential residential rent (in dollars) of total stabilized properties for the quarter.
4. Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at same store properties, removing the impact of acquisitions, dispositions, developments and other non-same store operating adjustments.
5. Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.
6. Debt to Total Assets – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets does not exceed 65%.
7. Weighted Average Years to Maturity – Management monitors the average number of years to maturity on its debt.
8. Interest Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest on outstanding debt. Generally, the higher the interest coverage ratio, the lower the credit risk.
9. Debt Service Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt. Generally, the higher the debt service coverage ratio, the lower the credit risk.

Non-IFRS Measures

There are measures included in this MD&A that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- FFO are calculated by Killam as net income plus deferred tax expense, depreciation on owner-occupied property, fair value loss, loss on disposition and tax planning costs relating to the Company's conversion to a real estate investment trust ("REIT"), less fair value gain, gain on disposition and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition except for the add back of REIT conversion costs as noted above. REALpac does not address this specific type of adjustment.
- AFFO are calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per MHC site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2015 and 2014 (90% of the portfolio based on the December 31, 2015 unit count).
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense and principal mortgage repayments.

2016 Outlook

NOI Growth from Same Store Properties

Management expects to generate positive same store NOI growth in 2016, realized by a combination of increased rental rates, stable occupancy and modest expense growth. Economic growth in Atlantic Canada, aging demographics and a decline in the number of Atlantic Canadians moving west, given lower oil prices, are all expected to support strong demand for apartment rental in Atlantic Canada and enable reasonable rental growth. Strong fundamentals in Ontario should also contribute to revenue growth. Through the completion of on-going energy and water conservation initiatives, combined with operational efficiencies, Management expects to achieve positive NOI growth of 1% to 3% in 2016 with an emphasis on well located newer properties.

Acquisitions to Expand Geographic Diversification

Management will continue its focus on portfolio expansion and geographic diversification through acquisitions. Management expects a minimum of $50 million in acquisitions in 2016 however, the level of activity will be dependent on both the opportunities available and the strength of the capital markets. Faced with weakness in the capital markets, Management may recycle capital from dispositions to fund accretive acquisitions.

Developments an Important Component of Growth

Based on the relatively low yields available from acquisitions and the higher returns achievable from development, Management is actively developing apartment properties. Targeting a yield on development of 5.5% to 6.0% and an expected cap-rate value on completion of 4.5% to 5.0%, Management expects developments to be accretive and create shareholder value. Development is currently underway for 310 units, with a 70-unit development expected to be completed during Q3-2016. Killam owns development land for approximately 1,350 additional apartment units; 200 of which are based in Ontario and 400 of which are based in Alberta. Management expects to begin construction on at least one additional development in Ontario in 2016. See further discussion on land held for future development in the "Investment Properties" section of the MD&A.

Improving Fundamentals in Atlantic Canada

Large economic projects are driving economic and population growth in urban centres in Atlantic Canada, and most specifically in Halifax. Recent economic forecasts are projecting improved GDP growth in these regions. In its Autumn 2015 Metropolitan Outlook, the Conference Board of Canada identified Halifax as one of the fastest growing economies in Canada for 2016, with 3.0% growth expected. The $25 billion, 25-year shipbuilding contract in Halifax started in September 2015 and is expected to be a substantial contributor to both employment and GDP growth. Large construction projects in Atlantic Canada and increased non-energy exports, including seafood, food and forestry products, are also forecasted to contribute to the region's GDP growth. This improved economic outlook for Atlantic Canada is expected to lead to stronger apartment fundamentals in the region where approximately 80% of Killam's NOI is generated. An expected increased in immigration in Atlantic Canada should also support stronger demand for rental units.

Interest Savings on Refinancings

Killam has approximately $120 million of apartment mortgages maturing in 2016 with a weighted average interest rate of 4.20%. Based on current bond yields for 5-year and 10-year debt, and an expectation of yields to stay low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management expects to upfinance $45 - $50 million from maturing mortgages using a combination of 5-year and 10-year debt in 2016. Assuming an average interest rate of 2.4% on refinancings, Killam could generate annualized interest savings of up to $1.0 million.

Reduced Natural Gas Volatility in Atlantic Canada

Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam experienced more stable pricing in 2015. Killam's natural gas costs are expected to remain relatively flat in the near-term. In addition, ongoing investments in energy efficiencies will reduce natural gas consumption, ideally providing opportunities for savings.

Looking out longer-term, projects are underway to alleviate the capacity constraints that have led to increased volatility in natural gas costs in the Northeastern US and New Brunswick and Nova Scotia, including pipeline capacity and expansion projects in New England. Spectra Energy has proposed three pipeline projects, which are expected to lead to more stable and affordable gas prices in the future. These projects include the Algonquin Incremental Market ("AIM") Project, the Atlantic Bridge Project and Access Northeast. All three projects are projected to be completed by 2018. In Nova Scotia, AltaGas has received government approval to build a natural gas storage facility. Drilling of three natural gas storage wells located 60 kilometers from Halifax began in August 2014 and may be ready for gas storage in 2018 or 2019. Timing for the completion of these projects varies from Q4-2016 to 2019, but may result in more moderate pricing starting as early as 2016 with increasing supply available at peak times.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolio by market as at and for the year ended December 31, 2015:

APARTMENT PORTFOLIO				
	Units[1]	**Number of Properties**	**NOI[2] ($)**	**NOI[2] (% of Total)**
Nova Scotia				
Halifax[3]	5,090	58	$35,437	36.0%
Sydney	139	2	$1,158	1.2%
	5,229	60	$36,595	37.2%
New Brunswick				
Moncton	1,629	31	$8,037	8.2%
Fredericton	1,394	20	$8,132	8.3%
Saint John	1,202	14	$4,651	4.7%
Miramichi	96	1	$546	0.6%
	4,321	66	$21,366	21.8%
Ontario[4]				
Ottawa	780	9	$4,199	4.3%
London	264	2	$3,468	3.5%
Toronto	378	2	$3,160	3.2%
Cambridge	347	3	$2,988	3.0%
	1,769	16	$13,815	14.0%
Newfoundland & Labrador				
St. John's	915	12	$6,979	7.1%
Grand Falls	148	2	$786	0.8%
	1,063	14	$7,765	7.9%
Prince Edward Island				
Charlottetown	906	17	$5,721	5.8%
Summerside	86	2	$437	0.4%
	992	19	$6,158	6.2%
Alberta[4]				
Calgary	307	1	$2,183	2.2%
Total Apartments	**13,681**	**176**	**$87,882**	**89.3%**
MANUFACTURED HOME COMMUNITY PORTFOLIO				
	Sites	**Number of Communities**	**NOI[2] ($)**	**NOI[2] (% of Total)**
Nova Scotia	2,626	16	$4,403	4.5%
Ontario	2,145	16	$3,995	4.0%
New Brunswick	224	1	$183	0.2%
Newfoundland & Labrador	170	2	$303	0.3%
Total MHCs	**5,165**	**35**	**$8,884**	**9.0%**
COMMERCIAL PORTFOLIO				
	Square Footage	**Number of Properties**	**NOI[2] ($)**	**NOI[2] (% of Total)**
Halifax, Nova Scotia	248,000	4	$1,624	1.7%
Total Portfolio			**$98,390**	**100%**

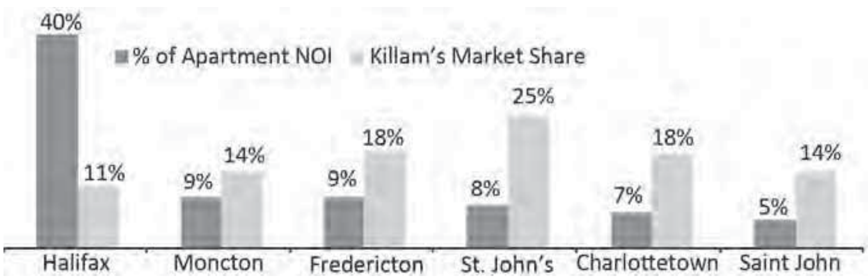
(1) Unit count includes properties held through Killam's partnerships and joint arrangements.
(2) For the year ended December 31, 2015.
(3) Killam owns a 49% interest in, and manages, Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 49% ownership interest represents 120 of the 246 units related to this property.
(4) Killam owns and manages three buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all four properties. Killam's ownership interest represents 402 of the 804 units related to these properties.

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the dominant residential landlord in Atlantic Canada with a 13.7% market share. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, higher operating margins from economies of scale and the ability to attract and retain top talent. With improving rental fundamentals in Atlantic Canada, five of Killam's six core markets experienced improved occupancy in October 2015 vs. October 2014, as disclosed in CMHC's Fall 2015 Rental Market Report. This compares favourably with the overall decline in occupancy for Canada as reported by CMHC, at 96.5% occupancy in October 2015 compared to 97.0% in October 2014.

Market Share and Apartment NOI (%)



Urbanization Leading to Population Growth in Killam's Core Markets

The urbanization trend is strong across Atlantic Canada, driving population growth in the region's cities and demand for rental housing. Atlantic Canada is home to 2.4 million people, approximately 43% of whom live in the six largest cities, representing Killam's core markets in the region. The net change in population in four of Killam's core markets in Atlantic Canada is reported annually by Statistics Canada. In the past decade, there has been population growth in each of Halifax, St. John's and Moncton, with a large part of the growth related to people moving to the cities from rural areas. Immigration has also contributed to population growth in the urban centres. The population of Saint John, NB, has decreased slightly in recent years due to a decline in economic activity following the completion of several large energy projects that were underway during the 2000s.

A Diversified Portfolio of Apartment Properties

Killam's apartment portfolio includes a variety of property types, including high-rise (34%), mid-rise with elevators (34%), walk-ups (30%) and a small number of townhouses (2%). The portfolio includes rents ranging from affordable to high-end Class A properties. The average rent for Killam's apartment units at the end of 2015 was $966. The average age of Killam's apartment portfolio is 28 years. With a focus on both developing and acquiring newer properties, 33% of Killam's apartment NOI is from apartments built after 2000. A high percentage of newer assets should result in lower capital and maintenance costs for the foreseeable future, well below the industry average.

MHCs Compliment Killam's Apartment Portfolio

With MHCs, Killam owns the land and infrastructure supporting each community and leases the sites to the tenants, who own their own homes and pay Killam a monthly site rent. In addition to site rent, the tenant may have a mortgage payment to a financial institution for their home. The average site rent in Killam's MHC portfolio is $236 per month, which offers value and affordability to tenants. The homeowner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land. MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 62.2% over the last two years, compared to 58.0% for apartments.

Killam's MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 98%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of the sale process.

Limited Exposure to Rent Control

The majority of Killam's portfolio is not impacted by rent control, allowing Killam to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control for apartments, and this represents only 7.3% of Killam's apartment units. Ontario has rent control; however the legislation excludes properties built after 1991. Eight of Killam's sixteen properties in Ontario (1,068 of 1,769 units) are newer properties (built after 2004) and therefore do not fall under the rent control guideline. The balance of Killam's Ontario properties can move rents to market on a unit-by-unit basis as they become vacant. Ontario and Nova Scotia both have rent control for MHCs. In both provinces owners may apply for above-guideline increases to offset significant capital expenditures. Higher rent increases are also allowed for new tenants entering the communities. To determine rental increases for its portfolio, Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers.

CMHC Insured Debt Available for over 90% of Killam's Portfolio

Canadian apartment owners can apply for CMHC mortgage loan insurance. The mortgage insurance guarantees the repayment of the loan to the lender, eliminating default risk, which results in lower interest rates for the borrower than with conventional mortgages. Killam uses CMHC insurance and has 73% of its apartments financed with CMHC insured debt. As mortgages are renewed or new properties are financed, Killam expects to use CMHC insurance and increase the percentage of insured debt. CMHC insurance is not available for the owners of MHCs, however, it is available for the individual manufactured home owners.

Focused on Service

Killam takes pride in providing tenants with well-maintained properties, being responsive to service requests and providing an attractive value proposition for tenants' housing needs. In-house educational programs enhance employees' skills and experience to best service tenants and prospective tenants. Annually, Management measures tenants' satisfaction through an on-line survey (approximately 1,800 respondents in 2015). Killam's 2015 survey results support Killam's focus on service with a 90% tenant satisfaction rating, the same rating received in 2014.

Geographic Diversification

Killam is focused on increasing its geographic diversification by acquiring and developing more properties in its core markets in Ontario and Alberta. In 2015, Killam's apartment portfolio included 1,769 apartment units in Ontario, up from 225 units in 2010 when Killam entered the Ontario apartment market, and includes properties in Ottawa, Toronto, London and Cambridge. In addition to apartments, 42% of Killam's MHC sites are located in Ontario. Killam acquired its first apartment property in Alberta in 2014, a 50% interest in a 307-unit building in downtown Calgary.

Core Market Update

Halifax

36% of Killam's 2015 NOI was earned in Halifax. The city's rental unit base is 44,423 units accounting for 45.7% of the total rental universe in Atlantic Canada as measured by CMHC.

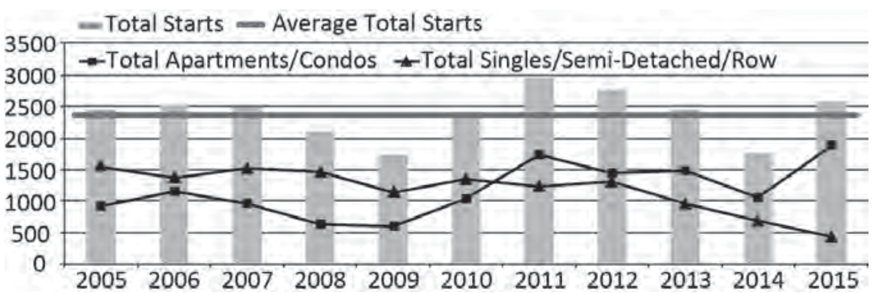
Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, producing 56% of Nova Scotia's total GDP and home to 44% of the province's population. The city attracts a diverse population base, both from rural areas of Nova Scotia, other regions in Atlantic Canada, and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to approximately 35,000 students per year, including 4,000 international students.

Halifax's employment base is well diversified, with jobs focused around retail and wholesale trade, health care, public administration and education among the largest sectors. Halifax is home to the largest Canadian Forces Base by number of personnel in Canada and the Department of National Defence is the largest employer in the city.

Halifax has experienced improved occupancy and rental growth, attributable to economic and population growth in the city, and increasing demand from the baby boomer demographic shifting away from home ownership into apartment living. These drivers are absorbing new rental supply in the city. Increased numbers of rental units are being built to absorb this demand. The majority of the new rental supply introduced into the market in recent years caters to this demographic, with spacious units of 1,200 square feet or more, and monthly rents of $1,300 and higher.

The following graph summarizes the total amount of starts in Halifax for all housing types from 2006 to 2015, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,373 units per year. As the graph highlights, a decrease in single family starts is being offset by an increase in multi-family starts, resulting in relatively stable levels of total housing starts and apartment occupancy.

Halifax Total Housing Starts



Source: CMHC

Despite an increased rental inventory, units are being absorbed by strong demand in the city, as noted above. CMHC's Fall Rental Market reported Halifax's vacancy to be 3.4% in October 2015, down from 3.8% in October 2014.

Management expects population growth in Halifax to increase due to large-scale projects taking place in the region that should drive employment opportunities in the city. Irving Shipyard's $25 billion, 25-year shipbuilding contract started in September 2015 and is expected to have positive long-term implications for Halifax and Atlantic Canada. The contract is expected to generate over 1,500 direct jobs, and over 3,400 direct and indirect jobs in Nova Scotia. Investment in offshore energy in Nova Scotia also has the potential to contribute to future growth for both Halifax and Nova Scotia with $2 billion in exploration commitments awarded in recent years. Large construction projects in the city, and the province, are also expected to contribute the Halifax's economic growth.

With a diversified asset base of 5,100 centrally located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam expects to benefit from the increased demand for housing that will come from population and economic growth.

New Brunswick

21.8% of Killam's NOI is currently generated in New Brunswick, split between the province's three major urban centres; Fredericton, Moncton and Saint John. Fredericton and Moncton both experienced high population growth, posting 9.3% and 8.7% growth, respectively, over the 2006 and 2011 Census period. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and is a transportation and distribution hub for Atlantic Canada. Recent population growth in Moncton has been driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 4.7% of Killam's NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city had seen a reduction in economic projects over recent years. However, new investments have started in the forestry sector, and the Energy East Pipeline proposal to bring oil from Western Canada to refineries in Quebec and New Brunswick, has potential to generate strong future economic growth for the city and the province.

Following an increase in vacancy in New Brunswick in recent years, due partly to higher levels of new construction, CMHC reports vacancy rates now are coming down. Year-to-date, the province has seen less new rental product being introduced into the market. CMHC reports that during 2014 and 2015 there were 540 and 355 new rental apartment unit starts in the province, a marked reduction from the 876 and 812 new rental unit starts during 2012 and 2013.

CMHC reported higher occupancy in all three cities in New Brunswick in its Fall 2015 Rental Market Report. In comparing Killam's October 31, 2015, unit occupancy to CMHC's October vacancy statistics, Killam consistently has higher occupancy than CMHC in all three cities (Moncton - up 120 bps, Fredericton - up 30 bps and Saint John - up 50 bps).

Newfoundland

Killam has increased its investment in St. John's, NL in recent years with the development of two new apartment buildings, increasing its ownership interest to 25% market share of the city's rental units. St. John's has undergone a transformation over the last ten years following significant offshore investments, resulting in a population growth and decreased home affordability. These factors, combined with an aging population transitioning out of home ownership, have contributed to strong demand for rental units in St. John's and attractive rental rate growth. Despite weakness in oil prices in 2015, Killam generated strong occupancy levels and increased rental growth in the city.

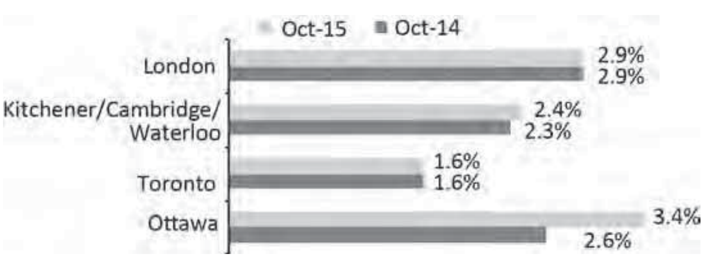
Prince Edward Island

Killam has a 19% market share in Charlottetown, the capital and economic center of Prince Edward Island. The Charlottetown market represents 5.8% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Immigration is also strong in PEI, contributing to demand for rental units.

Ontario

The Ontario rental market is stable, with CMHC reporting only a 10 bps increase in vacancy in the province in October 2015 vs. October 2014; CMHC reported 2.4% vacancy for Ontario in its Fall 2015 Rental Market Report. Vacancy rates were flat in Toronto and London, increased by 10 bps in the Cambridge area and by 80 bps in Ottawa, as noted in the graph below. The uptick in Ottawa reflects a recent increase in supply in the market. Despite the increase in vacancy in the city, Ottawa experienced an average increase in rental rates of 2.6% in the year. CMHC reported a 3.0% increase in average rent in 2015 for the total Ontario rental market, up from 2.1% a year earlier.

Percentage Change (%) of Average Rents in Killam's Ontario Markets per CMHC



Alberta

The Alberta rental market has softened with the drop in oil prices. Killam's investment in Alberta is limited to Calgary, with a 50% interest in both an apartment building and land for development, CMHC reported a vacancy rate of 5.3% in October 2015 in Calgary, up from 1.4% a year earlier. Killam also experienced increased vacancy in downtown Calgary throughout 2015. With increased marketing and leasing initiatives Killam has stabilized the vacancy in its Calgary building and is making gains absorbing the remaining vacancy.

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

PART III
2015 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$166,614**	$147,506	13.0%	**$142,425**	$139,303	2.2%	**$24,189**	$8,203	194.9%
Property expenses									
Operating expenses	**(27,590)**	(24,774)	11.4%	**(23,745)**	(23,497)	1.1%	**(3,845)**	(1,277)	201.1%
Utility and fuel expenses	**(21,299)**	(20,907)	1.9%	**(19,527)**	(20,244)	(3.5)%	**(1,772)**	(663)	167.3%
Property taxes	**(19,335)**	(17,226)	12.2%	**(16,000)**	(15,745)	1.6%	**(3,335)**	(1,481)	125.2%
	(68,224)	(62,907)	8.5%	**(59,272)**	(59,486)	(0.4)%	**(8,952)**	(3,421)	161.7%
NOI	**$98,390**	$84,599	16.3%	**$83,153**	$79,817	4.2%	**$15,237**	$4,782	218.6%
Operating margin	**59.1%**	57.4%	170 bps	**58.4%**	57.3%	110 bps	**63.0%**	58.3%	470 bps

Total property revenue for the year ended December 31, 2015, was $166.6 million, a 13.0% increase in revenue over 2014. Property revenue for the year ended December 31, 2014, excludes the 25% ownership interest in three properties that were previously held through a joint venture as the associated earnings were recorded as equity income. Including the revenues associated with the three properties in 2014, year-over-year revenues would have increased by 11.5%. The growth was generated through revenue from acquisitions, completed developments and a 2.2% increase in same store revenue.

Killam's total property expenses increased 8.5% in 2015 compared to 2014. Killam's operating margin increased by 170 bps year-over-year. The improved operating margin is attributable to recently completed developments and newly acquired assets outside of Atlantic Canada that have lower property operating expenses. Killam also benefited from lower overall utility costs in 2015 as a result of declining oil prices and moderate natural gas pricing.

Same store property NOI reflects 190 stabilized properties that Killam has owned for equivalent periods in 2015 and 2014. The same store analysis includes a combined total of 17,046 apartment units and MHC sites, or 90% of Killam's portfolio. Same store properties realized net revenue growth of 2.2% for the year ended December 31, 2015. Savings were realized in utility and fuel expenses, resulting in a 0.4% savings in total operating expenses in comparison to the year ended December 31, 2014. Combining strong net revenue growth and savings in property expenses for the year ended December 31, 2015, same store NOI grew by 4.2%. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same store property NOI consists of properties acquired in 2014 and 2015, development projects completed in 2014 and 2015, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2015 are found on page 43.

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

Apartment Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$148,846**	$132,950	12.0%	**$128,102**	$125,517	2.1%	**$20,744**	$7,433	179.1%
Property expenses									
Operating expenses	**(23,303)**	(21,333)	9.2%	**(20,360)**	(20,247)	0.6%	**(2,943)**	(1,086)	171.0%
Utility and fuel expenses	**(19,490)**	(19,430)	0.3%	**(18,059)**	(18,805)	(4.0)%	**(1,431)**	(625)	129.0%
Property taxes	**(18,171)**	(16,531)	9.9%	**(15,414)**	(15,179)	1.5%	**(2,757)**	(1,352)	103.9%
Total property expenses	**(60,964)**	(57,294)	6.4%	**(53,833)**	(54,231)	(0.7)%	**(7,131)**	(3,063)	132.8%
NOI	**$87,882**	$75,656	16.2%	**$74,269**	$71,286	4.2%	**$13,613**	$4,370	211.5%
Operating margin	**59.0%**	56.9%	210 bps	**58.0%**	56.8%	120 bps	**65.6%**	58.8%	680 bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2015, was $148.8 million, a 12.0% increase in revenue over 2014. This growth was attributable to acquisitions and completed developments, growth in rental rates, decrease in rental incentives and increased occupancy.

Same store apartment property revenue increased 2.1% in 2015, due to a 1.3% increase in rental rates and a 40 bps improvement in occupancy for the year. Also contributing to the strong revenue growth was a 50 bps decline in rental incentives as a percentage of residential rent, to 0.7% for 2015 compared to 1.2% for 2014.

Based on current rents, an annualized 100 bps change in the apartment vacancy rate would impact the annualized rental revenue by $1.5 million.

Apartment Occupancy(1) Analysis by Core Market

		Occupancy (% of Residential Rent)(2)			Occupancy (% of units)		
	# of Units	**2015**	2014	Change (bps)	**Dec 31, 2015**	Dec 31, 2014	Change (bps)
Halifax, NS	5,090	**95.3%**	94.6%	70 bps	**96.2%**	96.2%	- bps
Moncton, NB	1,629	**94.7%**	93.4%	130 bps	**96.2%**	95.9%	30 bps
Fredericton, NB	1,394	**94.4%**	94.9%	(50) bps	**95.5%**	96.6%	(110) bps
Saint John, NB	1,202	**94.2%**	94.7%	(50) bps	**96.0%**	94.6%	140 bps
St. John's, NL	915	**96.5%**	96.1%	40 bps	**97.1%**	97.3%	(20) bps
Charlottetown, PE	906	**97.7%**	96.9%	80 bps	**98.8%**	97.5%	130 bps
Ontario	1,769	**97.2%**	97.0%	20 bps	**97.8%**	97.2%	60 bps
Alberta	307	**89.7%**	97.4%	(770) bps	**80.8%**	98.4%	(1,760) bps
Other Atlantic	469	**97.6%**	95.2%	240 bps	**97.4%**	96.6%	80 bps
Total Apartments (weighted average)	13,681	**95.5%**	95.1%	40 bps	**96.2%**	96.4%	(20) bps

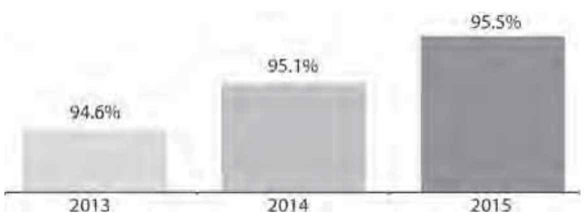
(1) Includes all stabilized properties.

(2) Occupancy as a percentage of residential rent is calculated based on vacancy (in dollars) divided by gross potential residential rent (in dollars) of total stabilized units for the year.

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

Killam's Apartment Occupancy & Rental Incentives (as a % of Residential Rent)

Killam's Stabilized Apartment Occupancy (as a % of Residential Rent)



Average Rent Analysis by Core Market

As at December 31,

	# of	Average Rent			Same Store Average Rent		
	Units	**2015**	2014	% Change	**2015**	2014	% Change
Halifax, NS	5,090	**$963**	$948	1.6%	**$937**	$921	1.7%
Moncton, NB	1,629	**$830**	$832	(0.2)%	**$820**	$822	(0.2)%
Fredericton, NB	1,394	**$898**	$896	0.2%	**$858**	$854	0.5%
Saint John, NB	1,202	**$778**	$748	4.0%	**$757**	$749	1.1%
St. John's, NL	915	**$941**	$913	3.1%	**$892**	$875	1.9%
Charlottetown, PE	906	**$899**	$885	1.6%	**$899**	$886	1.5%
Ontario	1,769	**$1,300**	$1,266	2.7%	**$1,178**	$1,151	2.3%
Alberta	307	**$1,354**	$1,359	(0.4)%	**$-**	-	N/A
Other Atlantic	469	**$833**	$819	1.7%	**$833**	$819	1.7%
Total Apartments (weighted average)	13,681	**$966**	$949	1.8%	**$904**	$892	1.3%

As shown in the above table, the weighted average monthly rent for Killam's apartment portfolio was $966 at December 31, 2015, up 1.8% from $949 at December 31, 2014. This increase includes the impact of higher rental rates associated with recently completed developments and acquisitions. Killam's same store apartment portfolio realized a 1.3% increase in average rents year-over-year.

Apartment Expenses

Total apartment expenses for the year ended December 31, 2015, were $61.0 million, a 6.4% increase over 2014. The expense increase is attributable to acquisitions and completed developments. Despite the costs associated with the addition of new properties, Killam realized a 210 bps improvement in its apartment operating margin for the year as a result of moderating fuel costs and the development and acquisition of newer and more efficient buildings.

Total same store property expense for the year ended December 31, 2015, was $53.8 million, a 0.7% decrease over 2014. This decrease is attributable to the ability to maintain and minimize total property operating costs, lower oil and natural gas costs compared to 2014, improved operating efficiencies and only a modest increase in overall property tax costs.

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

Utility and Fuel Expense - Same Store

For the years ended December 31,

	2015	2014	% Change
Natural gas	**$7,026**	$7,791	(9.8)%
Electricity	**6,498**	6,510	(0.2)%
Water	**4,499**	4,460	0.9%
Other	**36**	44	(18.2)%
Total utility and fuel expenses	**$18,059**	$18,805	(4.0)%

Utility and fuel expenses accounted for approximately 34% of Killam's total apartment same store operating expenses in 2015. Killam's apartment properties are heated with a combination of natural gas (56%), electricity (35%), oil (8%) and steam (1%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam's exposure to the majority of the 4,600 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam's same store natural gas costs decreased by 9.8% compared to 2014. The decrease was primarily attributable to lower commodity charges in NB and Ontario. Killam's weighted average natural gas cost per gigajoule ("GJ") was down approximately 18% in New Brunswick in 2015 due to less volatile pricing in the winter months as experienced during 2014. The weighted average cost in Ontario was down approximately 4.7%. The weighted average cost of gas per GJ was flat in Nova Scotia in 2015. The flat cost in Nova Scotia was attributable to the province's gas distributor's fixed-rate contracts, which were locked-in at above market rates in 2015.

Heating oil costs decreased by 20% in 2015 compared to the prior year due to the significant and sustained decline in world oil prices. Given the lower pricing Killam was able to switch back to oil from natural gas at its buildings with dual burner capabilities. Oil savings are expected to continue as the price per litre of heating oil is trending lower in the first quarter of 2016 compared to 2015, the Company's highest period of heating fuel consumption during the year.

Electricity costs for Killam's same store properties were down 0.2% in 2015 compared to 2014. The decrease in costs in 2015 is attributable to a reduction in the inclusion of unit electricity as a rental incentive in the Saint John market. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, tenants are attracted to fixing the cost of electricity in their monthly rental payment.

During 2015 Killam also completed lighting retrofits in partnership with Efficiency Nova Scotia installing over 20,000 LED light bulbs in the Company's Halifax area apartments resulting in a reduction in electricity costs for tenants as well as Killam's common areas. These savings more than offset the annual increase in electricity costs in the region during the year.

Water expense for same store properties increased 0.9% year-over-year. Increases in water rates across the various regions were partially offset by the Company's various water consumption initiatives including the installation of low-flow toilets and showerheads.

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

Apartment Same Store NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Halifax	**$53,276**	$52,181	2.1%	**$(21,044)**	$(20,894)	0.7%	**$32,234**	$31,287	3.0%
Moncton	**15,130**	14,907	1.5%	**(7,622)**	(7,656)	(0.4)%	**7,508**	7,251	3.5%
Fredericton	**13,037**	12,806	1.8%	**(5,888)**	(6,082)	(3.2)%	**7,149**	6,724	6.3%
Ontario	**13,649**	13,454	1.4%	**(5,282)**	(5,162)	2.3%	**8,367**	8,292	0.9%
St. John's	**8,563**	8,357	2.5%	**(2,613)**	(2,614)	-%	**5,950**	5,743	3.6%
Saint John	**10,039**	9,915	1.3%	**(5,639)**	(5,920)	(4.7)%	**4,400**	3,995	10.1%
Charlottetown	**9,509**	9,276	2.5%	**(3,784)**	(3,962)	(4.5)%	**5,725**	5,314	7.7%
Other Atlantic locations	**4,899**	4,621	6.0%	**(1,963)**	(1,941)	1.1%	**2,936**	2,680	9.6%
	$128,102	$125,517	2.1%	**$(53,835)**	$(54,231)	(0.7)%	**$74,269**	$71,286	4.2%

As noted above, Killam generated positive NOI growth in all its core markets in 2015 ranging from 0.9% in Ontario to 10.1% growth in Saint John. Overall occupancy gains, rental rate increases, fewer rental incentive offerings, lower natural gas and oil costs and operational efficiencies contributed to the NOI growth.

Halifax

Halifax is Killam's most important rental market, representing 40% of apartment NOI during 2015. Overall, the Halifax same store apartment portfolio achieved 2.1% revenue growth in the year. Occupancy, as measured as the percentage of gross rental revenue achievable, was up 70 bps with the Halifax apartment portfolio achieving 95.3% occupancy in 2015, compared to 94.6% over 2014. At December 31, 2015, Killam's Halifax portfolio was 96.2% occupied on a unit count basis, the same level of occupancy as at December 31, 2014. Average rent for the Halifax same store portfolio was up 1.7% in 2015, from 2014.

Total operating expenses increased by 0.7% in 2015. Savings from lower oil prices, reduced energy consumption resulting from various energy efficiency projects and lower costs on renegotiated garbage contracts offset the majority of increases in property tax expense and contract services in the year. Specifically, higher property tax assessments in Halifax increased property tax costs by 3.7% and snow removal costs increased 22% in the harsher winter of 2015 compared to 2014. Overall, Halifax achieved 3.0% NOI growth in 2015.

New Brunswick

Killam's three core markets in NB generated 24% of the Company's apartment NOI in 2015, and in aggregate achieved 1.5% revenue growth during the year. Fredericton achieved the strongest revenue growth of the NB cities, up 1.8%, attributable primarily to the reduction of rental incentives while still achieving an increase in average rents. Moncton achieved revenue growth of 1.5%, attributable to occupancy gains and a reduction in rental incentives. Saint John achieved 1.3% top line growth due to higher rents and a decrease in rental incentives.

The New Brunswick portfolio realized a 2.8% savings in total operating expenses during 2015. The most significant savings were from utilities, down 7.1% year-over-year, due primarily to lower natural gas pricing in New Brunswick in 2015 compared to 2014. A reduction in water consumption also contributed to savings following the installation of low-flow toilets during the year. In addition, Killam realized a 1.5% decrease in property tax expense following successful tax assessment appeals in Fredericton and Saint John. These savings, along with operational efficiencies, more than offset increases in other operating costs, including higher snow removal expense in the year. Overall, NOI from Killam's New Brunswick portfolio increased by 6.0%, including growth of 10.1% in Saint John, 6.3% in Fredericton and 3.5% in Moncton.

Ontario

Killam's Ontario portfolio generated 16% of Killam's apartment NOI in 2015, up from 13% in 2014. The same store Ontario portfolio achieved 1.4% revenue growth in 2015, realized from increased rents and improved occupancy. The Ontario portfolio achieved 97.2% occupancy in 2015 compared to 97.0% occupancy in 2014 and average rents in Ontario increased by 2.3% year-over-year. Same store revenue growth was impacted by a reduction in parking revenue at one of Killam's properties with the expiry of a rental guarantee in June 2015. Excluding the decline in parking revenue, total same store revenue increased by 2.1%.

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

Total operating expenses increased by 2.3% for the year ended December 31, 2015. A 4.1% increase in property taxes, a 18% increase in water costs and a 6% increase in hydro costs were the biggest drivers of expense growth in the year. Other operating expenses realized only modest increases year-over-year. Overall, Killam's Ontario portfolio realized a 0.9% increase in NOI in 2015.

Newfoundland

Killam's St. John's portfolio generated 8% of Killam's apartment NOI in 2015. The portfolio achieved a 40 bps improvement in occupancy in 2015 compared to 2014, as well as a 1.9% increase in rental rates. Same store revenue for the St. John's portfolio increased by 2.4% in 2015.

Total same store property operating expenses were comparable overall to 2014 as higher property taxes, up 3.6%, were offset by renegotiated garbage contracts and more efficient spending related to repairs and maintenance. Overall, St. John's same store portfolio achieved a 3.6% increase in NOI in 2015.

Prince Edward Island

Killam's Charlottetown portfolio represents 7% of the apartment NOI. Charlottetown achieved 2.5% revenue growth in 2015 due to increased rents, up 1.5%, and improved occupancy levels. The portfolio achieved 97.7% occupancy during 2015, up 80 bps from 96.9% occupancy in 2014.

Total operating expenses decreased 4.5% in 2015. A 1.0% increase in property tax expense and 2.6% increase in operating expenses, mainly driven by increased snow removal costs, were offset by a 13.8% savings in utility costs. Most of Killam's buildings in Charlottetown use heating oil, the price of which decreased by approximately 30% year-over-year. Overall, Charlottetown recorded 7.7% growth in NOI in 2015.

MHC Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$14,323**	$13,980	2.5%	**$14,323**	$13,786	3.9%	**$-**	$194	(100.0)%
Property expenses									
Operating expenses	**(3,385)**	(3,250)	4.2%	**(3,385)**	(3,250)	4.2%	**-**	-	
Utility and fuel expenses	**(1,468)**	(1,439)	2.0%	**(1,468)**	(1,439)	2.0%	**-**	-	-%
Property taxes	**(586)**	(566)	3.5%	**(586)**	(566)	3.5%	**-**	-	-%
Total property expenses	**(5,439)**	(5,255)	3.5%	**(5,439)**	(5,255)	3.5%	**-**	-	
NOI	**$8,884**	$8,725	1.8%	**$8,884**	$8,531	4.1%	**$-**	$194	(100.0)%
Operating margin	**62.0%**	62.4%	(40) bps	**62.0%**	61.9%	10 bps	**-%**	-%	(100.0)%

Killam's MHC business accounted for 9% of NOI from property operations during the year ended December 31, 2015, compared to 10% for 2014. MHC same store property revenue increased $0.3 million or 2.5% in 2015 compared to 2014 due to increased revenue from same store properties. Occupancy remains strong for the Company's MHC business, with 97.6% occupancy for the year, only 10 bps less than the 97.7% achieved in 2014. The non-same store revenue relates to income generated from the sale of land in NS in Q1-2014.

Same store revenue growth, partially offset by increased operating expenses, generated MHC same store NOI growth of 4.1% for the year ended December 31, 2015. Specifically, same store MHC property revenue increased 3.9% for 2015, compared to 2014. This was a result of a 4.0% increase in weighted average rent per site to $236, up from $227 for the year ended December 31, 2014. Total same store property expenses increased 3.5% due to higher water and utility costs, additional snow plowing and hauling costs, along with increased property tax costs.

Killam's seasonal MHCs contribute to the MHC's NOI during the second and third quarters of the year. Increased focus on seasonal campsite rentals and other complement revenue streams resulted in increased revenues and NOI growth in the seasonal parks of 14.0% year-over-year.

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

Commercial Results

In 2015 Killam acquired two commercial properties located in Halifax; the Brewery Market and the Medical Arts building. The Brewery Market property contains 158,000 square feet of retail and office space, and a parcel of adjacent land for a 282-unit apartment development. The Medical Arts building contains 18,000 square feet of office space and the Company plans to redevelop the property in the future. Along with the 50% ownership of two commercial properties on Kempt Road in Halifax, this commercial portfolio accounted for $1.6 million or 1.7% of Killam's total NOI for 2015 with an overall occupancy at 98.1%. As well, included in the Apartment segment is an additional 118,000 square feet of commercial space in various residential properties across the portfolio.

PART IV

Other Income

Equity Income

For the years ended December 31,

	2015	2014	% Change
	$-	$829	(100.0)%

Equity income for the year ended December 31, 2014, represented Killam's 25% interest in the net income of a joint venture that owned three apartment buildings, all located in Ontario. The joint venture was dissolved on December 9, 2014, and Killam purchased the remaining ownership of the assets. Killam subsequently sold 50% of its ownership in two of the properties. These properties are now accounted for as joint operations and accordingly the consolidated statements of financial position and the consolidated of income and comprehensive income include Killam's right to and obligations for the related assets, liabilities, revenue and expenses.

Home Sales

For the years ended December 31,

	2015	2014	% Change
Home sale revenue	**$970**	$1,299	(25.3)%
Cost of home sales	**(848)**	(1,174)	(27.8)%
Operating expenses	**(44)**	(64)	(31.3)%
	$78	$61	27.9%

Killam completed nine home sales and two home placements during 2015, compared to thirteen home sales in 2014. Operating margins were slightly higher in 2015 due to the decision to sell a longstanding home in 2014 at below cost. Operating expenses have decreased over the prior year as a result of not completing as many home sales during the year. Since the sale of portions of the MHC portfolio in May 2012 and November 2013, the opportunity for home sales has decreased and is no longer a strategic priority for Killam.

Corporate Income

For the years ended December 31,

	2015	2014	% Change
	$1,417	$1,175	20.6%

Corporate income includes property management fees, interest on bank account balances and interest on loans receivable. The 20.6% increase year-over-year relates to additional property management fees earned on managing five properties in 2015 compared to four in 2014. The Company also earned interest revenue on a $4.0 million mezzanine loan that was issued in May 2014, bearing interest at prime plus 7.0% or a minimum of 10.0%, as well as, a $0.95 million vendor take-back ("VTB") loan issued in June 2015, bearing interest at 6.5%.

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

Fair Value (Loss) Gain

For the years ended December 31,

	2015	2014	% Change
Apartments	**$(6,837)**	$(298)	2,194.3%
MHCs	**734**	4,730	(84.5)%
IPUC	**-**	336	N/A
	$(6,103)	$4,768	(228.0)%

Killam recorded $6.8 million in fair value losses on its apartment portfolio in 2015, compared to the $0.3 million in fair value losses recorded in 2014. This fair value loss is attributable to increases in capital reserves, partially offset by slight cap-rate compression and 2.3% NOI growth.

In 2015 Killam realized a $0.7 million fair value gain on its MHC portfolio, compared to a $4.7 million gain for the year ended December 31, 2014. The 3 bps increase in the effective weighted average cap-rate used to value the MHCs portfolio was offset by the 1.0% stabilized NOI growth for this portfolio.

See further discussion on cap-rates in the "Investment Properties" section of the MD&A.

Other Expenses

Financing Costs

For the years ended December 31,

	2015	2014	% Change
Mortgage, loan and construction loan interest	**$31,808**	$29,572	7.6%
Amortization of fair value adjustments on assumed debt	**(570)**	(499)	14.2%
Amortization of loss on interest rate hedge	**59**	-	N/A
Convertible debenture interest	**6,836**	6,752	1.2%
Capitalized interest	**(1,089)**	(1,216)	(10.4)%
	$37,044	$34,609	7.0%

Financing costs increased $2.4 million, or 7.0%, in 2015 due primarily to new debt placements on acquired properties. Killam's acquisitions in the last eighteen months totaled $170.0 million and debt associated with these acquisitions totaled $119.6 million.

Mortgage and loan interest expense related to Killam's same store properties was $24.5 million in 2015, down from $26.2 million in 2014. As a percentage of property revenue, same store mortgage and loan interest expense was lower year-to-date, at 17.2% compared to 18.8% in 2014. This decrease is a result of refinancings at lower interest rates. The average interest rate on refinancings for same store properties year-to-date was 2.24%, 227 bps lower than the average interest rate before refinancing.

Capitalized interest decreased 10.4% in 2015 compared to 2014. Capitalized interest will vary depending on how many development projects are ongoing and how far along they are in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt at December 31, 2015, would affect financing costs by approximately $9.5 million per year. However, only $123.0 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.2 million per year. The Company's credit facilities are discussed on page 50 of the MD&A.

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

Depreciation Expense

For the years ended December 31,

	2015	2014	% Change
	$802	$644	24.5%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase in 2015 was a result of depreciation related to vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

For the years ended December 31,

	2015	2014	% Change
	$1,913	$1,711	11.8%

Deferred financing amortization increased 11.8% as a result of fees related to refinancings and new debt placed on acquired properties and completed developments over the last twelve months. Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible debentures are amortized over the terms of the debentures.

Administration Expenses

For the years ended December 31,

	2015	2014	% Change
Administration (including REIT conversion costs)	**$11,898**	$8,525	
REIT conversion costs	**$(1,654)**	$(89)	
Administration (excluding REIT conversion costs)	**$10,244**	$8,436	21.4%
As a percentage of total revenues	**6.1%**	5.7%	

Administration expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses. Administrative expenses as a percentage of revenues increased for the year ended December 31, 2015, relating primarily to additional accrued variable compensation reflecting strong financial performance year-over year. Management targets annualized administrative costs at approximately 6.0% of total revenues.

Deferred Tax Expense

Killam has booked future income tax expense for years ended December 31, 2015, and 2014. Killam is not currently cash taxable as it has the ability to claim CCA deductions to reduce taxable income.

Killam converted to a real estate investment trust effective January 1, 2016, and as such, now qualifies as a REIT pursuant to the Canadian Income Tax Act (the "Tax Act"). The Tax Act contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation") and the criteria for qualifying for the real estate investment trust exemption (the "REIT Exemption"), which would exempt Killam from income tax under the SIFT Legislation. As such, Killam is now a flow-throw vehicle; therefore only deferred taxes of Killam's corporate subsidiaries are recorded. If Killam fails to distribute the required amount of income to Unitholders or if Killam fails to qualify as a REIT under the Tax Act, substantial adverse tax consequences may occur. Management operates Killam in a manner that enables it to continually qualify as a REIT and is expected to distribute all of its taxable income to Unitholders, and therefore is entitled to deduct such distributions for income tax purposes.

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

PART V

Funds from Operations

FFO is recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. Killam calculates FFO in accordance with the REALpac definition with the exception of the add back of REIT conversion costs as REALpac does not address this specific type of adjustment. FFO for the years ended December 31, 2015, and 2014, is determined as follows:

For the years ended December 31,

	2015	2014	% Change
Net income	**$35,800**	$32,667	9.6%
Fair value loss (gain)	**6,103**	(4,768)	(228)%
Fair value gains included in equity income	**-**	(229)	-%
Non-controlling interest (before fair value gain)	**(1,058)**	(1,042)	1.5%
Deferred tax expense	**6,216**	13,472	(53.9)%
Current tax recovery	**-**	(1,451)	(100.0)%
Depreciation on owner-occupied building	**192**	167	15.0%
Loss on disposition	**109**	1,257	(91.3)%
REIT conversion costs	**1,654**	89	1,758.4%
FFO	**$49,016**	$40,162	22.0%
FFO/share - diluted	**$0.79**	$0.72	9.7%
Weighted average number of shares - diluted (1)	**62,360**	55,664	12.0%

(1) The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures for the years ended December 31, 2015, and 2014 as they are anti-dilutive. For FFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

Killam earned FFO of $49.0 million, or $0.79 per share, during 2015 compared to $40.2 million, or $0.72 per share, during 2014. The 9.7% increase in FFO per share is attributable to contributions from acquisitions and completed and stabilized developments ($5.9 million), same store NOI growth of 4.2% ($3.2 million), interest expense savings on refinancings at lower interest rates ($1.7 million), and an increase in corporate income related to higher management fees ($0.2 million). This growth was partially offset by an increase in administration costs associated with variable compensation in 2015 ($1.2 million), an increase in amortization and depreciation ($0.4 million), a reduction in capitalized interest ($0.1 million) and a 12.0% increase in the weighted average shares outstanding. FFO has been adjusted for costs incurred in 2015 and 2014 to complete the conversion from a Corporation to a REIT effective January 1, 2016. These costs were unique to Killam's corporate structure and therefore have been removed for FFO purposes.

FFO per Share ($)

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

Adjusted Funds from Operations

AFFO is a supplemental measure used by real estate analysts and investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio versus NOI enhancing capital investments. AFFO is a non-IFRS measure and Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining earning capacity of an asset compared to the capital expenditures that will lead to higher rents or more efficient operations.

In order to provide investors with information to assist in assessing the Company's payout ratio, Management has calculated AFFO using $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has assumed $100 per MHC site as a reasonable estimate of non-NOI enhancing capital expenditures per MHC site. The weighted average number of rental units owned during the year was used to determine the capital adjustment applied to FFO to calculate AFFO.

For the years ended December 31,

	2015	2014	% Change
FFO	**$49,016**	$40,162	22.0%
Maintenance Capital Expenditures			
Apartments	**(5,861)**	(5,623)	4.2%
MHCs	**(516)**	(516)	-%
AFFO	**$42,639**	$34,023	25.3%
AFFO/ share - diluted(1)	**$0.68**	$0.61	11.5%
AFFO payout ratio - diluted(2)	**87.7%**	98.1%	(10.6)%
Weighted average number of shares - diluted	**62,360**	55,664	12.0%

(1) The calculation of weighted average shares outstanding for diluted AFFO purpose excludes the convertible debentures for the years ended December 31, 2015 and 2014, as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.
(2) Based on Killam's annualized dividend of $0.60 for 2015 and 2014.

Management is pleased to report an improved payout ratio for the year ending December 31, 2015, as noted above. Killam's board evaluates the Company's payout ratio on a quarterly basis. The board has not set a specific AFFO payout target, but believes that a ratio below 90% is important. Future earnings growth from same store operations and accretive acquisitions is expected to further lower the payout ratio.

Killam's Annual Dividend & AFFO Payout Ratio

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

PART VI

Investment Properties

As at December 31,

	2015	2014	% Change
Investment properties	**$1,794,580**	$1,693,055	6.0%
Investment properties under construction ("IPUC")	**45,676**	40,840	11.8%
	$1,840,256	$1,733,895	6.1%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the years ended December 31, 2015, and 2014.

As at and for the years ended December 31,

	2015	2014
Balance, beginning of year	**$1,693,055**	$1,451,743
Acquisition of properties	**41,924**	219,635
Disposition of properties	**-**	(29,521)
Transfer from IPUC	**36,147**	14,098
Transfer to IPUC	**(2,300)**	-
Capital expenditures	**31,857**	32,668
Fair value adjustment - Apartments	**(6,837)**	(298)
Fair value adjustment - MHCs	**734**	4,730
Balance, end of year	**$1,794,580**	$1,693,055

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2015, and 2014, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.52%**	4.50%	8.00%	5.61%
MHCs	**5.75%**	**8.00%**	**6.82%**	5.75%	8.00%	6.79%

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

2015 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units/ Square Feet ("SF")	Purchase Price[1]
Apartments					
20 Technology Drive	Saint John	17-Jun-15	2014	59 units	$8,300
1471/1483/1489/1491 Carlton Street[2]	Halifax	5-Aug-15	1863-1951	4 units	$2,100
125 Knightsridge Street	Halifax	1-Dec-15	1986-1987	26 units	$2,175
Commercial properties					
Brewery Market	Halifax	31-Mar-15	1820-1984	158,000 SF	$22,300
Medical Arts Building[2]	Halifax	5-Aug-15	Pre-1960	18,000 SF	$6,350
Other					
Vacant land[3]	Halifax	31-Mar-15			$5,200
Vacant land[4]	Calgary	21-Dec-15			$7,250
Total Acquisitions					**$53,675**

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Acquired as a portfolio for future development opportunities.
(3) Purchase price represents 50% ownership interest in land for the construction of a 242-unit multi-residential property. The land also includes capacity for an additional 40 units.
(4) Purchase price represents 50% ownership interest in vacant land adjacent Killam's Calgary property for the construction of a potential 396-unit multi-residential property.

Investment Properties Under Construction

For the years ended December 31,

	2015	2014
Balance, beginning of year	**$40,840**	$24,373
Capital expenditures	**20,764**	29,013
Interest capitalized	**1,089**	1,216
Land acquisitions	**17,973**	-
Land disposition	**(1,143)**	-
Transfer from investment properties	**2,300**	-
Transfer to investment properties	**(36,147)**	(14,098)
Fair value gain	**-**	336
Balance, end of year	**$45,676**	$40,840

During 2015 Killam completed two developments including Chelsea Place in St. John's, NL and its first development in Ontario, Saginaw Gardens located in Cambridge. Both buildings were completed on time and on budget and were fully leased within six months of opening. The cost of the development in St. John's was $21.8 million ($213,000 per unit) resulting in an all cash yield of 6.0%. The cost of the building in Cambridge was $25.3 million ($207,000 per unit) resulting in an all cash yield of 5.8%. These returns are an estimated 100 bps premium over the yield anticipated on acquisitions of similar quality assets in these locations.

Construction of the 142-unit Southport development, located in downtown Halifax is expected to be completed in the third quarter of 2016. Killam owns a 50% interest in the project, representing 70 rental units. Killam's cost for the development is $14.7 million ($210,000 per unit) resulting in an all cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets in that location. To date, Killam has invested $8.2 million on the project.

During 2015 Killam acquired a 50% interest in vacant land for future development located in downtown Halifax across from the waterfront. Killam and its 50% partner began construction of a 242-unit building on this site late in the third quarter of 2015 and the project is expected to be completed in Q3-2017. The cost for the development is approximately $70.2 million ($290,000 per unit) resulting in an all cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets in that location. To date, Killam has invested $8.4 million in the project, representing its 50% interest in the project.

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

In December 2015, Killam acquired a 50% interest in a parcel of land adjacent its property located in Calgary for $7.5 million. This land was acquired for future development. Killam will continue to assess opportunities to acquire land for future development. In addition to the projects currently under construction, Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Silver Spear[1]	Mississauga, ON	110	In design and approval process
Saginaw - Phase II	Cambridge, ON	93	In design and approval process
Spring Garden Terrace Land	Halifax, NS	106	Approved development agreement
The Alexander - Phase II[1]	Halifax, NS	40	As of right
Carlton Houses	Halifax, NS	70	Future development
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
1335 Hollis Street	Halifax, NS	30	Future development
Block 4	St. John's, NL	80	As of right
Topsail Road	St. John's, NL	225	Approved development agreement
Grid 5 vacant land[1]	Calgary, AB	396	Future development
Total Development Opportunities		**1,350**	

(1) 50% ownership

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2015, Killam invested a total of $31.9 million in its portfolio, compared to $32.7 million for 2014.

For the years ended December 31,

	2015	2014	% Change
Apartments	**$28,511**	$30,096	(5.3)%
MHCs	**2,285**	2,525	(9.5)%
Commercial	**1,061**	47	2,157.4%
	$31,857	$32,668	(2.5)%

Apartments - Capital Spend

A summary of the capital spend on the apartment segment is included below:

For the years ended December 31,

	2015	2014	% Change
Building improvements	**$16,052**	$18,498	(13.2)%
Suite renovations	**9,701**	9,470	2.4%
Appliances	**944**	1,246	(24.2)%
Boilers and heating equipment	**1,335**	363	267.8%
Other	**210**	237	(11.4)%
Equipment	**218**	197	10.7%
Parking lots	**40**	45	(11.1)%
Land improvements	**11**	40	(72.5)%
Total capital spend	**$28,511**	$30,096	(5.3)%
Average number of units outstanding	**13,093**	12,870	1.7%
Capital spend per unit	**$2,178**	$2,338	(6.8)%

Annual capital investment includes a mix of maintenance capital and value enhancing upgrades. Maintenance capital varies with market conditions and relates to investments that are not expected to lead to an increase in NOI, or increased efficiency, of a building; however, it is expected to extend the life of a building. Examples of maintenance capital include roof and window repairs/replacements and are in addition to regular repairs and maintenance costs that are expensed to NOI. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. These include unit and common area upgrades and energy and water saving investments.

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

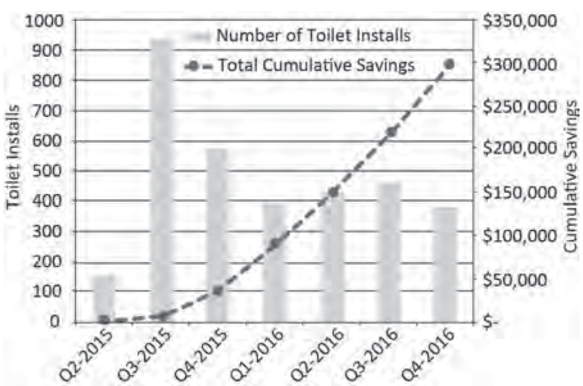
Of the $28.5 million capital investment made in the apartment segment in 2015, approximately 60% was invested in building improvements, which included several large projects with major façade upgrades, roof replacements, common area renovations and energy efficiency investments to increase the quality of the Company's portfolio.

The 2015 energy improvements included the following:

Project	Description	Annualized Savings	Payback
Water	Installed 1,900 low-flow toilets	$255,000	2.2 years
Electric	Upgraded common area lighting at 6 properties	$35,000	1.5 years
Building Controls	Installed smart automated controls in boiler rooms of 8 properties	$75,000	1.7 years
Fuel	Upgraded boilers and maximized duel burner capacity	$150,800	2.5 years
Total (Weighted average)		**$515,800**	**2.2 years**

Anticipated efficiency investments for 2016 include the installation of 2,000 low-flow toilets, additional smart automated building system controls, boiler upgrades and various other electric related projects. The following chart highlights the anticipated water savings from Killam's low-flow toilet install program.

Killam's Low-flow Toilet Installs



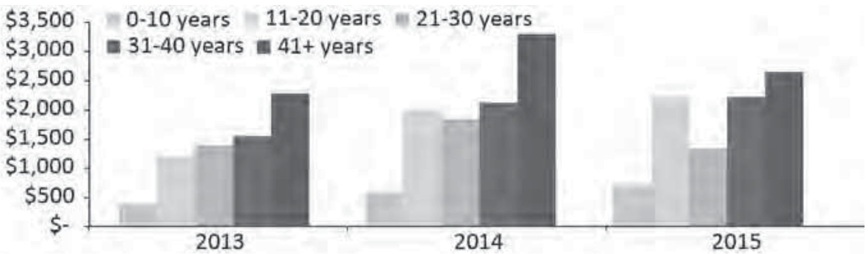
Approximately 40% of the apartment capital investment for the year was invested in suite renovations. On a per unit basis, approximately $1,350 was invested in both 2014 and 2015 with a focus on improving the quality of Killam's units to maximize occupancy and rental increases. The increased costs associated with flooring upgrades and high-quality finishes were offset with savings realized through standardizing the suite renovation process and bulk purchasing.

The Company continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. The Company identified its 199-unit property located in Mississauga, ON, as a property with significant potential for repositioning and rental growth. In 2015, Killam completed 20 unit renovations averaging $14,000 per turn including new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 12.5% and an average return on investment of 13%. The Company expects to continue to upgrade units at this property in 2016 as turnover allows.

The timing of capital spending is variable and is influenced by tenant turnover, market conditions and individual property requirements. In addition, the length of time that Killam has owned a property and the age of the property also impacts capital requirements.

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

Annual Capital Investment per Unit



As the above chart highlights, the capital spend per unit is less for newer properties, averaging $706 per unit in 2015, compared to $2,609 per unit for buildings over 40 years old. Killam's continual focus on development and acquiring new properties aids in maintaining lower capital requirements on a per unit basis. Twenty-five percent of Killam's apartments, as a percentage of anticipated 2016 NOI, have been built in the past ten years.

Value enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest between $28-30 million during 2016 on capital investments across its apartment portfolio.

MHCs - Capital Spend

A summary of the capital spend on the MHC segment is included below:

For the years ended December 31,

	2015	2014	% Change
Water & sewer upgrades	**$1,236**	$1,226	0.8%
Site expansion and land improvements	**261**	544	(52.0)%
Other	**410**	468	(12.4)%
Roads and paving	**302**	272	11.0%
Equipment	**76**	15	407%
Total capital spend - MHCs	**$2,285**	$2,525	(9.5)%
Average number of units outstanding	**5,165**	5,165	-%
Capital spend per unit	**$442**	$489	(9.6)%

Management expects to invest between $300 and $500 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI from the investment.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest $2.0 - $3.0 million during 2016 on capital improvements across the MHC portfolio.

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

Loans Receivable

On May 23, 2014, the Company provided a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance. The Company also has a vendor take-back loan receivable for $0.95 million, bearing interest at 6.5%.

Liquidity and Capital Resources

Killam's sources of capital are cash generated from operating activities, mortgage financings and refinancings, credit facilities, and equity and debt issuances. Killam's primary use of capital includes property acquisitions and developments, major property improvements, property maintenance, debt principal and interest payments, and payment of dividends. The Company anticipates meeting all current and future obligations with a combination of current cash and cash equivalents, cash flow generated from operations and conventional mortgage refinancings, including net cash accessible through upfinancings, and that the Company will be able to obtain financing on reasonable terms.

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $11.7 million at December 31, 2015.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at December 31,

	2015	2014	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**4.2**	4.4	(0.2 years)
Gross mortgage, loan and vendor debt as a percentage of total assets	**50.4%**	49.4%	100 bps
Total debt as a percentage of total assets	**55.7%**	54.9%	80 bps
Interest coverage ratio	**2.34x**	2.21x	13 bps
Debt service coverage ratio	**1.35x**	1.34x	1 bps
Weighted average interest rate of mortgage and vendor debt	**3.27%**	3.60%	(33) bps
Weighted average interest rate of total debt	**3.60%**	3.93%	(33) bps

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize VTB mortgages as part of an acquisition. Mortgages are secured by a first or second charge against individual properties and the vendor financing is secured by a general corporate guarantee.

Killam's December 31, 2015, weighted average interest rate on mortgages improved to 3.27% from 3.60% at December 31, 2014, as a result of refinancings at lower interest rates during the period. This trend is expected to continue over the next year with $123.0 million of mortgage balances maturing. Management expects to refinance these mortgages at lower interest rates than their current weighted average rates of 4.19%. These refinancings represent 13.0% of Killam's total mortgage portfolio.

Total debt as a percentage of total assets has increased 80 bps to 55.7% from December 31, 2014. Management expects its percentage of debt to total assets to not exceed 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps increase in the weighted average cap-rate at December 31, 2015, would have increased the ratio of debt as a percentage of total assets by 90 bps.

Excluding the outstanding convertible debentures, Killam's debt as a percentage of assets is 50.4%. The convertible debentures mature in 2017 ($57.5 million) and 2018 ($46.0 million). Killam has the option to redeem the convertible debentures at fair value anytime after November 2015 and June 2016, respectively. Management may redeem the convertible debentures with equity in the future and thereby reduce Killam's debt levels.

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

2015 Refinancings

During the year ended December 31, 2015, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$87,165	4.48%	$128,393	2.17%	6.0 years	$41,228
MHCs	3,968	5.19%	7,327	3.52%	5.0 years	3,359
	$91,133	4.51%	$135,720	2.24%	5.9 years	$44,587

The following table sets out the maturity dates and average interest rates of mortgage and vendor debt, and percentage of apartment mortgages that are CMHC insured by year of maturity:

	Apartments			MHCs		Total	
Year of Maturity	Balance December 31, 2015	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2015	Weighted Avg Int. Rate %	Balance December 31, 2015	Weighted Avg Int. Rate %
2016	120,047(1)	4.17	49.3	2,992	5.08	123,039	4.19
2017	58,960	3.43	43.1	16,540	4.65	75,500	3.69
2018	90,919	3.64	41.0	12,277	4.34	103,196	3.73
2019	171,098	2.82	97.1	19,582	3.86	190,680	2.93
2020	194,204	2.56	57.6	7,222	3.52	201,426	2.59
2021	28,655	3.43	91.2	-	-	28,655	3.43
2022	23,060	3.16	100.0	-	-	23,060	3.16
2023	81,512	3.30	100.0	-	-	81,512	3.30
Thereafter	121,521	3.31	100.0	-	-	121,521	3.31
	$889,976	3.21	73.3	$58,613	4.20	$948,589	3.27

(1) Excludes $11.2 million related to demand loans classified as current mortgage debt on the December 31, 2015, consolidated financial statements.

Apartment Mortgage Maturities by Year

As at December 31, 2015, approximately 73% of the Company's apartment mortgages were CMHC insured (69% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2014 – 75% and 70%). The weighted average interest rate on the CMHC insured mortgages was 3.01% as at December 31, 2015 (December 31, 2014– 3.31%).

Access to mortgage debt is essential in financing future acquisitions and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered the maturity dates of its mortgages to manage interest rate risk. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt and therefore are able to lend at more favourable rates.

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

The following table presents the NOI for properties that are available to Killam to refinance at debt maturity in 2016:

	Number of Properties	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	34	$14,276	$119,706
MHCs with debt maturing	4	732	2,909
2016 debt maturities	38	$15,008	$122,615

Future Contractual Debt Obligations

At December 31, 2015, the timing of the Company's future contractual debt obligations are as follows:

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

Convertible Debentures

Killam's $57.5 million convertible unsecured subordinated debentures mature November 30, 2017, bear interest at 5.65% and are convertible, at the holders' option, to Trust Units at a price of $13.40. The debentures were redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption was given was not less than 125% of the conversion price. After November 30, 2015, the debentures were redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

Killam's $46.0 million convertible unsecured subordinated debentures mature June 30, 2018, bear interest at 5.45% and are convertible, at the holders' option, to Trust Units at a price of $14.60. The debentures were redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016, provided that the current market price of the Trust Units of Killam on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

Construction Loan

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

Credit Facilities

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

I. A $2.0 million revolving demand facility that can be used for Killam's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2015, the Company had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $Nil (December 31, 2014 - $Nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

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

Shareholders' Equity

On March 31, 2015, the Company issued 1,092,548 common shares to Halkirk Properties Limited to satisfy $12.0 million of the $27.5 million purchase price for the acquisition of the Brewery Market and a 50% interest in vacant land (refer to related party transactions on page 40).

On August 5, 2015, the Company issued 249,311 common shares to satisfy $2.5 million of the $8.4 million purchase price for the acquisition of 5880 Spring Garden Road, 1489/1491 Carlton Street, 1483 Carlton Street and 1471 Carlton Street.

During the year, 367,907 stock options were exercised for common shares, and cash proceeds to the Company of $3.0 million. All outstanding stock options were exercised in Q2-2015 and as at December 31, 2015, there are no stock options outstanding. There were also 48,957 restricted share units ("RSUs") redeemed, and 30,696 shares issued related to redemptions during 2015 (December 31, 2014 – 42,856 redeemed and 25,197 shares issued).

During Q3-2015, the Company repurchased through its normal course issuer bid 21,000 common shares at an average price of $9.98.

During 2015, Killam paid a dividend of $0.05 per share per month ($0.60 per share annualized).

For the year ended December 31, 2015, Killam issued 667,594 shares under its Dividend Reinvestment Plan with a value of $6.9 million (December 31, 2014 – 246,533 shares with a value of $2.6 million). For the year ended December 31, 2015, the average participation rate was 19% (December 31, 2014 - 8%). Effective January 1, 2016, the Trust assumed all of Killam's obligations under the Dividend Reinvestment Plan and the plan was amended and restated to become the Distribution Reinvestment Plan ("DRIP"). Pursuant to the DRIP, Unitholders may elect to have all cash distributions of the Trust automatically reinvested in additional Trust units at a price per Trust unit calculated by reference to the weighted average of the closing price of Trust units on the TSX for the ten trading days immediately preceding the relevant distribution date. Unitholders who elect will receive a further distribution of Trust units equal in value to 3% of each distribution that was reinvested by the Unitholder.

As at February 16, 2016, Killam had 58,174,798 Trust Units and 4,748,061 exchangeable units outstanding.

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

PART VII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

An eight quarter trend highlighting key operating results is shown below:

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	**$42,433**	**$43,193**	**$41,452**	**$39,536**	$38,147	$37,777	$36,518	$35,065
NOI	**25,361**	**27,178**	**25,196**	**20,655**	21,767	23,773	21,441	17,620
Net income attributed to common shareholders	**7,420**	**11,462**	**8,753**	**6,922**	(9,259)	20,491	13,671	4,869
Earnings per share (diluted)	**$0.12**	**$0.17**	**$0.14**	**$0.11**	$(0.12)	$0.33	$0.23	$0.09
FFO	**12,403**	**14,779**	**12,912**	**8,922**	10,250	12,919	10,179	6,826
FFO per share (diluted)	**$0.20**	**$0.24**	**$0.21**	**$0.15**	$0.18	$0.23	$0.18	$0.12
AFFO per share (diluted)	**$0.17**	**$0.21**	**$0.18**	**$0.12**	$0.15	$0.21	$0.16	$0.10
Weighted average shares outstanding (diluted) (000's)	**62,951**	**70,104**	**62,360**	**61,035**	57,544	62,614	55,020	54,896

Killam's total property revenue for the three months ended December 31, 2015, was $42.4 million, an 11.2% increase in revenue over the same period of 2014. The growth was generated through revenue from acquisitions and developments, as well as increased same store revenue. Total property expenses increased 4.2% in Q4-2015 compared to Q4-2014 as a result of expenses associated with new acquisitions and completed developments. Despite the increase in property expenses, the Q4-2015 operating margin increased 270 bps as a result of lower utility and fuel expenses and higher margins on newly acquired assets.

Q4 Same Store NOI

For the year ended December 31,

	Total Portfolio			**Apartments**			**MHCs**		
	2015	2014	% Change	**2015**	2014	% Change	**2015**	2014	% Change
Property revenue	**$35,630**	$35,052	1.6%	**$32,399**	$31,907	1.5%	**$3,231**	$3,145	2.7%
Operating expenses	**5,783**	5,753	0.5%	**4,997**	5,018	(0.4)%	**786**	735	6.9%
Utility and fuel expenses	**4,915**	5,237	(6.1)%	**4,603**	4,918	(6.4)%	**312**	319	(2.2)%
Property taxes	**3,979**	3,890	2.3%	**3,831**	3,745	2.3%	**148**	145	2.1%
Total property expenses	**14,677**	14,880	(1.4)%	**13,431**	13,681	(1.8)%	**1,246**	1,199	3.9%
NOI	**$20,953**	$20,172	3.9%	**$18,968**	$18,226	4.1%	**$1,985**	$1,946	2.0%
Operating margin	**58.8%**	57.5%	130 bps	**58.5%**	57.1%	140 bps	**61.4%**	61.9%	(50) bps

Apartment Same Store
Killam's same store apartment portfolio realized NOI growth of 4.1% for Q4-2015 due to a 1.5% increase in net revenues along with a 1.8% savings realized in total operating expenses. Net apartment revenue growth of 1.5%, or $0.5 million, quarter-over-quarter is the result of increased rental rates of 1.3%, decreased rental incentive offerings and higher occupancy. Rental incentive offerings decline 25 bps to 0.65% of residential rent for the quarter compared to 0.90% in Q4-2014. Killam realized stronger occupancy in Halifax, Moncton, Saint John and Charlottetown in Q4-2015, increasing the same store apartment occupancy 30 bps in the fourth quarter to 96.1% compared to 95.8% in Q4-2014. A 6.4% savings was realized in utility and fuel expense, which was the main driver of both the decrease in total property operating expenses and the 140 bps increase in the operating margin for Q4-2015. These savings were due to decreased natural gas and oil pricing compared to Q4-2014, along with reduced water and heating fuel consumption related to energy efficiency projects implemented in 2015.

MHC Same Store
The MHC same store portfolio continued to generate strong revenue growth, up 2.7% from Q4-2014, driven by increased rental rates and stable occupancy quarter-over-quarter. Total same store property expenses increased 3.9% due to higher snow removal costs, along with increased property tax costs. This was partially mitigated by reduced water consumption in several parks. The same store MHC

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

portfolio realized NOI growth of 2.0% quarter-over-quarter.

Q4 FFO and AFFO

For the years ended December 31,

	2015	2014	% Change
Net income	**$8,069**	$(8,554)	(194.3)%
Fair value losses	**7,651**	16,814	(54.5)%
Fair value gain in equity income	**-**	(229)	-%
Non-controlling interest (before fair value gains)	**(264)**	(248)	6.5%
Depreciation on owner-occupied building	**47**	42	11.9%
Loss on disposition	**-**	1,351	-%
Tax planning costs	**1,477**	-	N/A
Current tax recovery	**-**	(1,124)	-%
Deferred tax expense	**(4,577)**	2,198	(308.2)%
	$12,403	$10,250	21.0%
FFO/share - diluted	**$0.20**	$0.18	11.1%
AFFO/share (diluted)	**$0.17**	$0.15	13.3%
Weighted average shares - diluted (000's)	**62,951**	57,544	9.4%
AFFO payout ratio - diluted	**87.5%**	99.3%	(11.9)%

FFO was $12.4 million in the fourth quarter, up 21.0% from $10.3 million in the fourth quarter of 2014. FFO per share was $0.20 in Q4-2015, an 11.1% increase over the same period in 2014. This increase was related to increased same store growth ($1.6 million) and acquisitions and developments ($1.2 million) offset by higher administrative costs ($0.4 million), a decrease in capitalized interest ($0.3 million) and a 9.4% increase in the weighted average shares outstanding.

Selected Consolidated Financial Information

For the years ended December 31,

	2015	2014	2013
Property revenue	**$166,614**	$147,507	$141,112
Net income attributable to common shareholders	**$34,557**	$29,772	$39,779
Earnings per share (diluted)	**$0.55**	$0.53	$0.69
FFO	**$49,016**	$40,162	$38,770
FFO per share (diluted)	**$0.79**	$0.72	$0.71
Investment properties	**$1,840,256**	$1,733,895	$1,476,116
Total assets	**$1,876,276**	$1,775,234	$1,532,431
Total liabilities	**$1,190,948**	$1,112,551	$928,371
Dividend per share	**$0.60**	$0.60	$0.58

PART VIII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. Real estate investments are generally subject to varying degrees of risk, depending on the nature of the property. These risks include (i) changes in general economic conditions, (ii) changes in local conditions (such as an oversupply of units or a reduction in demand for real estate in the area), (iii) changes to government regulations (such as new or revised residential tenant legislations), (iv) competition from others with available units, and (v) the ability of the landlord or owner to provide adequate maintenance economically.

Real estate is relatively illiquid. Such illiquidity will tend to limit Killam's ability to rebalance its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners, resulting in distress sales, may depress real estate values in the markets in which the Company operates.

Killam's exposure to general risks associated with real estate investments is mitigated with both its geographic diversification, and investments in both apartments and MHCs.

Killam is exposed to other risks, as outlined below:

Interest Rate Risk
Interest rate risk is the risk that Killam would experience lower returns as the result of its exposure to a higher interest rate environment. Killam is exposed to interest rate risk as a result of its mortgages and loans payable, however this risk is mitigated through Killam's strategy to have the majority of its mortgages payable in fixed-term arrangements. Killam also structures its financings so as to stagger the maturities of its debt, minimizing Killam's exposure to interest rates in any one year.

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

Liquidity Risk
Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program and/or refinance its debt obligations as they mature. Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. The maturities of Killam's long-term financial liabilities are set out in note 23 of the consolidated financial statements. Killam structures its financings so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, reducing the refinancing risk on mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt.

Increased Supply Risk
Increased supply risk is the risk of loss from increased competition from the addition of new rental units in Killam's core markets. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located, offer lower rents or more rental incentives. An increase in alternative housing could have a material adverse effect on Killam's ability to lease units and the rents charged and could adversely affect Killam's revenues and ability to meet its obligations. To mitigate against this risk Killam has a geographically diverse asset base. Management is expanding this diversification by increasing Killam's investment in apartment markets outside Atlantic Canada.

Credit Risk
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.4% of revenues. None of Killam's tenants account for more than 1% of tenant receivables.

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays occur and/or units will not be leased in the timeframe and/or at rents anticipated. Killam minimizes its exposure to development risk by limiting the amount of development underway at any one time to less than 5% of its consolidated statement of financial position. To reduce Killam's exposure to cost increases, Killam enters into fixed-rate contracts when possible. To reduce the lease-up risk, Killam does market research in advance of each development to support expected rental rates, and premarkets its properties early on in the process, to increase demand for the new developments.

Environmental Risk

As an owner of real estate, Killam is subject to federal, provincial and municipal environmental regulations. These regulations may require Killam to fund the costs of removal and remediation of certain hazardous substances on its properties or releases from its properties. The failure to remediate such properties, if any, could adversely affect Killam's ability to borrow using the property as collateral or to sell the real estate. Killam is not aware of any material noncompliance with environmental laws at any of its properties. Killam has made, and will continue to make, the necessary capital expenditures to comply with environmental laws and regulations. Environmental laws and regulations can change rapidly, and Killam may be subject to more stringent environmental laws and regulations in the future. Killam mitigates its risk of losses associated with oil tank leaks by enforcing the requirement for appropriate insurance, performing regular oil tank inspections, and enforcing the removal of oil tanks when homes are sold at its MHC communities.

General Uninsured Losses

Killam carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar companies. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or would not be economically insurable.

Rent Control Risk

Rent control exists in some provinces in Canada, limiting the percentage of annual rental increases to existing tenants. Killam is exposed to the risk of the implementation of, or amendments to, existing legislative rent controls in the markets in which it operates, which may have an adverse impact on Killam's operations. In the provinces that Killam currently operates, Prince Edward Island, and Ontario have rent controls. As well, Nova Scotia has rent control for MHCs.

Utility, Energy and Property Tax Risk

Killam is exposed to volatile utility and energy costs and increasing property taxes. Utility and energy expenses, mainly consisting of oil, natural gas, water and electricity charges, have been subject to considerable price fluctuations over the past several years. Killam has the ability to raise rents on the anniversary date of its leases, subject to the overall rental market conditions, to offset rising energy and utility costs, however rental increases may be limited by market conditions. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility. Killam has the ability to fix rates through the use of swap contracts for a portion of its oil and fixed contracts through suppliers for natural gas consumption to reduce the impact of fluctuations in commodity prices. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Potential Volatility of Unit Prices

One of the factors that may influence the market price of the Trust Units is the annual yield on the Trust Units. An increase in market interest rates may lead purchasers of Trust Units to demand a higher annual yield, which accordingly could adversely affect the market price of the Trust units. In addition, the market price of the Trust Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Trust.

Legal Rights Normally Associated with the Ownership of Shares of a Corporation

As holders of Units, Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against the Trust. The Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Fluctuation and Availability of Cash Distributions

Killam's distribution policy will be established pursuant to the Declaration of Trust and may only be changed with the approval of a majority of Unitholders. However, the Board of Trustees may reduce or suspend cash distributions indefinitely, which could have a material adverse effect on the market price of the Trust Units. There can be no assurance regarding the amount of income to be generated by Killam's properties. The ability of Killam to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of Killam, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of Killam's properties and capital expenditure requirements. Distributions may be increased, reduced or suspended entirely depending on Killam's operations and the performance of Killam's assets at the discretion of the Trustees. The market value of the Trust Units will deteriorate if Killam is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Ability of Unitholders to Redeem Units

The entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the following limitations: (i) the total amount payable by Killam in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month must not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Trust Units are tendered for redemption, the outstanding Trust Units must be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides fair market value prices for the Trust Units; (iii) the trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the redemption date for more than five trading days during the 10-day trading period commencing immediately after the redemption date; and (iv) the redemption of the Trust Units must not result in the delisting of the Trust Units from the principal stock exchange on which the Trust Units are listed.

Exchangeable Units

Holders of Exchangeable Units may lose their limited liability in certain circumstances, including by taking part in the control or management of the business of the Killam Apartment Limited Partnership ("Limited Partnership"). The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province have not been authoritatively established. If limited liability is lost, there is a risk that holders of Exchangeable Units may be liable beyond their contribution of capital and share of undistributed net income of the Limited Partnership in the event of judgment on a claim in an amount exceeding the sum of the net assets of the General Partner and the net assets of the Limited Partnership. Holders of Exchangeable Units remain liable to return to the Limited Partnership for such part of any amount distributed to them as may be necessary to restore the capital of the Limited Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Limited Partnership is reduced and the Limited Partnership is unable to pay its debts as they become due.

Taxation-Related Risks

Killam currently qualifies as a mutual fund trust for Canadian income tax purposes. It is the current policy of Killam to distribute all of its taxable income to Unitholders and it is therefore generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, Killam is required to comply with specific restrictions regarding its activities and the investments held by it. Should Killam cease to qualify as a mutual fund trust, the consequences could be adverse.

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects Killam or its Unitholders. If Killam ceases to qualify as a "mutual fund trust", Killam will be required to pay a tax under Part XII.2 of the Income Tax Act ("Tax Act"). The payment of Part XII.2 tax by Killam may have adverse income tax consequences for certain of Killam's Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in Killam directly or indirectly from another Killam Unitholder. If Killam ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and Killam Units cease to be listed on a designated stock exchange, Killam Units will cease to be qualified investments for trusts governed by designated savings plans. Killam will endeavour to ensure Trust Units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether Killam Units are "prohibited investments" for registered retirement savings plans, registered retirement income funds or tax free savings accounts.

Certain rules in the Tax Act (the "SIFT Rules") affect the tax treatment of "specified investment flow-through trusts ("SIFT trusts"), and their unitholders. A trust resident in Canada will generally be a SIFT trust for a particular taxation year for purposes of the Tax Act if, at any time during the taxation year, investments in the trust are listed or traded on a stock exchange or other public market and the trust holds one or more "non-portfolio properties" as defined in the Tax Act. Non-portfolio properties generally include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections to Canada. However, a trust will not be considered to be a SIFT trust for a taxation year if it qualifies as a "real estate investment trust" (as defined in the Tax Act) for that year (the "REIT Exception").

Pursuant to the SIFT Rules, distributions of a SIFT trust's "non-portfolio earnings" are not deductible to the SIFT trust in computing its income. Non-portfolio earnings are generally defined as income attributable to a business carried on by the SIFT trust in Canada or to income (other than dividends) from, and taxable capital gains from the disposition of, non-portfolio properties. The SIFT trust is itself liable to pay income tax on an amount equal to the amount of such non-deductible distributions at a rate that is substantially equivalent to the combined federal and provincial general tax rate applicable to taxable Canadian corporations. Such non-deductible distributions paid to a holder of units of the SIFT trust are generally deemed to be taxable dividends received by the holder of such units from a taxable Canadian corporation. Such deemed dividends will qualify as "eligible dividends" for purposes of the enhanced gross-up and dividend tax credit if paid to any individual resident in Canada. Distributions that are paid as returns of capital will not attract this tax.

A trust that satisfies the REIT Exception is excluded from the definition of a SIFT trust in the Tax Act and is therefore not subject to the SIFT Rules. In addition to the trust being resident in Canada throughout the year, the following five criteria must be met in order for the Trust to qualify for the REIT Exception:

- At each time in the Taxation Year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
- Not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";
- Not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages, on real or immovable properties, from dispositions of real or immovable properties that are capital properties;
- At no time in the Taxation Year can the total fair market value of properties comprised of real or immovable property that is capital property, an "eligible resale property", cash, deposits (within the meaning of the Canada Deposit Insurance Corporation Act or with a branch in Canada of a bank or a credit union), indebtedness of Canadian corporations represented by banker's acceptances, and debt issued or guaranteed by the Canadian government or issued by a province, municipal government or certain other qualifying public institutions be less than 75% of the "equity value" (in each case, as defined in the Tax Act) of the Trust at that time; and
- Investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

The SIFT Rules contain a "look-through rule" under which a trust could qualify for the REIT Exception where it holds properties indirectly through intermediate entities, provided that each such entity, assuming it were a trust, would satisfy paragraphs (1) through (4) of the REIT Exception above.

The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy. The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each Taxation Year, and each direct and indirect subsidiary of the Trust will qualify as an "excluded subsidiary entity" (as defined in the Tax Act) such that the Trust will not be a SIFT Trust within the meaning of the SIFT Rules at any time. However, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a Taxation Year will not result in the Trust failing to qualify for the REIT Exception for that Taxation Year.

If the Trust does not qualify for the REIT Exception for a Taxation Year, the SIFT Rules will apply to the Trust for that year. Application of the SIFT Rules may, depending on the nature of distributions from the REIT, including what portion of its distributions are income and what portion are returns of capital, have a material adverse effect on the after-tax returns of certain Unitholders. Such adverse tax consequences may impact the future level of cash distributions made by the Trust, the ability of the Trust to undertake future financings and acquisitions and could also adversely affect the marketability of the Trust's securities.

The REIT Exception is applied on an annual basis. Accordingly, if the Trust did not qualify for the REIT Exception in a particular Taxation Year, it may be possible to restructure the Trust such that it may qualify in a subsequent Taxation Year. There can be no assurances, however, that the Trust will be able to restructure such that it will not be subject to the tax imposed by the SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the Trust and Unitholders. The Trust intends to take such steps as are necessary to ensure that, to the extent possible, it qualifies for the REIT Exception and any negative effects of the SIFT Rules on the Trust and Unitholders are minimized.

Other Canadian Tax Matters

There can be no assurance that Canadian federal income tax laws, the terms of the Canada-United States Income Tax Convention, or the administrative policies and assessing practices of the CRA, will not be changed in a manner that adversely affects the REIT or Unitholders. Any such change could increase the amount of tax payable by the REIT, or its affiliates and/or Unitholders or could otherwise adversely affect Unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to Unitholders in respect of distributions.

In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes. Such increased tax liability could have a material adverse effect upon the Trust's ability to make distributions to Unitholders.

Related Party Transactions

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

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees or project management fees, to the company controlled by an executive and director of Killam. Killam paid $45,000 (2014 - $Nil) in project management fees during 2015 related to leasehold improvements for a new commercial tenant.

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Valuation of Investment Properties

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

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

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

Property Acquisitions

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

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

Taxes

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

Consolidation and joint arrangements

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

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

Valuation of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as FVTPL and determining whether Killam has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

Future Accounting Policy Changes

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

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

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

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

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

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on Killam.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

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

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

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

IFRS 16 *Leases* ("IFRS 16")

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

Disclosure Controls and Procedures and Internal Controls

Management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that its Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within Killam have been detected.

Disclosure Controls and Procedures

As of December 31, 2015, Management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the inherent limitations noted above, Disclosure Controls are effective in ensuring that material information relating to Killam and its consolidated subsidiaries is made known to Management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Killam's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. Management's documentation and assessment of the effectiveness of Killam's ICFR continues as of the date of this MD&A with the focus on processes and controls in areas identified as being "key risks".

As of the financial year ended December 31, 2015, the certifying Officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying Officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2015, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying Officers have evaluated whether there were any changes to the ICFR during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

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

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

Management's Responsibility for Financial Statements

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

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

As at December 31, 2015, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 16, 2016

Philip Fraser
President and Chief Executive Officer

Robert Richardson
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the accompanying consolidated financial statements of Killam Properties Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLP

Halifax, Canada,

February 16, 2016.

Chartered accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars,

As at December 31,

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

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board of Trustees.

G. W. Watson

Trustee

Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts)

For the years ended December 31,

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

For the year ended December 31, 2015

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

For the year ended December 31, 2014

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars

For the years ended December 31,

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

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1. Corporate Information

Killam Properties Inc. ("Killam") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at December 31, 2015**.** The head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

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

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

2. Significant Accounting Policies

(A) Statement of Compliance

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

(B) Basis of Presentation

The consolidated financial statements of Killam have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand ($000), except share, per share or as noted amounts. Standards and guidelines not effective for the current accounting period are described in note 4.

(C) Basis of Consolidation

(i) Subsidiaries

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

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

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

a) Power over more than half of the voting rights by virtue of an agreement with other investors;

b) Power to govern the financial and operating policies of the entity under a statute or an agreement;

c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;

d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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

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

2. Significant Accounting Policies (continued)

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

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

Subsidiary	% Interest
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties M.H.C. Trust	100%
661047 N.B. Inc.	100%
Blackshire Court Limited	100%
Blackshire Court Limited Partnership	96.94%
Killam KamRes (Silver Spear) Inc.	50%
Killam KamRes (Grid 5) Inc.	50%
Killam KamRes (Kanata Lakes) Inc.	50%
Killam KamRes (Kanata Lakes II) Inc.	50%
Killam - Keith Development Ltd.	50%

(ii) Joint Arrangements

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

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

(D) Property Asset Acquisitions

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

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

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

2. Significant Accounting Policies (continued)

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from investment properties is recognized on a straight line basis over the lease term. Killam has not transferred substantially all of the benefits and risks of ownership of its rental properties, and therefore accounts for leases with its tenants as operating leases. Other corporate income includes interest and management fees. Interest income is recognized as earned and management fees are recorded as services are provided.

(ii) Service charges and expenses recoverable from tenants

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

(iii) Manufactured home sales

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

(F) Tenant Inducements

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

(G) Investment Properties

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

(ii) Borrowing costs related to IPUC

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

(H) Property and Equipment

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

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

(I) Inventory

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

(J) Consolidated Statements of Cash Flows

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

(K) Share-Based Compensation

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

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

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

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

2. Significant Accounting Policies (continued)

(L) Financial Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

(i) Mortgages and loans payable

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

Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are amortized over the mortgage amortization period.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate calculation.

(ii) Convertible Debentures

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

(M) Derivatives

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

(N) Embedded derivatives

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

(O) Hedging Relationships

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

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

2. Significant Accounting Policies (continued)

Cash flow hedges

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

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

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

(P) Comprehensive Income

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

(Q) Accumulated Other Comprehensive Loss

AOCL is included in the consolidated statements of financial position as equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges.

(R) Taxation

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

During 2015 Killam adopted the following standards:

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

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

2. Significant Accounting Policies (continued)

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

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

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

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

3. Critical Accounting Judgments, Estimates and Assumptions

In the application of Killam's accounting policies, which are described in note 2, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
In the process of applying Killam's accounting policies, Management has made the following judgments and estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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

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

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

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

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

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

Taxes

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

Consolidation and joint arrangements

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

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

Valuation of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as FVTPL and determining whether Killam has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

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

4. Future Accounting Policy Changes

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

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

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

4. Future Accounting Policy Changes (continued)

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on Killam.

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

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

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

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

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

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

5. Investment Properties

As at December 31, 2015

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

As at December 31, 2014

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

During 2015, Killam acquired the following investment properties:

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

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

5. Investment Properties (continued)

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

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

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

Valuation methodology and processes

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

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

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

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

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

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

Valuation techniques underlying Management's estimation of fair value

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

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

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

5. Investment Properties (continued)

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

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

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

	December 31, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.52%**			5.61%
Halifax	5.00%	7.33%	5.58%	5.00%	7.00%	5.59%
Moncton	5.15%	8.00%	6.04%	5.15%	8.00%	6.04%
Fredericton	5.15%	6.25%	5.90%	5.15%	6.25%	5.86%
Saint John	6.00%	6.75%	6.40%	6.25%	6.75%	6.50%
St. John's	5.00%	6.00%	5.68%	5.15%	6.00%	5.75%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.20%	5.92%
Ontario	4.12%	5.00%	4.63%	4.50%	5.10%	4.95%
Alberta	4.85%	4.85%	4.85%	5.00%	5.00%	5.00%
Other Atlantic	5.75%	7.00%	6.57%	5.75%	7.00%	6.61%
MHCs			**6.82%**			6.79%
Ontario	7.00%	8.00%	7.49%	7.00%	8.00%	7.47%
Nova Scotia	5.75%	7.00%	6.22%	5.75%	7.50%	6.26%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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

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

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

6. Joint Operations and Investments in Joint Venture

A joint venture, previously accounted for using the equity method, was dissolved on December 9, 2014, and Killam purchased the remaining 75% ownership interest in the properties. Subsequent to the purchase, Killam sold a 50% interest in two of the properties to a third-party and these properties are now accounted for as joint operations.

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

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

7. Property and Equipment

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

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

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

8. Loans Receivable

Loans receivable as at December 31, 2015, include a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property issued in May 2014, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance. A vendor take-back loan for $0.95 million bearing interest at a rate of 6.5% was also issued in June 2015.

9. Rent and Other Receivables

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

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

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

10. Other Current Assets

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

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

11. Accounts Payable and Other Liabilities

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

12. Mortgages and Loans Payable

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

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

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

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

12. Mortgages and Loans Payable (continued)

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

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

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

I. A $2.0 million revolving demand facility that can be used for Killam's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at December 31, 2015, Killam had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $nil (December 31, 2014 - $nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

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

13. Construction Loans

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

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

14. Convertible Debentures

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

Killam's $57.5 million convertible subordinated debentures were redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015 (provided that the current market price of the common shares of Killam on the date on which the notice of redemption was given was not less than 125% of the conversion price). After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units (Refer to note 1) obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 7.3%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016 (provided that the current market price of the Trust Units of Killam on the date on which the notice of redemption is given is not less than 125% of the conversion price). After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of Trust Units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the Trust Units for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semi-annually, is calculated at 6.3%.

15. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares, with no par value

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

Issued:

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

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

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

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

15. Capital Stock and Contributed Surplus (continued)

Dividends

Killam paid monthly dividends as declared by the Board of Directors on or about the 15th day of each month. An annualized dividend of $0.60 was paid in 2015 (2014 - $0.60).

Dividend Reinvestment Plan ("DRIP")

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

Normal Course Issuer Bid

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

16. Share-Based Compensation

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

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

Killam did not issue stock options during 2014 or 2015.

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

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

Restricted Share Unit Plan

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

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

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

16. Share-Based Compensation (continued)

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

The Restricted Shares will be redeemed and paid out by December 31 of the year in which the Restricted Shares have vested. The Restricted Shares shall vest with the following schedule; (a) 50% on the second anniversary of the grant rate; and (b) 50% on the third anniversary of the grant date.

The details of the restricted share units issued under the restricted share unit plan are shown below:

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

17. Home Sales

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

18. Financing Costs

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

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

19. Income Taxes

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

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

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

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

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

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

20. Per Share Information

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

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

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

For the years ended December 31,	2015	2014
Net income applicable to common shareholders	**$34,557**	$29,772
Adjustment for dilutive effect of convertible debentures	**4,785**	4,727
Adjusted net income for diluted per share amounts	**$39,342**	$34,499

21. Segmented Information

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

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

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

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

For the year ended December 31, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$148,846**	**$14,323**	**$3,445**	**$166,614**
Property operating expenses	**(60,964)**	**(5,439)**	**(1,821)**	**(68,224)**
Net operating income	**$87,882**	**$8,884**	**$1,624**	**$98,390**
Home sales & corporate income	-	**-**	**1,495**	**1,495**
Financing costs	**(27,751)**	**(2,487)**	**(6,806)**	**(37,044)**
Depreciation and amortization	**(1,258)**	**(201)**	**(1,256)**	**(2,715)**
Administration	**(1,711)**	**(404)**	**(9,783)**	**(11,898)**
Income before fair value loss, loss on disposition and income taxes	**$57,162**	**$5,792**	**$(14,726)**	**$48,228**

Total assets	**$1,639,988**	**$126,394**	**$109,894**	**$1,876,276**
Total liabilities	**$893,914**	**$59,360**	**$237,674**	**$1,190,948**
Capital expenditures on investment properties	**$28,511**	**$2,285**	**$1,061**	**$31,857**

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

21. Segmented Information (continued)

For the year ended December 31, 2014	Apartments	MHCs	Other	Total
Property revenue	$132,950	$13,980	$577	$147,507
Property operating expenses	(57,294)	(5,255)	(357)	(62,906)
Net operating income	$75,656	$8,725	$220	$84,601
Home sales, equity income & corporate income	-	-	2,065	2,065
Financing costs	(25,913)	(2,569)	(6,127)	(34,609)
Depreciation and amortization	(1,086)	(198)	(1,071)	(2,355)
Administration	(1,502)	(357)	(6,666)	(8,525)
Income before fair value gain, loss on disposition and income taxes	$47,155	$5,601	$(11,579)	$41,177
Total assets	$1,572,049	$121,281	$61,904	$1,755,234
Total liabilities	$842,283	$58,395	$211,873	$1,112,551
Capital expenditures on investment properties	$30,096	$2,525	$47	$32,668

22. Supplemental Cash Flow Information

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

23. Financial Risk Management Objectives and Policies

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

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

23. Financial Risk Management Objectives and Policies (continued)

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

(i) Interest rate risk

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

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

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

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and Killam also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Killam's exposure to bad debt is not significant. Killam's bad debt expense experience has historically been less than 0.4% of revenues. None of Killam's tenants account for more than 1% of the tenant receivables as at December 31, 2015, or 2014. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(iii) Liquidity risk

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

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

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

23. Financial Risk Management Objectives and Policies (continued)

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

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

Capital Management

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

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

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

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

Fair Value Measurement

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

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

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

23. Financial Risk Management Objectives and Policies (continued)

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

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

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

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

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

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

24. Commitments and Contingencies

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

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

25. Related Party Transactions

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

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees or project management fees, to the company controlled by an executive and director of Killam. Killam paid $45,000 (2014 - $nil) in project management fees during 2015 related to leasehold improvements for a new commercial tenant.

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

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

25. Related Party Transactions (continued)

Key management personnel remuneration

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

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

26. Subsequent Events

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

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

Five-Year Summary

In thousands (except per share data)

Statement of Income Information	2015	2014	2013	2012	2011
Net operating income	**$98,390**	$84,601	$83,040	$80,444	$76,352
Corporate income	**$1,417**	$1,175	$746	$962	$94
Equity income	**$ -**	$829	$1,296	$758	$13
Income from home sales	**$78**	$61	$323	$469	$486
Financing costs	**($37,044)**	($34,609)	($35,231)	($34,633)	($34,891)
Administration	**($11,898)**	($8,525)	($7,878)	($8,832)	($7,672)
Depreciation and amortization	**($2,715)**	($2,355)	($2,232)	($2,145)	($1,711)
Fair value (loss) gain	**($6,103)**	$4,768	$13,070	$37,726	$52,070
Loss on disposition	**($109)**	($1,257)	($1,401)	($1,286)	$ -
Current tax recovery (expense)	**$ -**	$1,451	($1,451)	$ -	$ -
Deferred tax expense	**($6,216)**	($13,472)	($9,350)	($19,234)	($17,920)
Net income	**$35,800**	$32,667	$40,932	$54,229	$66,821
Net income attributable to common shareholders	**$34,557**	$29,772	$39,779	$51,727	$65,965
Net income per share - basic	**$0.56**	$0.54	$0.74	$1.03	$1.45
Net income per share - diluted	**$0.55**	$0.53	$0.69	$0.97	$1.34
Funds From Operations (FFO)					
FFO	**$49,016**	$40,162	$38,770	$36,096	$31,757
FFO per share (diluted)	**$0.79**	$0.72	$0.71	$0.71	$0.69
Statement of Financial Position Information					
Total assets	**$1,876,276**	$1,775,234	$1,532,431	$1,443,128	$1,329,531
Total liabilities	**$1,190,948**	$1,112,551	$928,371	$854,692	$816,988
Total equity	**$685,328**	$662,683	$604,060	$588,436	$512,543
Statement of Cash Flow Information					
Cash provided by operating activities	**$50,947**	$51,524	$39,080	$46,027	$39,291
Cash provided by financing activities	**$21,954**	$142,603	$49,238	$43,878	$92,813
Cash used in investing activities	**($80,075)**	($202,958)	($117,366)	($76,527)	($105,673)
Share Information					
Weighted average number of shares - basic	**62,097**	55,394	54,143	50,227	45,523
Weighted average number of shares - diluted	**72,208**	65,752	64,378	58,239	52,090
Shares outstanding at December 31	**62,863**	60,476	54,459	53,802	49,291
Share price at December 31	**$10.51**	$10.26	$10.48	$12.49	$11.57

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killamreit.com

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCPA, FCA
Executive Vice President
& Chief Financial Officer

Ruth Buckle
Vice President, Property Management

Erin Cleveland, CPA, CA
Vice President, Finance

Pamela Crowell
Vice President,
Tenant Experience &
MHC Management

Jeremy Jackson
Vice President, Marketing

Colleen McCarville
Vice President, Human Resources

Michael McLean
Vice President, Development

Dale Noseworthy, CPA, CA, CFA
Vice President, Investor Relations
and Corporate Planning

Investor Inquiries

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Solicitors

Bennett Jones, LLP
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Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

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Unit Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP.UN

Monthly Distribution

$0.05 per unit

Head Office

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3700 Kempt Road
Halifax, NS B3K 4X8
902.453.9000
866.453.8900

Annual Meeting

The Annual Meeting of Unitholders will be held on Wednesday, May 11, 2016, at 10:00 am Atlantic Time at the Halifax Marriott Harbourfront Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

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