

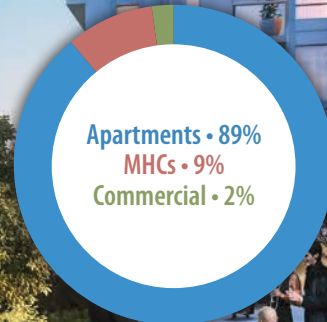
Killam Apartment REIT
Annual Report 2016



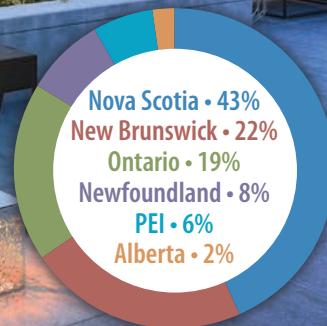
About Killam Apartment REIT



Net Operating Income by Segment



Net Operating Income by Province



The Alexander, Halifax, NS

Profile

Killam Apartment Real Estate Investment Trust (“Killam”, or “Killam Apartment REIT”) is a growth-oriented investment trust owning, operating and developing multi-family apartments and manufactured home communities (“MHCs”). Killam has a portfolio of \$2 billion in real estate assets, located in Atlantic Canada, Ontario and Alberta.

Growth Strategy

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

- Increasing the 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 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

Letter to Unitholders	7
Asset Portfolio	22
Management’s Discussion & Analysis	24
Financial Statements	76
Five-Year Summary	108



On the cover:
Saginaw Park, Cambridge, ON

2016 Highlights

19.3%

Total Unitholder Return

8.9%

Growth in FFO per Unit

78%

AFFO Payout Ratio

1.8%

Increase in Same
Property Revenue

4.0%

Increase in Same Property
Net Operating Income

53.5%

Debt as a Percentage of
Total Assets as at
December 31, 2016

\$72

Million in Acquisitions
Completed

\$23

Million Invested in
Developments

90%

Satisfaction Rating from
Tenant Survey

Southport, Halifax, NS

Financial & Operating Highlights

(Value in thousands, except per unit amounts)

As at and for the years ended	2016	2015	2014
Operations			
Property revenue	\$175,269	\$166,614	\$147,507
Net operating income	\$105,424	\$98,390	\$84,601
Net income	\$71,439	\$35,800	\$32,667
Funds from operations (FFO) ⁽¹⁾	\$58,886	\$49,016	\$40,162
FFO per unit/share (diluted)	\$0.86	\$0.79	\$0.72
Adjusted funds from operations (AFFO) ⁽²⁾	\$52,347	\$42,639	\$34,023
AFFO per unit/share (diluted)	\$0.77	\$0.68	\$0.61
Distributions/dividends declared per unit/share	\$0.60	\$0.60	\$0.60
AFFO payout ratio	78.2%	87.7%	98.1%
Financial Position			
Total assets	\$1,987,633	\$1,876,276	\$1,775,234
Total liabilities	\$1,237,167	\$1,190,948	\$1,112,551
Total equity	\$750,466	\$685,328	\$662,683
Units/shares outstanding (at Dec 31) ⁽³⁾	71,736	62,863	60,476
Total debt as a percent of total assets	53.5%	56.4%	55.8%
Interest coverage ratio	2.74	2.34	2.21
Portfolio Information			
Apartment units	14,105	13,681	13,427
MHC sites	5,165	5,165	5,165
Average rent per apartment unit	\$973	\$951	\$933
Average rent per MHC site	\$242	\$236	\$227

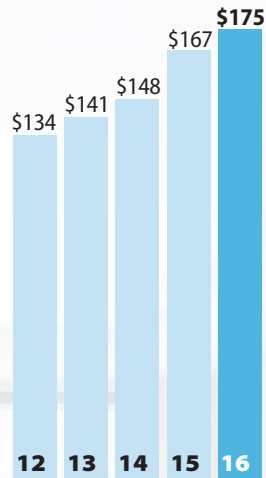
(1) FFO, and applicable per unit amounts, are calculated as net income plus depreciation on owner occupied building, fair value losses, interest expense related to exchangeable units, loss on disposition, deferred tax expense and REIT conversion costs, less fair value gains, deferred tax recovery, unrealized gain on derivative liability and non-controlling interest.

(2) AFFO, and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less \$450 per apartment unit for maintenance capital costs, which is an estimate in the industry range for the multifamily sector. Although the manufactured home community ("MHC") industry does not have a standard amount for maintenance related capital costs, a \$100 per MHC site estimate is used by Killam.

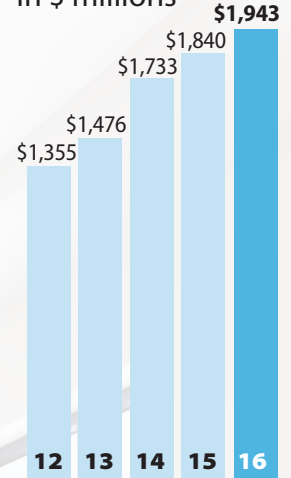
(3) Killam converted to a real estate investment trust (REIT) effective January 1, 2016. Units outstanding at December 31, 2016, include 67,869,802 REIT Units and 3,865,836 Exchangeable Units. Shares outstanding at December 31, 2014 and 2015 are common shares.

Saginaw Park, Cambridge, ON

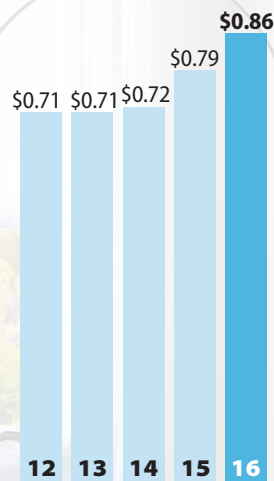
Property Revenue
in \$ millions



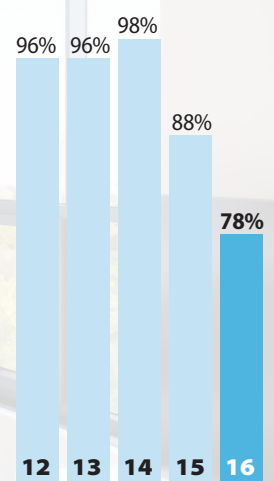
Value of Investment Properties
in \$ millions



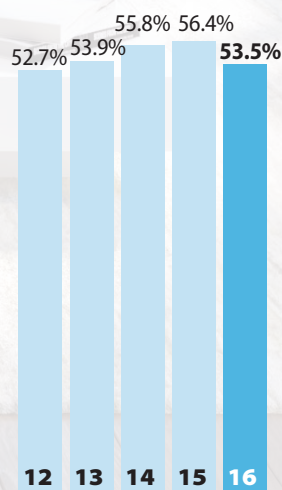
Funds from Operations
per unit/share (diluted)



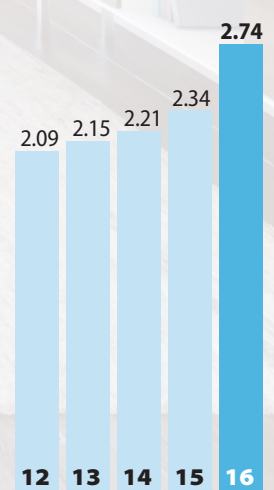
AFFO Payout Ratio



Debt as a % of Total Assets



Interest Coverage Ratio



2016 Performance Summary

Growth in Same Property NOI

2016 Target	Same property NOI growth of 1% to 3%.
2016 Performance	Target exceeded. Killam's same property portfolio generated 4.0% growth, attributable to top line growth of 1.8% and a reduction in year-over-year total operating expenses.
2017 Target	Same property NOI growth of 1% to 3%.
Longer-term Target	Same Property NOI growth averaging over 2%.

Geographic Diversification

2016 Target	Increase NOI generated outside Atlantic Canada.
2016 Performance	Target achieved. 21.3% of NOI earned outside Atlantic Canada in 2016, up from 20.2% in 2015. 62% of acquisitions completed in 2016 were in Ontario, including \$31.1M in Ottawa and \$13.4 in London.
2017 Target	At least 75% of acquisitions made outside Atlantic Canada and over 23% of 2017 NOI earned outside Atlantic Canada.
Longer-term Target	Over 30% of NOI generated outside Atlantic Canada by 2020.

Expanded Portfolio through Accretive Acquisitions

2016 Target	A minimum of \$50 million of acquisitions.
2016 Performance	Target achieved. Killam completed \$71.5 million in acquisitions, including \$70.0 million in NOI producing assets and \$1.5 million in land for future developments. The weighted average all cash yield on the acquisitions is expected to be over 5% in the first year.
2017 Target	A minimum of \$75 million of acquisitions.
Longer-term Target	Grow the portfolio to \$2.5 billion by 2020.

Development of High-Quality Properties

2016 Target	Completion of the Southport Apartments development.
2016 Performance	Target achieved. Southport was completed in August and tenants started taking occupancy in September. The development came in on budget, and exceeded management's expectations on lease-up.
2017 Target	To remain on schedule to have the 240-unit Alexander development completed by Q1-2018 and the 93-unit Saginaw development completed by Q2-2018.
Longer-term Target	To add a minimum of \$20M of value creation from Killam's development program through to the end of 2020.

Strengthened Balance Sheet

2016 Target	Improve Killam's debt metrics and increase capital flexibility.
2016 Performance	Target achieved. Debt as a percentage of total assets was reduced by 290 bps to 53.5%. Killam expanded its acquisition line of credit to \$30 million, up from \$2 million.
2017 Target	Further reduce debt as a percentage of assets.
Longer-term Target	Debt as a percentage of assets to be less than 50% of assets by 2020, and an expanded acquisition line of credit of a least \$50 million.

Letter to Unitholders

Dear Unitholders,

I am pleased to report that we had another productive and rewarding year at Killam. Our financial and operating results for 2016 include achieving funds from operations (FFO) per unit growth of 8.9%, a noteworthy accomplishment following 9.7% growth in FFO per unit in 2015. As always, our strategic focus on delivering outstanding customer service, maximizing operational efficiencies, and enhancing employee training contributed to our strong financial results. In addition, market factors are cooperating: demographic trends support a preference for renting, increased economic and population growth in the majority of our core markets, and continued low interest rates.

We also made important improvements to our balance sheet during 2016. We raised \$98 million of equity in June amidst a strong capital market and used \$57.5 million of the proceeds to redeem the larger of two tranches of convertible debentures. This transaction resulted in a marked improvement in our debt to total asset ratio and we ended the year with debt as a percentage of total assets down 290 basis points from a year earlier. Looking forward, we have opportunities to further improve our debt levels, and have a debt to total assets target of 50% by the year 2020. We believe this initiative is important in reducing Killam's risk profile and reflects our maturity as a well-established Canadian real estate owner. Look for continued improvement in our debt metrics in the year ahead.

We also secured a \$28 million expansion to our acquisition line of credit during 2016, from \$2 million to \$30 million. Increasing the line improved Killam's acquisition capacity by approximately \$90 million and enhanced our ability to react quickly to opportunities. Our goal is to increase the line to \$50 million over the next four years, which will provide further capital flexibility. We plan to achieve this by increasing our portfolio of debt-free properties that can be pledged against an acquisition line.

We remain committed to maximizing Killam's value and long-term profitability by concentrating on three key areas of growth: 1) increasing 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. All three of these areas contributed to earnings growth in 2016.

Increasing earnings from our existing portfolio of assets is crucial in achieving FFO per unit growth. Our portfolio performed very well in 2016, with improved occupancy and higher rental rates and savings on energy and other operating expenses. The Halifax portfolio, representing 36% of net operating income, was especially strong. It led growth in our core markets for both revenue and net operating income, achieving growth of 3.3% and 6.2%, respectively. Ontario and Charlottetown also stood out as top performers.



Philip Fraser, President & CEO

“As always, our strategic focus on delivering outstanding customer service, maximizing operational efficiencies, and enhancing employee training contributed to our strong financial results.”

As I've mentioned in past letters, the commitment and dedication of our 550 employees is key to our success. Providing high-quality customer service is a top priority at Killam. We measure customer satisfaction through an annual tenant survey administered by an independent market research firm. Last year was the fourth consecutive year we performed this extensive survey, and I'm pleased to report that the results were again exceptional. Of the over 2,000 tenants who completed the survey, 90% were "completely or mostly satisfied with Killam as a landlord".

We believe these results are amongst the highest in the industry. I'm incredibly proud of our team at Killam for their ongoing commitment to exceptional service.

One of the most important initiatives to manage expenses at our properties is our energy efficiency program.

Although we've been investing in energy projects for many years, hiring an energy specialist two years ago and expanding our operations department has allowed us to increase our focus on, and investment in, energy and water efficiencies. Following a comprehensive review last year, we identified over \$25 million in energy projects with an average payback of only four years. These programs could translate into upwards of \$7 million in energy and water savings – a very exciting opportunity for Killam, and the best investment we can make. We began to roll out the program in 2016, and are planning to increase our investment in energy initiatives from \$1.3 million in 2016 to at least \$3 million in 2017. With a clear plan in place, we're addressing the biggest opportunities first. Look for updates on the rollout and return on these initiatives over the next few years.

Acquisitions have always been an important part of Killam's growth and 2016 was no exception with the completion of \$72 million in acquisitions. Two acquisitions stand out in particular. In June we acquired the remaining 51% interest in Garden Park Apartments in Halifax for \$23.7 million. We have been increasing our ownership interest in this 246-unit property since we first acquired a 10.7% interest in 2005. The acquisition completed in June gave us full control over one of the best-located apartment buildings in Halifax. We have the opportunity to improve rents and net operating income at this property with capital upgrades to the common areas and units. With \$6 million in capital investments, we expect to increase the value of the asset by over \$15 million over the next 10 years. The repositioning project is already underway, and the returns we're achieving on our capital are very good, at an average of 12%.

"We will continue to invest in our team and our assets, and to strengthen Killam overall to ensure long-term success."



We also acquired a 50% interest in Kanata Lakes Apartments III, in Ottawa, in June 2016. This 173-unit property was completed in late 2014 and is the third of a five-building complex with a shared clubhouse. We already had a 50% interest in both Kanata Lakes Apartments I and II. On March 1st, 2017, we acquired the remaining two buildings of the Kanata Lakes development, known collectively as William's Court. We have been acquiring an ownership interest in the 739-unit development since the first building was completed in 2012. These condo-quality apartments are attractive additions to our portfolio. Our five-year relationship with the developer has been positive and the acquisitions align with our strategy of increasing our ownership in newer assets and expanding geographically outside Atlantic Canada. With strong demand for the units and no major capital required for the foreseeable future, we expect the properties to generate very attractive returns.

The benefit of our established development program stood out last year with the successful completion of Southport Apartments in Halifax. The lease-up exceeded our expectations and reinforced our strategy of adding value through development. We are excited about two current projects underway: the Alexander in Halifax and Saginaw Park in Cambridge, Ontario, and our pipeline of over 1,000 units for future development. Development will continue to be an important part of Killam's growth strategy.

We are confident about Killam's future. We remain committed to our strategy and our core values. We will continue to invest in our team and our assets, and to strengthen Killam overall to ensure long-term success.

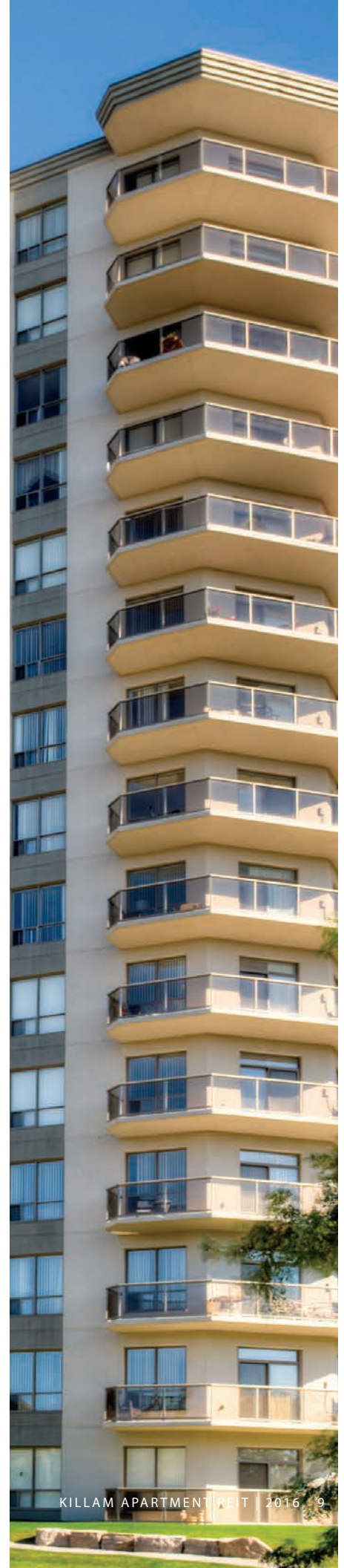
During the February 2017 Board of Trustees meeting, the Board approved a 3.3% increase to Killam's distribution. This marks the first distribution increase in over three years, and reflects the strength of Killam's results and the Board's outlook for the future.

Thank you for your interest and investment in Killam. I invite you to attend Killam's annual unitholders' meeting on May 5th, 2017 at 10:00 AM Atlantic Time at the Halifax Marriott Harbourfront Hotel, either in person or via webcast. I look forward to providing progress updates on our strategic initiatives over the coming months.

Yours truly,



Philip Fraser



Growth Strategy

Increase Earnings from Existing Portfolio

Growing the earnings of Killam's existing portfolio is central to unitholder value creation, generally translating into increased funds from operations per unit and higher net asset values per unit. This growth is accomplished by addressing three critical factors: occupancy, rental rates and operating costs. Killam focuses on customer service, investing in its properties, leasing and marketing initiatives, training its employees and operating efficiencies to maximize these outcomes. Killam's same property portfolio, representing properties owned for more than two years, performed very well in 2016, achieving 4.0% growth in net operating income.

Shaunslieve Apartments, Halifax, NS

Apartment Occupancy

95.8%

2015: 95.4%

Operating Margin

60.1%

2015: 59.1%

Same Property
Revenue Growth

1.8%

2015: 2.2%

Same Property
NOI Growth

4.0%

2015: 4.2%

Brentwood Apartments, Halifax, NS



Brighton House, Charlottetown, PE



Bennett House, St. John's, NL



Growth Strategy

Acquisitions

Killam is growing its portfolio through accretive acquisitions, with an emphasis on geographic diversification and newer properties. Since its first acquisition in 2002, Killam's portfolio has grown annually through 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 - Killam's strong operating platform can support a larger and more geographically diverse portfolio. Increased investment in core markets outside Atlantic Canada will enhance Killam's diversification and exposure to urban centres in Canada with higher population growth. Through strategically acquiring newer properties Killam has improved the quality of its portfolio on an annual basis.



Garden Park, Halifax, NS

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

37.1%

2014: 36.1%

NOI Generated Outside Atlantic Canada

21.3%

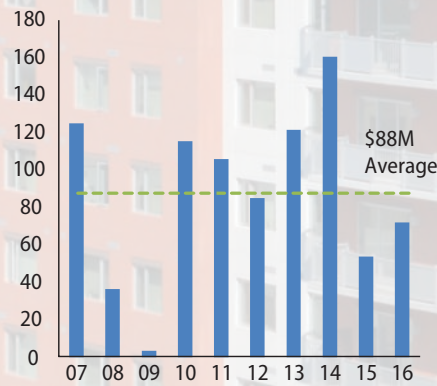
2015: 20.2%

Acquisitions Completed in 2016

\$72M

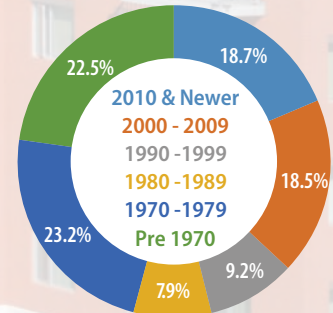
2015: \$54 million

Annual Acquisition History \$ millions



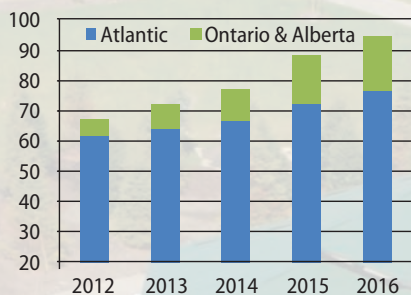
Killam exceeded its acquisition target of \$50 million in 2016, completing \$72 million in acquisitions, buying assets in Ottawa and London, Ontario, Halifax and Fredericton.

Apartment NOI Generated by Year of Construction



In addition to development, Killam looks to acquire newly constructed assets. When available at accretive returns, management believes that increasing Killam's ownership in new, high-quality buildings will result in 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. Today, Killam has one of the newest apartment portfolios in Canada with 37% of its apartment NOI generated from properties built after 1999.

Annual Apartment NOI \$ millions



Killam is actively growing its portfolio in targeted markets outside Atlantic Canada, including Ottawa, the Greater Toronto Area, Southwestern Ontario and Alberta. In 2016, 21.3% of Killam's total NOI was earned outside Atlantic Canada, up from 20.2% in 2015. Longer-term, Killam targets generating over 30% of its NOI outside Atlantic Canada by 2020.

Growth Strategy Developments

Killam enhances its external growth opportunities with development, building high-quality properties designed for people seeking the convenience and flexibility of renting, but with the space, quality and amenities typically associated with ownership. Killam began developing in 2010 and to-date has completed 8 properties totalling \$136 million and 626 units. Including two additional developments underway, Killam's development portfolio will increase to \$200 million by 2018. Targeting a higher yield on development than on acquisitions, Killam's development program creates unitholder value. With an experienced development team and a development pipeline of over 1,000 units, new developments will continue to be an important growth component at Killam.

The Alexander

Killam and its 50% partner began construction of The Alexander, a 240-unit property in downtown Halifax, during the second half of 2015. The property is uniquely located beside Halifax's historic Brewery Market and will have commanding views of the city and Halifax harbour. The project is expected to be completed in Q1-2018. In conjunction with the Alexander development, Killam is investing in the attached Brewery Market, which it acquired in March 2015.





Southport

Killam completed construction of the 142-unit Southport development, located in downtown Halifax, in late August 2016. Killam owns a 50% interest in the building, representing 70 rental units and 1,880 square feet of commercial space. The remaining 72 units are condo units. Killam's cost for the development of \$14.7 million (\$210,000 per unit) came in on time and on budget. Southport was fully leased within three months of opening, exceeding expectations.



Saginaw Park

Following the very successful Saginaw Gardens development in 2015, Killam began construction of its second development in Cambridge, Ontario, Saginaw Park, during Q3-2016. The 93-unit development is located beside Saginaw Gardens and is expected to be completed during Q2-2018.



A Balanced Approach to Sustainability

Killam uses a balanced approach to its strategic planning. Annually, management sets goals and targets for four important priorities: employees, customers, internal processes and financials. Strategies to achieve annual goals are developed with the input of a diverse group of senior leaders and the goals are shared with employees across the organization. Attention to each of these components of the business is important to Killam's long-term sustainability. Management is committed to ensuring Killam is a responsible employer, real estate owner, publicly traded trust and community member.

Killam's 2016 Strategic Goals



OUR CORE VALUES



OUR TEAM | Hire, Train and Retain the Best People

2016 GOAL	2016 HIGHLIGHTS
Increase employee engagement and communication.	100% of employees participated in senior management visits, events and/or presentations in their regions.
	Increased training programs provided for all groups of employees.
	Achieved an overall engagement score of 90% in our 2016 employee survey, up from 87% in 2015.
Maximize employee feedback and employee goals linked to strategic priorities.	98% of all employee performance reviews completed.
	Variable compensation plans linked to FFO per unit targets and strategic goals were rolled out for all resident managers, leasing agents and MHC property managers. By the end of 2016 over 80% of all employees had variable compensation plans linked to FFO performance.
	Automated quarterly performance program developed for resident managers and property managers linked to key property management performance indicators. This tool enables the early identification of training opportunities and improved feedback on performance.
Reduce the amount of time jobs are vacant.	Hiring times for key property management and leasing roles were shortened by one week following proactive programs to build a base of potential candidates in key areas.
	Feedback through the automated quarterly scorecards contributed to identifying potential employee changes earlier.
	Achieved total employee turnover below 20%, Killam's lowest turnover on record.



Performance Awards

In addition to highlights linked to Killam's employee-based 2016 strategic goals noted above, Killam supports its employees at work and in their communities in many other ways, including:

- 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's employee unit purchase

plan encourages employees to become unitholders through payroll deductions, and rewards longer-term employees with a 50% investment match.

- Annual scholarship awards are available to children and grandchildren of Killam employees to help them pursue post-secondary education.
- Killam values communication with employees, producing quarterly newsletters, hosting team summits and senior management staff visits.



Volunteer Day



- Quarterly, Killam recognizes employees who demonstrate their commitment to Killam's core values through its core value awards program.
- Killam promotes employees' involvement in the community by providing a full day of paid leave per year for employees to volunteer with a charity of their choice.

OUR CUSTOMERS | Provide Outstanding Customer Service and a Sense of Community at our Properties

2016 GOAL	2016 HIGHLIGHTS
Provide timely completion of maintenance requests.	Successful roll-out of automated maintenance requests.
	Increased training for resident managers, enhancing the opportunity for more maintenance needs to be completed efficiently by on-site Killam staff.
	Reporting process developed to measure the time to complete maintenance requests.
Decrease tenant turnover with an effective tenant retention program.	Implementation of an early lease renewal program to reduce turnover.
	Expanded community events and tenant engagement programs across the portfolio with property managers and resident managers initiating creative programs to bring Killam's residents together.
	Increased feedback and communication with tenants on social programs and amenities.
Ensure properties meet Killam's standards for curb appeal.	Implementation of monthly scoring system for property inspections linked to resident manager variable compensation.
	Invested \$33 million in capital upgrades across the portfolio.
	90% satisfaction score on the 2016 tenant satisfaction survey completed by over 2,000 tenants.
	Process improvements to modernize and standardize paint colours and renovations.

Tenant Survey Results



OUR PROCESSES | Maximize Operational Efficiencies and Mitigate Risks

2016 GOAL	2016 HIGHLIGHTS
Continue to provide a safe environment for employees and tenants.	Increased safety and mental health training for employees.
	Enhanced process developed to monitor and manage safety compliance reports at head office.
	Fire safety and fire risk mitigation training to resident managers.
Increase efficiencies for property management, operating and leasing.	Successful upgrade of Killam's accounting and property management software, Yardi, allowing for increased mobile capabilities.
	Process developed to improve efficiencies, reporting and increase returns on unit renovations.
	Expanded use of Yardi as a leasing tool.
Effective management of the capital program.	Total capital spend within 3% of budget.
	13.1% return achieved on unit renovations over \$1,000.
	Development of five-year energy and water efficiency program.



Killam's Energy Efficiency Specialist, Brennan Kilfoil, checks the new water pressure system at Quinpool Tower in Halifax. It is 75% more efficient than the previous system.



Increasing Capital Spending on 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. Through investments in water and energy saving initiatives Killam expects to reduce its energy intensity (measured as dollars per square foot of real estate) by 23% over the next 5 years. Environmental initiatives in 2016 included:

- Completed an extensive five-year energy strategy, identifying over \$25 million in potential efficiency related opportunities with an average payback of four years. Based on the energy strategy, Killam will increase its annual investment in energy initiatives from \$1.6 million in 2016 to over \$3.0 million in 2017, and beyond.
- Installed more than 2,500 ultra low-flow toilets across the portfolio, with an estimated payback of 2.9 years.
- Invested in advance building control systems and boiler upgrades, resulting in reduced energy consumption and increased comfort.



OUR FINANCIALS | Grow FFO per Unit on an Annual Basis

2016 GOAL	2016 HIGHLIGHTS
Maximize revenues.	Achieved improved occupancy and 1.6% growth in rental rates.
	Expanded leasing hours and the leasing team to improve accessibility and service.
Manage expenses and maximize economies of scale.	Successfully managed same property expenses.
	Installation of over 2,500 low-flow toilets, and boiler and control installs to improve energy efficiencies.
	Negotiated improved pricing for paint, appliances and flooring.
Completion of accretive acquisitions and developments.	Successful completion and lease-up of Southport.
	\$72 million in acquisitions completed, 62% of which were in Ontario.
	21.3% of NOI earned outside Atlantic Canada in 2016, up from 20.2% in 2015.



Community Matters

Do the Right Thing is one of Killam's five core values.

Killam staff continually reference this important core value in decision making. In addition to remaining focused on strategic priorities, Killam is committed to being a responsible community member.

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 was an active supporter of Syrian refugees in 2016, welcoming over 50 families to its properties.
- Killam provides financial support for various charities in Killam's 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 2016, members of the Board of Trustees donated \$100,000 to the Nova Scotia Nature Trust. So far, Trustees have donated \$700,000 to organizations across Canada.
- Through its nationally recognized supported housing program, Killam has partnered with a variety of non-profit housing agencies, including Housing First, 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 hardship.



Tour for Kids Fundraising Ride, Halifax, NS



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	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
Shaunsieve Apartments	1978	154
Sheradon Place	1979	82
Southport Apartments	2016	70
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		5,160
Halifax Average Rent		\$989

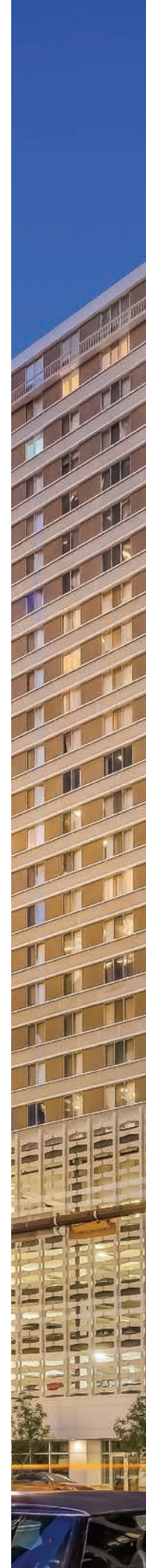
Fredericton, NB	Year Built	Units
25 McKnight Street	2001	64
110 McKnight Street	1996	45
116 & 126 Wilsey Avenue	1975	48
120 McKnight Street	1998	45
127 & 157 Biggs Street	1985/92	46
200 Reynolds Street	2001	52
260 Wetmore Road	1978	38
270 Parkside Drive	1979	28
300 Reynolds Street	2006	52
305 Reynolds 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		1,422
Fredericton Average Rent		\$915

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		\$844

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		\$784

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		\$962

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		\$905



Grid 5, Calgary, AL



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		\$1,514

London, ON

	Year Built	Units
180 Mill Street	2011	127
1447 Trafalgar/ 298 Fairview	1960/65	40
Bellwood Terrace	1960	113
Richmond Hill Apartments	2009	137
London Total		417
London Average Rent		\$1,337

Ottawa, ON

	Year Built	Units
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
William's Court I ⁽¹⁾	2012	146
William's Court II ⁽¹⁾	2014	152
William's Court III ⁽¹⁾	2015	173
Ottawa Total		953
Ottawa Average Rent		\$1,190

Toronto, ON

	Year Built	Units
100 Lower Ossington Ave	2012	179
1355 Silver Spear Road ⁽¹⁾	1968	199
Toronto Total		378
Toronto Average Rent		\$1,110

Calgary, AB

	Year Built	Units
Grid 5 ⁽¹⁾	1965	307
Calgary Average Rent		\$1,188

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 14,105

Total Apartment Average Rent \$973

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 ⁽²⁾	61	224
New Brunswick Total		224

Newfoundland

Lakeview Court	13	86
Sunset Parkway	43	84
Newfoundland Total		170

Ontario

Cedardale ⁽²⁾	25	204
Domaine le Village	36	70
Family Paradise ⁽²⁾	50	214
Holiday Harbour ⁽²⁾	15	143
Holiday Park Campground ⁽²⁾	35	290
Lakewood Estates	13	60
Lynnwood Gardens	54	64
Millcreek Estates	35	73
Paradise Valley ⁽²⁾	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 ⁽²⁾	50	126
Ontario Total		2,145

Total MHC Portfolio 5,165

Total MHC Average Rent \$242

Commercial Portfolio

Halifax, NS

	Square Feet
3700 Kempt Road ⁽¹⁾	38,000
3770 Kempt Road ⁽¹⁾	34,000
Brewery Market	158,000
Medical Arts Building	18,000
Halifax Total	248,000

Notes:

(1) Killam has a 50% ownership interest.

(2) Seasonal resort community.

2016 Management's Discussion & Analysis

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

TABLE OF CONTENTS

PART I		PART V	
Basis of Presentation	25	Per Unit Calculations	48
Declaration of Trust	25	Funds from Operations	49
Forward-looking Statements	26	Adjusted Funds from Operations	50
Non-IFRS Financial Measures	26	Cash Generated from Operating Activities to AFFO Reconciliation	51
PART II		PART VI	
Key Performance Indicators ("KPIs")	27	Investment Properties	52
Financial and Operational Highlights	28	Investment Properties Under Construction	53
Summary of 2016 Results and Operations	29	Capital Improvements	54
Business Overview	30	Loans Receivable	57
Business Strategy	30	Liquidity and Capital Resources	57
Outlook	32	Mortgages and Other Loans	58
Targets	34	Unitholders' Equity	61
Portfolio Summary	35	PART VII	
Unique Portfolio Features	36	Quarterly Results & Discussion of Q4 Operations	62
Core Market Update	37	PART VIII	
PART III		Risk Management	65
2016 Financial Overview	39	Related Party Transactions	70
- Consolidated Results	39	Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions	70
- Apartments Results	40	Future Accounting Policy Changes	71
- MHC Results	44	Disclosure Controls, Procedures and Internal Controls	72
- Commercial Results	45	Subsequent Events	73
PART IV			
Other Income and Expenses	45		
- Other Income	45		
- Financing Costs	45		
- Depreciation Expense	46		
- Amortization of Deferred Financing Costs	46		
- Administration Expenses	46		
- Fair Value Adjustment on Investment Property	47		
- Fair Value Adjustment on Convertible Debentures	47		
- Fair Value Adjustment on Unit-based Compensation	47		
- Fair Value Adjustment on Exchangeable Units	48		
- Deferred Tax Expense	48		

2016 Management's Discussion & Analysis

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

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 Killam Apartment Real Estate Investment Trust's audited consolidated financial statements for the years ended December 31, 2016, and 2015, 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 Killam's 2015 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, known as Killam Apartment Real Estate Investment Trust ("Killam" or 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 its 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 ended December 31, 2015, references Killam Properties Inc., and information provided as at January 1, 2016, and later references 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 14, 2017. This MD&A has been reviewed and approved by Management and the Board of Trustees.

Declaration of Trust

The investment guidelines and operating policies of Killam are outlined in Killam's Amended and Restated Declaration of Trust (the "DOT") dated as of November 27, 2015, a copy of which is available on SEDAR (www.sedar.com). Some of the principal investment guidelines and operating policies set out in the DOT are as follows:

Investment guidelines

- Acquire, hold, develop, maintain, improve, lease and manage income producing real estate properties;
- No investment will be made that would disqualify Killam as a "mutual fund trust" or a "unit trust" as defined within the *Income Tax Act* (Canada);
- Investments in joint ventures, partnerships (general or limited) and limited liability companies are permitted; and,
- Investments in land for development that will be capital property for Killam are permitted.

Operating policies

- Overall indebtedness is not to exceed 70% of Gross Book Value, as defined by the DOT;
- Guarantees of indebtedness that would disqualify Killam as a "mutual fund trust" as defined within the *Income Tax Act* (Canada) are not permitted; and,
- Killam must maintain at all times property insurance coverage in respect of potential liabilities of the Trust.

At December 31, 2016, Killam was in compliance with all investment guidelines and operating policies stipulated in the DOT.

2016 Management's Discussion & Analysis

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

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 Killam'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 statement, 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 that 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 Killam. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

Non-IFRS Financial Measures

Management believes these non-IFRS financial measures are relevant measures of the ability of the REIT to earn revenue and to evaluate Killam's financial performance. The non-IFRS measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of Killam's performance or sustainability of its distributions. These measures do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly-traded companies.

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income plus depreciation on owner-occupied building, fair value losses, interest expense related to exchangeable units, loss on disposition, deferred tax expense and REIT conversion costs, less fair value gains, deferred tax recovery, unrealized gain on derivative liability and non-controlling interest. FFO, as per the definition of Killam, are 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.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less \$450 per apartment unit for maintenance capital costs, which is an estimate in the industry range for the multi-family sector. Although the manufactured home community ("MHC") industry does not have a standard amount for maintenance related capital costs, a \$100 per MHC site estimate is used by Killam.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties Killam has owned for equivalent periods in 2016 and 2015 (97% of the portfolio based on the December 31, 2016, unit count).
- Interest coverage is calculated by dividing earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense adjusted for interest expense related to exchangeable units.
- 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 adjusted for interest expense related to exchangeable units and principal mortgage repayments.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, loss on disposition, income taxes, interest, depreciation and amortization.

2016 Management's Discussion & Analysis

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

PART II

Key Performance Indicators ("KPIs")

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

- 1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit.
- 2) Payout Ratio – This ratio is not meant to be a measure of the sustainability of Killam's distributions. Although Killam's expectation is to continue to sustain and grow distributions, the actual amount of distributions will depend up on various factors, including, but not limited to, earnings, debt repayments, capital investments and other factors that may be beyond the control of the REIT.
- 3) Rental Increases – Management expects to achieve increases in average annual rental rates and tracks the average rate increases achieved.
- 4) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on the amount of revenue lost to vacancy divided by gross potential residential rent (in dollars) of total properties for the year.
- 5) Same Property NOI Growth – This measure considers Killam's ability to increase the same property NOI, removing the impact of acquisitions, dispositions, developments and other non-same property operating adjustments.
- 6) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.
- 7) Debt to Total Assets – Killam's primary measure of its leverage is debt as a percentage of total assets. Killam's DOT operating policies outline that its overall indebtedness is to not exceed 70% of total assets. Debt to total assets is calculated by dividing total interest bearing debt by total assets, adjusted for any non-controlling interest.
- 8) Weighted Average Years to Maturity – Management monitors the average number of years to maturity on Killam's debt.
- 9) 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.
- 10) Debt Service Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay both interest and principal on outstanding debt. Generally, the higher the debt service coverage ratio, the lower the credit risk.

2016 Management's Discussion & Analysis

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

Financial and Operational Highlights

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

For the years ended December 31,			
Operating Performance	2016	2015	Change ⁽²⁾
Property revenue	\$175,269	\$166,614	5.2%
Net operating income ("NOI")	\$105,424	\$98,390	7.1%
Net income	\$71,439	\$35,800	99.6%
FFO ⁽¹⁾	\$58,886	\$49,016	20.1%
FFO per unit/share (diluted) ⁽³⁾	\$0.86	\$0.79	8.9%
AFFO per unit/share (diluted) ⁽⁴⁾	\$0.77	\$0.68	13.2%
Weighted average number of units/shares outstanding (diluted) (000s) ⁽³⁾	73,519	62,360	17.9%
AFFO payout ratio (diluted)	78%	88%	(1,000) bps
Portfolio Performance			
Same property NOI	\$97,729	\$93,980	4.0%
Same property NOI margin	60.0%	58.7%	130 bps
Same property apartment weighted average rental increase ⁽⁵⁾	1.6%	1.1%	50 bps
Same property apartment occupancy	95.8%	95.4%	40 bps
As at December 31,			
Leverage Ratios			
Total debt to total assets	53.5%	56.4%	(290) bps
Weighted average mortgage interest rate	3.01%	3.27%	(26) bps
Weighted average years to debt maturity (years)	4.3	4.2	0.1
Debt service coverage ⁽¹⁾	1.43x	1.35x	8 bps
Interest coverage ⁽¹⁾	2.74x	2.34x	40 bps

(1) FFO, AFFO, debt service coverage ratio and interest coverage ratio 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) Change expressed as a percentage or basis point ("bps")

(3) The calculation of weighted average units/shares outstanding for diluted FFO includes the convertible debentures for the year ended December 31, 2016, as they are dilutive, and excludes the convertible debentures for the year ended December 31, 2015, as they are anti-dilutive.

(4) The calculation of weighted average units/shares outstanding for diluted AFFO excludes the convertible debentures for the years ended December 31, 2016, and 2015, 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.

(5) Year-over-year, as at December 31.

2016 Management's Discussion & Analysis

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

Summary of 2016 Results and Operations

FFO per Unit Growth of 8.9%

Killam generated FFO per unit of \$0.86 in 2016, 8.9% higher than the \$0.79 generated in 2015. FFO growth was attributable to a 4.0% increase in same property NOI, interest expense savings on mortgage refinancings, the July redemption of \$57.5 million of convertible debentures, and accretive returns from developments and acquisitions. This growth was partially offset by a 17.9% increase in the weighted average number of units outstanding following the June 2016 equity raise.

Strengthened Balance Sheet and Increased Flexibility

Following the \$98 million equity raise completed in June, Killam redeemed \$57.5 million of convertible debentures on July 4, 2016. This initiative contributed to a 290 bps improvement in Killam's leverage ratio, ending the year with 53.5% debt as a percentage of total assets compared to 56.4% at December 31, 2015. Killam's interest coverage ratio improved by 40 bps during the year. Killam used funds from the equity raise to increase its portfolio of unencumbered assets, facilitating a significant increase to its acquisition credit facility, increasing it from \$2 million to \$30 million.

Higher Rents and Improved Occupancy Resulted in Same Property Revenue Growth

Killam achieved consolidated same property revenue growth of 1.8% in 2016. Both increased rents and higher occupancy levels contributed to improved revenue. The Halifax market outperformed in 2016, achieving 3.3% same property revenue growth, the highest revenue growth of Killam's core markets. Halifax, representing 36% of Killam's NOI, is a strong rental market, benefiting from economic growth, urbanization and strong demand for rental apartments from an older demographic transitioning from homeownership to apartment rental. Killam's Charlottetown and Ontario portfolios also achieved above average revenue growth, up 2.2% and 2.0%, respectively.

Warmer Temperatures and Efficiencies Contributed to Lower Operating Costs

Killam's same property expenses decreased by 1.2% in 2016, contributing to the 4.0% increase in NOI. A warmer than normal Q1 resulted in lower energy consumption and lower natural gas costs during the winter, a major contributor to the 6.2% reduction in utility expense in the year. Efficiencies from energy and water reduction initiatives also contributed to savings. These savings, combined with lower garbage collection rates and successful property tax appeals, offset the impact of higher operating costs, most notably insurance costs.

Lower Interest Rates Contributed to Earnings Growth

Killam benefited from lower interest rates on mortgages refinanced during 2016, contributing to a 1.6% reduction in same property interest expense for the year. During 2016, Killam successfully refinanced \$120.0 million of maturing mortgages with \$186.6 million of new debt at a weighted average interest rate of 2.34%, 186 bps lower than the weighted average interest rate prior to refinancing. Killam's weighted average mortgage interest rate decreased 26 bps to 3.01% as at December 31, 2016, from 3.27% as at December 31, 2015.

Growth from Acquisitions and Developments

The \$71.5 million in acquisitions completed during 2016 contributed positively to FFO, as did the NOI growth achieved from Killam's Saginaw development in Cambridge, which was completed in Q2-2015. Killam's newest development, Southport Apartments, completed at the end of August 2016, was fully leased by November and also contributed positively to FFO for the year.

2016 Management's Discussion & Analysis

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

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 MHC properties. Killam's current portfolio includes \$2.0 billion in assets, and its strategy to maximize its value and long-term profitability includes concentrating on three key areas of growth:

- 1) Increase earnings from the existing portfolio;
- 2) Expand the portfolio and geographic diversification through accretive acquisitions targeting newer properties; and
- 3) Develop 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 acquired an ownership interest in its first apartment property in Calgary in 2014. Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings, has completed eight projects to date and currently has two additional properties under construction.

The apartment business is Killam's largest business segment, accounting for 89% of Killam's NOI for the year ended December 31, 2016. As at December 31, 2016, Killam's apartment portfolio consisted of 14,105 units, which include 977 units that Killam co-owns 50% through a joint arrangement. Its 181 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"- including Ottawa, London, Toronto and Cambridge) and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.6% 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.

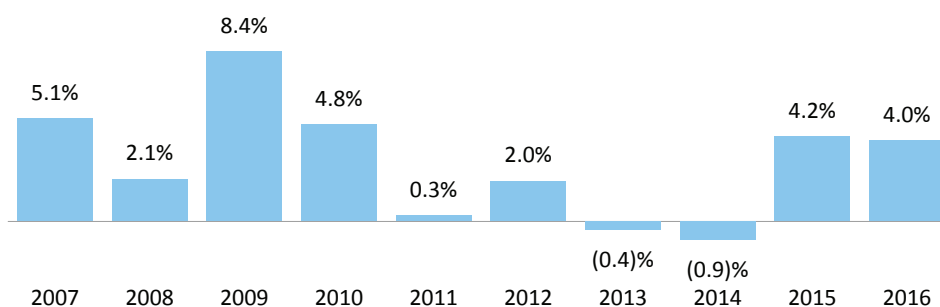
Killam also owns 5,165 MHC sites, also known as land-lease communities or trailer parks, located in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. The MHC portfolio accounted for 9% of Killam's NOI for the year ended 2016. Killam also has a portfolio of commercial properties, which accounted for 2% of Killam's NOI for the year ended December 31, 2016.

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. Killam has increased its same property NOI an average of 3.0% per year over the last 10 years.

Historic Same Property NOI Growth



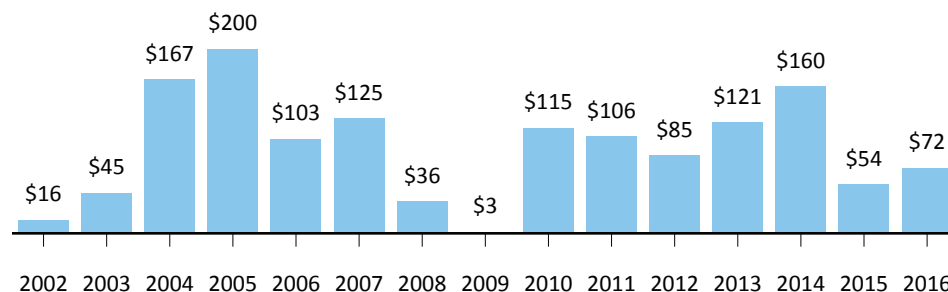
Growth through Acquisitions

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.

2016 Management's Discussion & Analysis

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

Annual Acquisitions (\$ millions)

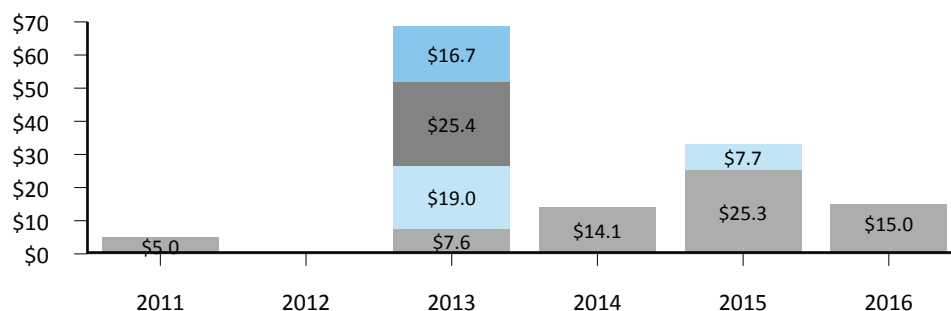


Growth through Development

Killam enhances its external growth opportunities with development. Killam started apartment developments in 2010 and has completed \$136 million of projects, which comprises eight properties totaling 626 units to date. Killam has an experienced development team that oversees all projects. Killam's new property construction 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 or spread premium over the cap-rate used to value comparable assets, thereby enhancing Unitholders' value.

In order to manage the short-term dilution impact 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.

Apartment Developments Completed (\$ millions)



Investment in New Properties

In addition to developing properties, Killam also acquires newly constructed buildings. When available at accretive returns, Management believes that increasing Killam's ownership in new, high-quality buildings will result in above-market rents 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. Today, Killam has one of the newest apartment portfolios in Canada; 37% of Killam's apartment NOI comes from properties built post 2000.

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 for 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 narrowed. This enables Killam to add newer apartments to its portfolio without paying a significant premium for these higher quality assets.

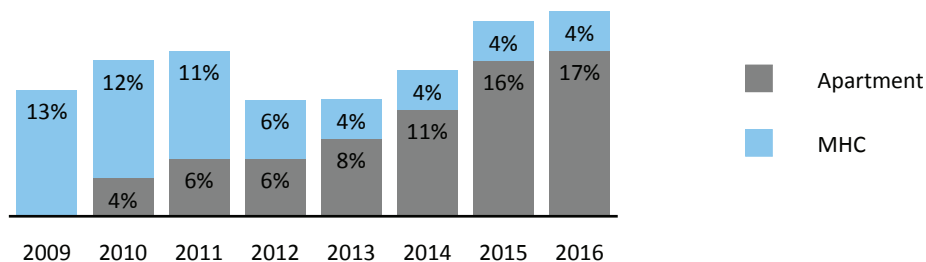
2016 Management's Discussion & Analysis

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

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 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.

% of Killam's NOI Generated Outside Atlantic Canada



Outlook

Increased Earnings from Killam's Same Property Portfolio

Management expects to generate same property NOI growth and improved operating margins by increasing rental revenue and expense management. Top-line growth is expected to be driven primarily from increased rental rates. A growing number of baby boomers and seniors looking to transition from home ownership to apartment-style living are expected to support strong demand for apartment rentals for the foreseeable future. Population growth, fueled in part from increased international immigration levels in Killam's core markets, most notably Halifax, is also expected to support a strong rental market.

Investments in energy initiatives and operational efficiencies are expected to contribute to improved operating margins and mitigate operating expense pressures. Having identified over \$25 million in efficiency related opportunities with an average payback of four years, Management is doubling its investment in energy and water saving initiatives from approximately \$1.6 million in 2016 to over \$3 million in 2017, and going forward. These investments, including low-flow water solutions, heating system upgrades, lighting solutions and temperature control solutions, are expected to augment Killam's annual same property NOI growth.

Reduced natural gas rates in Nova Scotia in 2017 are also forecasted to contribute to NOI growth next year. Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam has experienced more stable pricing in 2015 and 2016, especially in New Brunswick. Natural gas costs remained relatively high in Nova Scotia in 2016 due to fixed price contracts put in place by Killam's natural gas distributor, Heritage Gas, during 2015. Based on indications from Heritage Gas, Management expects natural gas commodity charges in Nova Scotia to be lower in 2017. In addition, Heritage Gas reduced the distribution rate on one of its rate classes effective April 2016 to deliver more competitive pricing versus alternative energy sources. Killam is benefiting from this price change, which impacts approximately 30% of its apartment units heated with natural gas in Nova Scotia. Longer-term, Management does not expect to experience the same level of volatility in natural gas prices as was experienced in 2013 and 2014. Heritage Gas has committed to invest in both natural gas storage solutions and new pipeline capacity in an effort to mitigate customers' exposure to periodically volatile winter gas markets, such as through Algonquin City Gate. This is expected to reduce price volatility for Killam's Nova Scotia portfolio. In addition, expansion projects have been completed, and are planned to increase the capacity and alleviate bottlenecks in the New England market, which is expected to help improve future price stability in Killam's Maritime markets.

Overall, the outlook for same property NOI growth for 2017 is 1%-3%.

2016 Management's Discussion & Analysis

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

Acquisitions to Add Increased Geographic Diversification

Killam's strong operating platform can support a larger and more geographically diverse portfolio. Management is actively looking for accretive acquisition opportunities in Ontario, Atlantic Canada and Alberta, with a focus on its core markets in Ontario. Management expects its acquisition program will contribute to a higher percentage of Killam's total portfolio NOI being generated outside Atlantic Canada, up from 21% during 2016. Subsequent to year-end, on January 16, 2017, Killam acquired its second apartment property in Calgary for \$13.4 million and has already committed to acquire a 50% interest in two new apartment buildings in Ottawa: the two remaining buildings of the five-building complex, Kanata Lakes Apartments. After acquiring these two properties, Killam will own 50% of the 739 suite, five-property asset. This \$50 million acquisition of the two remaining Kanata assets, is expected to close during the first quarter of 2017.

Developments to Contribute to NAV Growth

Killam is an experienced developer, having completed over \$130 million in apartment developments. New developments will continue to be an important component of Killam's growth strategy. Targeting a yield on development of 5.5% to 6.0% and an anticipated cap-rate value on completion of 4.5% to 5.0%, Management expects its developments to be accretive and create Unitholder value. Based on the two developments underway and additional projects expected to start in 2017, Killam forecasts adding between \$60 and \$100 million of new developments to its portfolio during the next three years. These new properties are expected to reinforce Killam's portfolio as one of the newest and highest quality apartment portfolios in Canada. See further discussion on land held for future development in the "Investment Properties" section of the MD&A.

Strengthening Balance Sheet

The redemption of \$57.5 million in convertible debentures on July 4, 2016, resulted in a reduction in Killam's leverage in 2016, down 290 bps to 53.5% at December 31, 2016. Management has identified opportunities to further strengthen Killam's balance sheet and is targeting a leverage level of 50% during the next few years. In addition, Management plans to expand its portfolio of unencumbered assets and increase its \$30 million acquisition line, providing additional capital flexibility.

Interest Savings

Killam has \$145 million of mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.55%, approximately 135 bps and 75 bps higher than current 5 and 10-year Canadian Mortgage and Housing Corporation ("CMHC") insured rates. Based on an expectation of yields remaining low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management also expects to up-finance approximately \$40 million from maturing mortgages through to the end of 2018. Assuming a weighted average interest rate of 2.5% on refinanced apartment mortgages over the next two years, using a mix of 5 and 10-year debt, Killam could generate annualized interest savings of up to \$0.5 million.

2016 Management's Discussion & Analysis

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

Targets

Growth in Same Property NOI	
2016 Target	Same property NOI growth of 1% to 3%.
2016 Performance	Target exceeded. Killam's same property portfolio generated 4.0% growth. Attributable to top line growth of 1.8% and a 1.2% reduction in year-over-year total operating expenses, primarily attributable to lower utility and fuel expenses.
2017 Target	Same Property NOI growth of 1% to 3%.
Longer-term Target	Same Property NOI growth averaging over 2%.
Geographic Diversification	
2016 Target	Increase NOI generated outside Atlantic Canada.
2016 Performance	Target achieved. 21.3% of NOI earned outside Atlantic Canada in 2016, up from 20.2% in 2015. In addition, 62% of acquisitions completed in 2016 were in Ontario, including \$31.1 million in Ottawa and \$13.4 million in London.
2017 Target	At least 75% of acquisitions made outside Atlantic Canada and to have over 23% of 2017 NOI earned outside Atlantic Canada.
Longer-term Target	Over 30% of NOI generated outside Atlantic Canada by 2020.
Expanded Portfolio through Accretive Acquisitions	
2016 Target	A minimum of \$50 million of acquisitions.
2016 Performance	Target achieved. Killam completed \$71.5 million in acquisitions, including \$70.0 million in NOI-producing assets (and \$1.5 million in land for future developments). A summary of the acquisitions completed during 2016 is shown on page 53. The weighted average all-cash yield on the acquisitions is expected to be over 5% in the first year.
2017 Target	A minimum of \$75 million of acquisitions.
Longer-term Target	Grow the portfolio to \$2.5 billion by 2020, from \$1.9 billion at the end of 2016.
Development of High-Quality Properties	
2016 Target	Completion of the Southport Apartments development.
2016 Performance	Target achieved. Southport was completed in August and tenants started taking occupancy in September. The development came in on budget and exceeded Management's expectations on lease-up.
2017 Target	To remain on schedule to have the 240-unit Alexander development completed by Q1-2018 and the 93-unit Saginaw development completed by Q2-2018.
Longer-term Target	To add a minimum of \$20 million of value creation from Killam's development program through to the end of 2020.
Strengthened Balance Sheet	
2016 Target	Improve Killam's debt metrics and increase capital flexibility.
2016 Performance	Target achieved. Debt as a percentage of total assets was reduced by 290 bps to 53.5%. In addition, Killam expanded its acquisition line of credit to \$30 million, up from \$2 million.
2017 Target	Further reduce debt as a percentage of assets.
Longer-term Target	Debt as a percentage of assets to be less than 50% by 2020, and an expanded acquisition line of credit of a least \$50 million.

2016 Management's Discussion & Analysis

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 December 31, 2016:

Apartment Portfolio				
	Units ⁽¹⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI (% of Total) ⁽²⁾
Nova Scotia				
Halifax	5,160	59	\$38,147	36.1%
Sydney	139	2	1,263	1.2%
	5,299	61	\$39,410	37.3%
New Brunswick				
Moncton	1,629	31	\$8,279	7.9%
Fredericton	1,422	21	8,582	8.1%
Saint John	1,202	14	5,088	4.8%
Miramichi	96	1	559	0.5%
	4,349	67	\$22,508	21.3%
Ontario ⁽³⁾				
Ottawa	953	10	\$4,942	4.7%
London	417	4	3,644	3.5%
Toronto	378	2	3,290	3.1%
Cambridge	347	3	4,120	3.9%
	2,095	19	\$15,996	15.2%
Newfoundland & Labrador				
St. John's	915	12	\$7,091	6.7%
Grand Falls	148	2	798	0.8%
	1,063	14	\$7,889	7.5%
Prince Edward Island				
Charlottetown	906	17	\$5,920	5.6%
Summerside	86	2	499	0.5%
	992	19	\$6,419	6.1%
Alberta ⁽³⁾				
Calgary	307	1	\$2,166	2.1%
Total Apartments	14,105	181	\$94,388	89.5%
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI (\$) ⁽²⁾	NOI (% of Total) ⁽²⁾
Nova Scotia	2,626	16	\$4,312	4.1%
Ontario	2,145	16	4,173	4.0%
New Brunswick	224	1	178	0.2%
Newfoundland & Labrador	170	2	323	0.3%
Total MHCs	5,165	35	\$8,986	8.6%
Commercial Portfolio				
	Square Footage	Number of Properties	NOI (\$) ⁽²⁾	NOI (% of Total) ⁽²⁾
Halifax, NS	248,000	4	\$2,050	1.9%
Total Portfolio			\$105,424	100.0%

(1) Unit count includes properties held through Killam's joint arrangements.

(2) For the year ended December 31, 2016.

(3) Killam owns and manages four buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all five properties. Killam's ownership interest represents 489 of the 977 units in these properties.

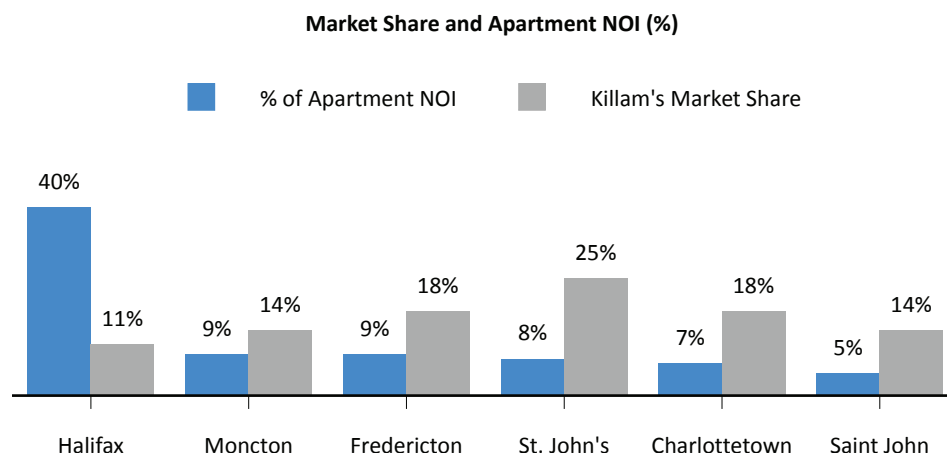
2016 Management's Discussion & Analysis

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

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the dominant residential landlord in Atlantic Canada with a 13.6% 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, four of Killam's six core markets experienced improved occupancy in October 2016 vs. October 2015, as disclosed in CMHC's Fall 2016 Rental Market Report. This compares favourably with the overall decline in occupancy for Canada as reported by CMHC, at 96.3% occupancy in October 2016 compared to 96.5% in October 2015.



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. Nine of Killam's nineteen properties in Ontario (1,261 of 2,095 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 77% 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 2,100 respondents in 2016). Killam's 2016 survey results support Killam's focus on service with a 90% tenant satisfaction rating, the same rating received in 2015.

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 2016, Killam's apartment portfolio included 2,091 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the Ontario apartment market, and includes properties in Ottawa, Toronto, London and Cambridge. During 2016, Killam added an additional 322 units to its Ontario portfolio. 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, and subsequent to year-end 2016, added an additional 66-unit building.

2016 Management's Discussion & Analysis

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

Core Market Update

Halifax

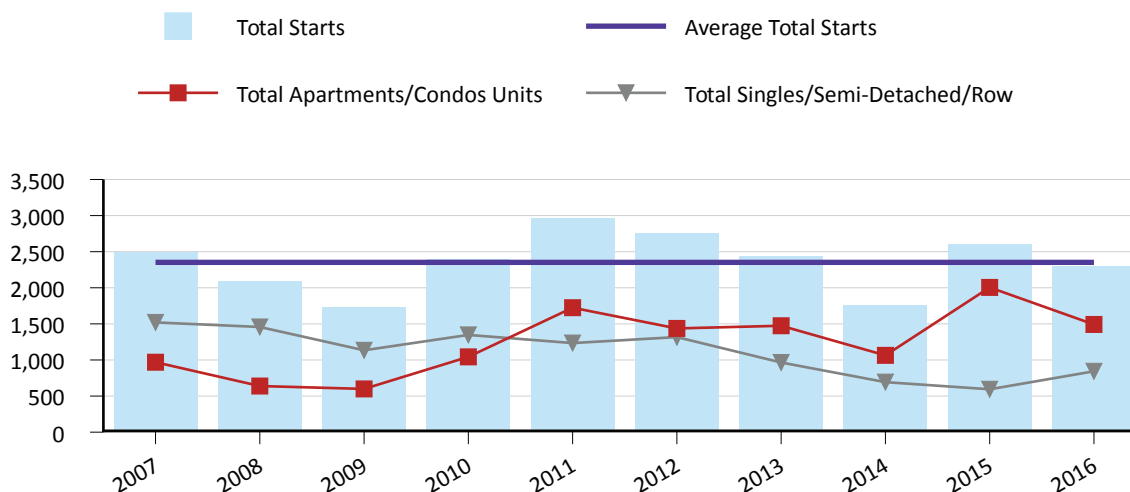
36% of Killam's total NOI is earned from its Halifax apartment portfolio. The city's rental unit base is 46,097 units, accounting for 47.1% of the total rental universe in Atlantic Canada as measured by CMHC. Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's 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, 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 over 35,000 students per year, including 5,800 international students. Halifax's employment base is well diversified, with jobs focused around public service, health care, education, and retail and wholesale trade among the largest sectors. Halifax is home to the largest Canadian Armed Forces base by number of personnel, and the Department of National Defence is the largest employer in the city.

Halifax has experienced improved occupancy and rental growth in 2016, attributable to economic and population growth in the city, and increasing demand from the baby boomer generation shifting away from home ownership into apartment living. Intraprovincial migration and international migration have also contributed to increased demand for apartments in the city. In its 2016 Rental Market Report, CMHC noted that the population of Halifax increased by more than 3,200 residents in 2015, approximately 2,700 of whom were immigrants. The number of international immigrants is expected to be higher in 2016, as over 2,800 immigrants arrived in the city during the first six months of the year.

Increased numbers of rental units are being built to absorb this demand. Much of the new rental supply introduced into the market in recent years has catered to this demographic, with spacious units of 1,200 square feet ("SF") or more, and monthly rents of \$1,300 and higher in the suburban areas. In the downtown core, an increased number of smaller rental units are being constructed, catering to renters looking for a more urban lifestyle.

The following graph summarizes the total number of starts in Halifax for all housing types from 2007 to 2016, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,350 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. This trend continued in 2016, with 1,492 apartment and condo unit starts during the year compared to 843 single family, semi-detached and row housing starts, as per CMHC's Starts and Completions Survey. This compares with 2,005 apartment starts and 594 single family, semi-detached and row housing starts during 2015.

Halifax Total Housing Starts



Source: CMHC

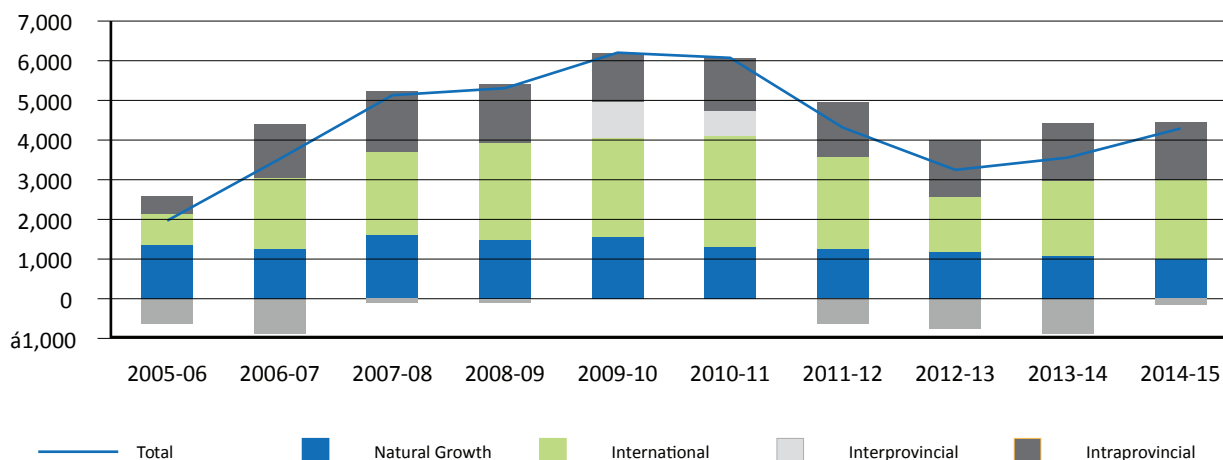
Despite an increased rental inventory, units are being absorbed by strong demand in the city, as noted above. CMHC's Fall Rental Market Outlook reported Halifax's vacancy to be 2.6% in October 2016, down from 3.4% in October 2015. CMHC forecasted vacancy to increase to 3.2% in 2017 due to a higher than normal amount of rental completions expected in 2017.

2016 Management's Discussion & Analysis

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

The population of Halifax has been growing at approximately 1% per year, driven by a combination of natural growth, international immigration and intraprovincial migration. International immigration accelerated in 2016. Although annual numbers have not been finalized, CMHC reports the arrival of 2,849 immigrants during the first six months of 2016 compared to 2,730 during the full year before. The chart below highlights historical population growth for Halifax by source from 2005 - 2015:

**Historical Population Growth and Source, Halifax
Annually from July 1 - June 30**



Source: Statistics Canada

Management expects population growth in Halifax to continue to increase due to urbanization and local large-scale projects that should drive employment opportunities. Irving Shipyard's \$25 billion shipbuilding contract is expected to have positive long-term implications for Halifax and Atlantic Canada. Large construction projects in the city, as well as steady growth in the service sector, will also contribute to Halifax's economic growth. A growing population base of those 60 years and older, many of whom are expected to transition to rental units, will also drive long-term demand for apartments in Halifax.

With a diversified asset base of more than 5,100 well-located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam should benefit from the increased demand for housing that will come from population and economic growth plus the growing base of aging homeowners transitioning to apartment rental.

New Brunswick

21% 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 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. Moncton has experienced strong population growth in recent years driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5% of Killam's NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city has seen a reduction in new 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 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 reported improved vacancy rates with fewer new rental projects being introduced into the market. CMHC reported that during 2015 and 2016 respectively, there were 355 and 310 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 improved occupancy in both Moncton and Fredericton in its Fall 2016 Rental Market Report; and stable vacancy in Saint John. The improved occupancy in Moncton and Fredericton was driven primarily by intraprovincial and international migration and increasing demand from retiring baby boomers. Moncton experienced the most improvement in occupancy, with CMHC reporting 6.0% vacancy in 2016, a 140 bps improvement from 2015.

2016 Management's Discussion & Analysis

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

Newfoundland and Labrador

7% of Killam's apartment NOI is generated in St. John's. After undergoing a transformation over the last ten years following significant offshore investments, the city is now adjusting to the impact of lower oil prices. After maintaining very high occupancy and record high rental rate growth in the St. John's portfolio for most of the last eight years, Killam experienced more modest revenue growth in 2016 of 0.8%. CMHC reported a 300 bps increase in vacancy in St. John's due to the economic pressures of lower oil activity, with 7.9% vacancy in 2016, up from 4.9% in 2015.

Prince Edward Island

Killam has a 18% market share in Charlottetown, the provincial capital and economic center of Prince Edward Island. The Charlottetown market represents 6% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Demographics and international immigration are driving strong demand for rental units. CMHC reported a 250 bps improvement in occupancy rates, reporting 98.3% occupancy in October 2016, compared to 95.8% in October 2015.

Ontario

Killam's Ontario apartment portfolio represents 15% of NOI. The Ontario rental market is strong, with CMHC reporting a second year of 3.0% increases in average rents for the total Ontario rental market and a 30 bps point reduction in vacancy. In its Fall Rental Market Report, CMHC reported vacancy of 2.1% in October 2016, down from 2.4% in October 2015. CMHC highlights three of Killam's four markets in Ontario (Toronto, London and Ottawa) contributing most to the decline in the provincial vacancy rate. The strength of the Ontario rental market is attributable to an improved economy, rising cost gap between owning and renting and higher levels of international immigration. Looking forward, CMHC projects that vacancy rates will continue to edge lower in 2017 in most urban centres, driven by increased housing prices, international migration and an aging population.

Alberta

2% of Killam's NOI is earned in Alberta. The Alberta rental market has softened following lower oil prices. CMHC reported a vacancy rate of 7.0% in October 2016 in Calgary, up from 5.1% in October 2016 and 1.4% a year earlier. Higher vacancy in the year was attributable to an increased base of rental units and the continued weak labour market. CMHC forecasts improvements in economic conditions to lead to lower vacancy rates in 2017 and 2018; however, new rental supply is expected to keep vacancy levels above historical averages.

PART III

2016 Financial Overview Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Property revenue	\$175,269	\$166,614	5.2%	\$162,965	\$160,041	1.8%	\$12,304	\$6,573	87.2%
Property operating expenses									
Operating expenses	(29,097)	(27,590)	5.5%	(27,073)	(26,694)	1.4%	(2,024)	(896)	125.9%
Utility and fuel expenses	(20,462)	(21,299)	(3.9)%	(19,516)	(20,807)	(6.2)%	(946)	(492)	92.3%
Property taxes	(20,286)	(19,335)	4.9%	(18,647)	(18,560)	0.5%	(1,639)	(775)	111.5%
Total operating expenses	(69,845)	(68,224)	2.4%	(65,236)	(66,061)	(1.2)%	(4,609)	(2,163)	113.1%
NOI	\$105,424	\$98,390	7.1%	\$97,729	\$93,980	4.0%	\$7,695	\$4,410	74.5%
Operating margin %	60.1%	59.1%	100 bps	60.0%	58.7%	130 bps	62.5%	67.1%	(460) bps

Total property revenue for the year ended December 31, 2016, was \$175 million, a 5.2% increase in revenue over 2015. The growth was generated through acquisitions, completed developments and a 1.8% increase in same property revenue.

Killam's total property expenses increased by 2.4% in 2016 compared to 2015, as a result of expenses associated with newly acquired properties and completed developments. Killam's consolidated operating margin improved 100 bps year-over-year, primarily as a result of adding high-quality assets to the portfolio and a 130 bps margin improvement from its same property portfolio.

2016 Management's Discussion & Analysis

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

Same property NOI reflects 206 stabilized properties that Killam has owned for equivalent periods in 2016 and 2015. The same property analysis includes a combined total of 18,529 apartment units and MHC sites, which is 96.5% of Killam's portfolio. The same property portfolio realized net revenue growth of 1.8% for the year ended December 31, 2016. Operational efficiencies combined with the milder winter in 2016 generated a 1.2% savings in total operating expenses in comparison to the year ended December 31, 2015. Combining net revenue growth and savings in property expenses, same property NOI grew by 4.0% in 2016. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same property NOI consists of properties acquired in 2015 and 2016, development projects completed in 2015 and 2016, and other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items.

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Property revenue	\$155,839	\$148,846	4.7%	\$148,284	\$145,718	1.8%	\$7,555	\$3,128	141.5%
Property operating expenses									
Operating expenses	(24,196)	(23,303)	3.8%	(23,453)	(23,158)	1.3%	(743)	(145)	412.4%
Utility and fuel expenses	(18,431)	(19,490)	(5.4)%	(18,035)	(19,339)	(6.7)%	(396)	(151)	162.3%
Property taxes	(18,823)	(18,171)	3.6%	(18,038)	(17,974)	0.4%	(785)	(197)	298.5%
Total operating expenses	(61,450)	(60,964)	0.8%	(59,526)	(60,471)	(1.6)%	(1,924)	(493)	290.3%
NOI	\$94,389	\$87,882	7.4%	\$88,758	\$85,247	4.1%	\$5,631	\$2,635	113.7%
Operating margin %	60.6%	59.0%	160 bps	59.9%	58.5%	140 bps	74.5%	84.2%	(970) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2016, was \$155.8 million, a 4.7% increase in revenue over 2015. This growth was attributable to \$71.5 million in acquisitions, \$15 million in completed developments, growth in rental rates and improved occupancy.

Same property apartment revenue increased 1.8% in 2016 due to a 1.6% increase in rental rates and a 40 bps improvement in same property occupancy for the year.

Apartment Occupancy Analysis by Core Market (% of Residential Rent)⁽¹⁾

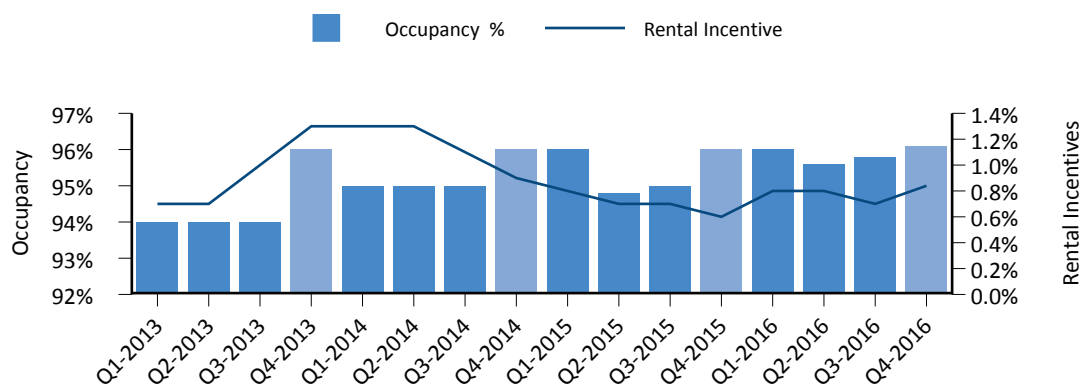
For the years ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2016	2015	Change (bps)	2016	2015	Change (bps)
Halifax, NS	5,160	96.1%	94.9%	120	96.2%	95.0%	120
Moncton, NB	1,629	94.9%	94.7%	20	94.9%	94.7%	20
Fredericton, NB	1,422	94.8%	94.4%	40	94.8%	94.4%	40
Saint John, NB	1,202	92.5%	94.2%	(170)	93.0%	94.3%	(130)
St. John's, NL	915	95.2%	96.5%	(130)	95.3%	96.5%	(120)
Charlottetown, PE	906	98.5%	97.7%	80	98.5%	97.7%	80
Ontario	2,095	96.9%	95.0%	190	97.0%	96.9%	10
Alberta	307	86.8%	89.7%	(290)	86.8%	89.7%	(290)
Other Atlantic	469	97.7%	97.6%	10	97.7%	97.6%	10
Total Apartment (Weighted Average)	14,105	95.7%	95.1%	60	95.8%	95.4%	40

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

2016 Management's Discussion & Analysis

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

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



Average Rent Analysis by Core Market

As at December 31,

	# of Units	Average Rent			Same Property Average Rent		
		2016	2015	% Change	2016	2015	% Change
Halifax, NS	5,160	\$989	\$963	2.7%	\$984	\$963	2.2%
Moncton, NB	1,629	\$844	\$830	1.7%	\$844	\$830	1.7%
Fredericton, NB	1,422	\$915	\$898	1.9%	\$917	\$898	2.1%
Saint John, NB	1,202	\$784	\$779	0.6%	\$763	\$757	0.8%
St. John's, NL	915	\$962	\$941	2.2%	\$913	\$892	2.4%
Charlottetown, PE	906	\$905	\$899	0.7%	\$905	\$899	0.7%
Ontario	2,095	\$1,274	\$1,261	1.0%	\$1,271	\$1,245	2.1%
Alberta	307	\$1,188	\$1,354	(12.3)%	\$1,188	\$1,354	(12.3)%
Other Atlantic	469	\$855	\$833	2.6%	\$855	\$833	2.6%
Total Apartment (Weighted Average)	14,105	\$973	\$951	2.3%	\$958	\$943	1.6%

Apartment Expenses

Total apartment expenses for the year ended December 31, 2016, were \$61.5 million, a 0.8% increase over 2015. The expense increase in the year is attributable to acquisitions and completed developments. Mitigating the increased costs are lower year-over-year fuel and contract service costs. Killam realized a 160 bps improvement in its apartment operating margin for the year as a result of a mild winter season, lower fuel pricing and consumption, operational efficiencies and the development and acquisition of newer and more efficient buildings.

Total same property expenses for the year ended December 31, 2016, were \$59.5 million, a 1.6% decrease over 2015. This decrease is attributable to the ability to maintain and minimize total property operating costs, lower heating oil and natural gas consumption and pricing, improved operating efficiencies and only a modest increase in overall property taxes.

2016 Management's Discussion & Analysis

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

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,	2016	2015	% Change
Natural gas	\$5,357	\$6,230	(14.0%)
Electricity	6,935	7,009	(1.1%)
Water	4,670	4,809	(2.9%)
Oil	1,038	1,250	(17.0%)
Other	35	41	(14.6%)
Total utility and fuel expenses	\$18,035	\$19,339	(6.7%)

Utility and fuel expenses accounted for approximately 30% of Killam's total apartment same property operating expenses in 2016. Total utility and fuel expenses were 6.7% lower compared to 2015 due to warmer weather, lower commodity prices and investments in efficiencies. Killam's apartment properties are heated with a combination of natural gas (55%), electricity (35%), oil (8%) and steam (2%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam's exposure to the majority of the 4,900 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 property natural gas costs decreased by 14.0% compared to 2015. The decrease was attributable to lower consumption and average natural gas rates across Killam's portfolio as a result of a relatively mild winter. Killam's weighted average natural gas cost per gigajoule ("GJ") was down approximately 12% in New Brunswick and 30% in Ontario in 2016. The weighted average cost of gas per GJ was \$15.96 in Nova Scotia, 5.7% lower than the 2015 weighted average cost of \$16.93 per GJ. This decline in Nova Scotia was due to a \$5 per GJ reduction in the delivery rate introduced in April 2016. The impact of these price savings were augmented by lower consumption attributable to a mild winter and improved efficiencies.

Heating oil costs decreased by 17.0% in 2016 compared to the prior year due to the lower world oil prices. Given lower oil prices, Killam switched back to oil from natural gas at its buildings with dual burner capabilities.

Electricity costs were down by 1.1% due to milder winter weather and energy efficiencies. The number of units that include unit electricity as a rental incentive remained fairly constant year-over-year. Killam prefers not to include electricity in rental rates, and rents are typically increased to offset this additional expense; however, in competitive markets some landlords include electricity in the rental rates. Killam does the same when the market conditions dictate.

Despite higher rates, water expense for same properties decreased by 2.9% for the year ended December 31, 2016. Killam has installed 3,723 low-flow toilets during 2016 and is realizing marked decreases in water consumption from the program. The total cost for the 2016 program was \$1.3 million, with annualized savings of \$0.4 million and payback period of an estimated 3.1 years.

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Halifax	\$59,060	\$57,148	3.3%	(22,004)	(22,470)	(2.1)%	\$37,056	\$34,678	6.9%
Moncton	17,039	16,928	0.7%	(8,201)	(8,349)	(1.8)%	8,838	8,579	3.0%
Fredericton	14,863	14,637	1.5%	(6,343)	(6,572)	(3.5)%	8,520	8,065	5.6%
Saint John	9,912	10,039	(1.3)%	(5,309)	(5,607)	(5.3)%	4,603	4,432	3.9%
Ontario	22,194	21,761	2.0%	(8,577)	(8,451)	1.5%	13,617	13,310	2.3%
St. John's	9,890	9,807	0.8%	(3,240)	(3,071)	5.5%	6,650	6,736	(1.3)%
Charlottetown	10,548	10,325	2.2%	(4,130)	(4,219)	(2.1)%	6,418	6,106	5.1%
Alberta	2,668	3,063	(12.9)%	(879)	(880)	(0.1)%	1,789	2,183	(18.0)%
Other	2,110	2,010	5.0%	(843)	(852)	(1.1)%	1,267	1,158	9.4%
	\$148,284	\$145,718	1.8%	(59,526)	(60,471)	(1.6)%	\$88,758	\$85,247	4.1%

As shown above, Killam generated positive NOI growth in the majority of its core markets in 2016, with the exception of St. John's and Alberta, which only account for 10% of the total same property NOI for the year. Overall, Killam generated apartment same property portfolio NOI growth of 4.1%.

2016 Management's Discussion & Analysis

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

Halifax

Halifax is Killam's largest rental market, representing 42% of apartment same property NOI for the year ended December 31, 2016. The Halifax same property apartment portfolio achieved 3.3% revenue growth in the year. Overall NOI growth in 2016 was a strong 6.9%, the highest NOI growth from any of Killam's core markets.

The 3.3% revenue increase was also the highest revenue growth from Killam's portfolio in 2016. Occupancy was up 120 bps and average rent was up 2.2%. An increase in commercial occupancy, increased parking revenues and a reduction in bad debts year-over-year also contributed to same property revenue growth. Total operating expenses decreased by 2.1% in the year. Savings generated from reduced water consumption, lower natural gas pricing and heat consumption due to milder weather, and lower garbage removal expense from recent contract negotiations offset increases in property taxes, insurance premiums and repairs and maintenance costs.

New Brunswick

Killam's three core markets in New Brunswick generated 25% of Killam's apartment same property NOI in 2016. In aggregate, the NB portfolio achieved 4.2% NOI growth for the year. The improvements were attributable to overall increased revenues, up 0.5% from 2015, and lower total operating expenses, down 3.3% for the year ended December 31, 2016, due largely to substantial savings in heating costs in Q1-2016.

Fredericton achieved the strongest revenue and NOI growth in NB in 2016. Revenue was up 1.5% and NOI was up 5.6% for the year. Top-line growth was primarily attributable to increased rents, up an average of 2.1%, and a 40 bps increase in occupancy for the year. Fredericton also benefited from a 3.5% reduction in total operating costs, due primarily to lower heating costs due to a milder winter in 2016 and lower property taxes following successful tax assessment appeals.

Moncton ranked second in NB in revenue and NOI growth in 2016, with a 0.7% increase in net revenue and a 3.0% increase in NOI. Moncton's average rents increased by 1.7% and apartment occupancy improved by 20 bps. These improvements were partially offset by higher rental incentives and lower commercial occupancy in 2016. Expenses decreased 1.8% from 2015 as lower natural gas costs, operating efficiencies, lower garbage removal costs and lower property tax expense from successful tax appeals offset increased insurance and electricity costs during the year.

Saint John recorded a 1.3% decrease in property revenue in 2016, but still realized a 3.9% increase in NOI due to 5.3% savings achieved in property operating expenses. A 130 bps decrease in occupancy for the year, along with the increased use of rental incentives, more than offset rental rate growth of 0.8%. The Saint John rental market has been showing signs of softness during the last two quarters. Killam has increased the use of incentive offerings and increased advertising efforts in response. Total operating expense savings were achieved from lower fuel and utility costs due to milder weather in 2016 and energy efficiency initiatives at various properties. As well, property tax savings from successful tax assessment appeals more than offset the increased insurance and repairs and maintenance costs.

Ontario

Killam's Ontario portfolio generated 15% of Killam's apartment same property NOI for the year ended December 31, 2016. The same property Ontario portfolio achieved 2.0% revenue growth and 2.3% NOI growth in 2016.

The top-line growth was realized from increased rents of 2.1%, a 10 bps gain in occupancy and a 30 bps improvement in bad debt expense. Total operating expenses increased by only 1.5% in 2016 as savings from lower water consumption and lower natural gas rates helped to offset increased contract services, repairs and maintenance and property tax expenses.

Newfoundland and Labrador

Killam's St. John's portfolio generated 7% of Killam's apartment same property NOI for the year ended December 31, 2016. Same property revenue for the St. John's portfolio increased by 0.8% while NOI declined by 1.3% due to higher operating expenses.

Despite softness in the economy and rental market in St. John's following lower oil prices, the portfolio continues to achieve revenue growth. A 2.4% increase in rental rates year-over-year was partially offset by a 120 bps decline in occupancy in 2016 compared to 2015. Total same property operating expenses increased by 5.5% in 2016, driven by higher insurance premiums and an 18% increase in property tax expense as a result of higher tax assessments. These tax assessments are completed in a 3-year cycle for the region and were effective January 1, 2016.

2016 Management's Discussion & Analysis

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

Prince Edward Island

Killam's Charlottetown portfolio represents 7% of apartment same property NOI. Charlottetown achieved 2.2% revenue growth for the year ended December 31, 2016. Combining net revenue gains with savings in property operating expenses, Charlottetown recorded 5.1% in NOI growth for 2016.

Revenue growth was attributable to increased rents, up 0.7%, a 30 bps decrease in rental incentive offerings and an 80 bps improvement in occupancy levels. Total operating expenses decreased 2.1% in 2016 as increases in insurance premiums and property tax expense were offset by lower oil prices and a milder winter year-over-year.

Alberta

Killam has a 50% interest in a 307-unit building in downtown Calgary that represents 2% of same property apartment NOI for 2016. Overall, Alberta recorded a 18.0% decline in NOI for the year ended December 31, 2016.

Killam's Calgary asset recorded a 12.9% decline in revenue year-over-year as the Alberta rental market continued to soften further. Average rental rates at this property have decreased 12.3% to \$1,188. For 2016, occupancy was 86.8%, a 290 bps decrease over 2015. The property continues to focus on leasing and targeted marketing campaigns in this challenging market. Operating expenses were relatively stable, down only 0.1%.

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Property revenue	\$14,715	\$14,323	2.7%	\$14,681	\$14,323	2.5%	\$34	\$—	NA
Property operating expenses									
Operating expenses	(3,673)	(3,385)	8.5%	(3,621)	(3,536)	2.4%	(52)	151	(134.4)%
Utility and fuel expenses	(1,447)	(1,468)	(1.4)%	(1,481)	(1,468)	0.9%	34	—	NA
Property taxes	(608)	(586)	3.8%	(608)	(586)	3.8%	—	—	NA
Total operating expenses	(5,728)	(5,439)	5.3%	(5,710)	(5,590)	2.1%	(18)	151	(111.9)%
NOI	\$8,987	\$8,884	1.2%	\$8,971	\$8,733	2.7%	\$16	\$151	(89.4)%
Operating margin %	61.1%	62.0%	(90) bps	61.1%	61.0%	10 bps	47.1%	NA	NA

Killam's MHC business accounted for 9% of NOI from property operations during the years ended December 31, 2016, and 2015. Killam's seven seasonal resorts contribute to the MHC segment NOI during the second and third quarters each year.

MHC same property revenue increased \$0.4 million or 2.5% in 2016, compared to 2015. This was a result of an increase in the weighted average rent per site to \$242, up from \$236 in 2015. Occupancy increased to 97.8%, which was a 30 bps increase from 97.5% in 2015. As well, increased focus on the seasonal campsite rentals in 2016 increased seasonal and transient revenues by 4.4%.

Total same property expenses increased by 2.1%. A milder winter and spring in 2016 resulted in less snow hauling, and capital upgrades resulted in lower water consumption. This was offset by higher property taxes, repairs and maintenance, salaries and community events associated with Killam's tenant retention initiatives.

Overall, the MHC portfolio generated same property NOI growth of 2.7% for the year ended December 31, 2016.

2016 Management's Discussion & Analysis

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

Commercial Results

Killam has a commercial portfolio of four properties in Halifax, Nova Scotia, totaling 248,000 SF. The Brewery Market property contains 158,000 SF of retail and office space and is adjacent land that Killam is currently developing its 240-unit apartment building, The Alexander. The Medical Arts building on Spring Garden Road contains 18,000 SF of office space, and Killam plans to redevelop this property in the future.

Along with the 50% ownership of two commercial properties, including Killam's head office in Halifax, this commercial portfolio accounted for \$2.1 million or 1.9% of Killam's total NOI in 2016, compared to \$1.6 million or 1.7% for 2015. Overall occupancy of this commercial portfolio was 98.9% for 2016, an 80 bps increase from 98.1% in 2015. As well, included in the apartment segment is an additional 118,000 SF of ancillary commercial space in various residential properties across the portfolio.

PART IV

Other Income and Expenses

Other Income

For the years ended December 31,

	2016	2015	% Change
	\$1,227	\$1,495	(17.9)%

Other income includes property management fees, interest on bank account balances, interest on loans receivable and net revenue associated with the sale of homes in Killam's MHC segment. The 17.9% decrease year-over-year relates to lower interest revenue earned, as a \$4.0 million mezzanine loan was repaid in August 2016.

Financing Costs

For the years ended December 31,	2016	2015	% Change
Mortgage, loan and construction loan interest	\$30,919	\$31,808	(2.8)%
Interest on exchangeable units	2,659	—	NA
Amortization of fair value adjustments on assumed debt	(415)	(570)	(27.2)%
Amortization of loss on interest rate hedge	59	59	—%
Unrealized gain on derivative liability	(297)	—	NA
Convertible debenture interest	4,178	6,836	(38.9)%
Capitalized interest	(910)	(1,089)	(16.4)%
	\$36,193	\$37,044	(2.3)%

Financing costs decreased \$0.9 million or 2.3% for the year ended December 31, 2016, compared to the year ended December 31, 2015. On conversion to the REIT effective January 1, 2016, Killam had an IFRS requirement to record distributions relating to exchangeable units as interest expense (see note 2 of consolidated financial statements). Excluding the expense associated with the exchangeable units, interest expense decreased 9.5%. This decrease was due primarily to the redemption of \$57.5 million in convertible debentures on July 4, 2016, a change in Killam's accounting for the convertible debentures following the REIT conversion and lower interest rates on refinancings in both 2015 and 2016.

Mortgage and loan interest expense was \$30.9 million for the year ended December 31, 2016, down from \$31.8 million in 2015, a decrease of 2.8%. This decrease is attributable to mortgage refinancings at lower interest rates. The average interest rate on refinancings for 2016 was 2.34%, 186 bps lower than the average interest rate before refinancing.

Interest expense associated with the convertible debentures decreased by \$2.7 million for the year ended December 31, 2016. The decrease was a result of the redemption of \$57.5 million of convertible debentures, as well as a change in accounting treatment related to Killam's conversion to a REIT. Killam was required to fair value the convertible debentures at the time of conversion, and Killam elected to measure the convertible debentures at fair value at the end of each period. In 2016, interest expense was recorded based on the stated interest rate for each convertible debenture compared to the effective interest rate in 2015.

2016 Management's Discussion & Analysis

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

Capitalized interest decreased \$0.2 million for the year ended December 31, 2016, compared to 2015. 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 as at December 31, 2016, would affect financing costs by approximately \$10.1 million per year. However, only \$73.1 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/(decrease) in interest rates, financing costs would increase/(decrease) by \$0.7 million per year.

Depreciation Expense

For the years ended December 31,

	2016	2015	% Change
	\$884	\$802	10.2%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software and 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 year-over-year was primarily due to increased costs associated with upgrades to Killam's accounting and property management software. The upgrades include an enhanced mobile platform, which will allow for improved operational efficiencies and enhanced leasing capabilities. The upgrade was completed in September 2016.

Amortization of Deferred Financing Costs

For the years ended December 31,

	2016	2015	% Change
	\$1,505	\$1,913	(21.3)%

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.

Deferred financing amortization decreased 21.3% for the year ended December 31, 2016, as a result of a change in accounting treatment related to Killam's convertible debentures upon conversion to the REIT. This change resulted in the write-off of the remaining deferred financing costs associated with the convertible debentures through retained earnings on January 1, 2016. This change was required as Killam elected to record the full outstanding amount of each convertible debenture at fair value for accounting purposes.

Administration Expenses

For the years ended December 31,

	2016	2015	% Change
Administration (including REIT conversion costs)	\$12,733	\$11,898	7.0%
REIT conversion costs	(1,548)	(1,654)	(6.4)%
Administration (excluding REIT conversion costs)	\$11,185	\$10,244	9.2%
As a percentage of total revenues	6.3%	6.1%	30 bps

Administration expenses include expenses that 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. Administration expense for the year ended December 31, 2016 and 2015, includes one-time costs associated with the REIT conversion.

2016 Management's Discussion & Analysis

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

For the year ended December 31, 2016, total general and administrative costs, excluding REIT conversion costs, increased \$0.9 million or 9.2% compared to the year ended December 31, 2015, primarily driven by an increase of \$0.7 million due to higher non-cash unit-based compensation costs related to restricted trust units ("RTUs"). Vesting was accelerated for the RTU match component for certain executives as a result of the plan's retirement clause. The expense related to these units is therefore fully recognized in the performance period as no further service requirement exists. Previously, the match component of the RTU plan was expensed for all participants over three years. In 2017, Killam expects to manage general and administration expenses to approximately 6% of total revenues. The remaining variance relates to increased salary costs and increased advertising initiatives.

During 2016, Killam's Compensation Committee performed their periodic review of its incentive plan to consider alignment with industry best practices. The Committee engaged a compensation consultant and is in the process of implementing revisions to the incentive plan for the 2017 performance period.

Fair Value Adjustment on Investment Property

For the years ended December 31,

	2016	2015	% Change
	(\$3,749)	(\$6,103)	(38.6%)

Killam recorded a fair value loss of \$3.7 million in 2016 compared to \$6.1 million in 2015. The fair value loss is primarily attributable to a fair value loss on its 50% ownership of a property in Calgary, due to reduced revenue expectations in that market.

Fair Value Adjustment on Convertible Debentures

For the years ended December 31,

	2016	2015	% Change
	\$1,118	\$—	NA

In connection with Killam's conversion to a REIT and the IFRS requirements for convertible debentures redeemable into trust units, Killam has elected to record the full outstanding amount of its convertible debentures at fair value determined using the closing trading price. Changes in fair value are recognized in the consolidated statement of income and comprehensive income. For the year ended December 31, 2016, there was an unrealized gain of \$1.1 million (December 31, 2015 - \$nil) due to the change in market price for the remaining \$46 million of convertible debentures outstanding. Prior to the conversion to a REIT, the convertible debentures were classified as other financial liabilities and recorded at amortized cost using the effective interest rate method, net of deferred financing costs.

Fair Value Adjustment on Unit-based Compensation

For the years ended December 31,

	2016	2015	% Change
	(\$826)	\$—	NA

Killam's RTU Plan gives members of the senior executive team and director level employees the right to receive a percentage of their annual bonus, and non-executive members of the Board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The RTUs are intended to facilitate long-term ownership of trust units and align the interests of Trustees and senior management with those of Unitholders.

As a result of Killam being an open-ended mutual fund trust, whereby each Unitholder of trust units is entitled to redeem their units in accordance with the conditions specified in Killam's DOT, under IFRS, the underlying trust units relating to the RTU awards are not classified as equity and are instead considered financial liabilities. As such, these RTU awards must be presented as liabilities and remeasured at fair value at each reporting date. For the year ended December 31, 2016, there was an unrealized loss of \$0.8 million (December 31, 2015 - \$nil) due to the change in market price of the underlying trust units. Prior to Killam converting to a REIT, the related RTU expense was limited to the amortization of the fair value of the award over the applicable vesting period and was included in administration costs within the consolidated statement of income and comprehensive income.

2016 Management's Discussion & Analysis

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

Fair Value Adjustment on Exchangeable Units

For the years ended December 31,

	2016	2015	% Change
	(\$7,774)	\$—	NA

Killam's exchangeable units were issued effective January 1, 2016, in connection with Killam's conversion to a REIT. Distributions paid on exchangeable units are based on the distributions paid to Killam's Unitholders. The exchangeable units are exchangeable on a one-for-one basis into trust units at the option of the holder. The fair value of these exchangeable units is based on the trading price of Killam's trust units.

In accordance with IFRS, Killam accounts for its exchangeable units as a financial liability and remeasures the liability at each reporting period, and includes this re-measurement in the consolidated statement of income and comprehensive income. For the year ended December 31, 2016, there was an unrealized loss on re-measurement of \$7.8 million, due to changes in the market price of the underlying Killam trust units. A description of the key components of the re-measurement of exchangeable units is included in note 2 of Killam's consolidated financial statements.

Deferred Tax Expense

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-through 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.

Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability in the amount of \$40.0 million to reflect the tax status of the Trust as a flow-through vehicle. In Q3-2016, Killam recorded an adjustment to the deferred tax liability of \$1.6 million to reflect a change in allocation. For the year ended December 31, 2016, Killam recorded a net recovery deferred tax of \$27.6 million related to the corporate subsidiary entity of the REIT.

PART V

Per Unit Calculations

As Killam is an open-ended mutual fund trust, Unitholders are entitled to redeem their trust units, subject to certain restrictions. The impact of this redemption feature causes Killam's trust units to be treated as financial liabilities under IFRS. Consequently, all per unit calculations are considered non-IFRS measures. The following table explains the number of units used in the calculation of non-IFRS financial measures on a per unit basis:

For the years ended December 31,	Weighted Average Number of Units/Shares (000s)		Outstanding Number of Units
	2016	2015	2016
Trust units/common shares	63,467	62,097	67,870
Exchangeable units ⁽¹⁾	4,445	—	3,866
Basic number of units/shares	67,912	62,097	71,736
Plus:			
Units under option plan	—	82	—
Units under restricted trust unit/restricted share unit plan ⁽²⁾	276	181	264
Convertible debentures ⁽³⁾	5,331	—	—
Dilutive number of units/shares	73,519	62,360	72,000

(1) See note 2 to the accompanying consolidated financial statements for details of the exchangeable units.

(2) See note 2 to the accompanying consolidated financial statements for details of Killam's RTU plan.

(3) The calculation of the diluted weighted average units outstanding includes the convertible debentures as they are dilutive for FFO for the year ended December 31, 2016. The convertible debentures are excluded for AFFO for the year ended December 31, 2016, and for both FFO and AFFO for December 31, 2015, as they are anti-dilutive.

2016 Management's Discussion & Analysis

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

Funds from Operations

FFO are recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per unit 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, 2016, and 2015, are determined as follows:

For the years ended December 31,	2016	2015	% Change
Net income	\$71,439	\$35,800	99.6%
Fair value adjustment on convertible debentures	(1,118)	—	—%
Fair value adjustment on unit-based compensation	826	—	—%
Fair value adjustment on exchangeable units	7,774	—	—%
Fair value adjustment on investment properties	3,749	6,103	(38.6%)
Loss on disposition	264	109	142.2%
Non-controlling interest	(531)	(1,058)	(49.8%)
Deferred tax (recovery) expense	(27,598)	6,216	(544.0%)
Interest expense related to exchangeable units	2,659	—	—%
Unrealized gain on derivative liability	(297)	—	—%
Depreciation on owner-occupied building	171	192	(10.9%)
REIT conversion costs	1,548	1,654	(6.4%)
FFO	\$58,886	\$49,016	20.1%
FFO unit/share - basic	\$0.87	\$0.79	10.1%
FFO unit/share - diluted ⁽¹⁾	\$0.86	\$0.79	8.9%
FFO (including effect of debenture conversions for diluted calculation)	\$63,063	—	—
Weighted average number of units/shares - basic (000s)	67,912	62,097	9.4%
Weighted average number of units/shares - diluted (000s)	73,519	62,360	17.9%

(1) The calculation of weighted average units outstanding for diluted FFO includes the convertible debentures for the year ended December 31, 2016, as they are dilutive, and excludes the convertible debentures for the year ended December 31, 2015, as they are anti-dilutive.

Killam earned FFO of \$58.9 million, or \$0.86 per unit (diluted) for the year ended December 31, 2016, compared to \$49.0 million, or \$0.79 per share (diluted), for the year ended December 31, 2015. The increase in FFO is attributable to contributions from acquisitions and completed developments (\$3.0 million), same property NOI growth of 4.0% (\$3.7 million), interest expense savings on refinancings at lower interest rates (\$1.6 million), interest and deferred financing expense savings due to the change in accounting treatment of the convertible debentures on conversion to the REIT (\$1.1 million), interest expense savings on the redemption of the 5.65% convertible debentures (\$1.6 million), as well as the early pay-out of a head lease (\$0.4 million). These increases were offset by an increase in administration expense (\$0.9 million) due mainly to accelerated vesting of RTUs for certain participants, as a result of the RTU plan's retirement clause, and reduction in corporate income (\$0.4 million). FFO per unit was impacted by a 9.4% increase in the number of weighted average units outstanding.

FFO have been adjusted for costs incurred for the years ended December 31, 2016, and 2015 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.

2016 Management's Discussion & Analysis

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

Adjusted Funds from Operations

AFFO is a non-IFRS 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. AFFO may not be comparable to similar measures presented by other real estate trusts or companies. 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.

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 54 and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 57.

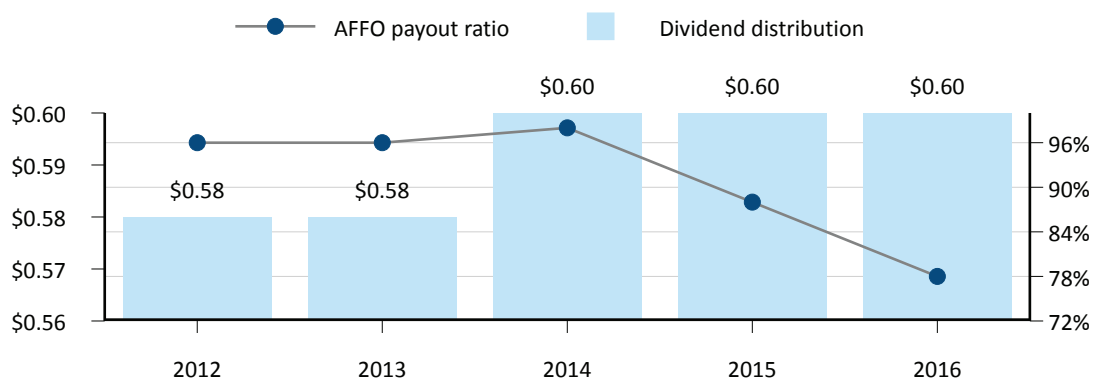
In order to provide investors and other stakeholders with information to assist in assessing Killam's payout ratio, Management has calculated AFFO using \$450 per apartment unit for maintenance capital expenditures, which is in the range for AFFO calculations for the multi-family sector. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has assumed \$100 per MHC site as an 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,	2016	2015	% Change
FFO	\$58,886	\$49,016	20.1%
<i>Maintenance Capital Expenditures</i>			
Apartments	(6,023)	(5,861)	2.8%
MHCs	(516)	(516)	—%
AFFO	\$52,347	\$42,639	22.8%
AFFO per unit/share - basic	\$0.77	\$0.69	11.6%
AFFO per unit/share - diluted ⁽¹⁾	\$0.77	\$0.68	13.2%
AFFO payout ratio ⁽²⁾	78%	88%	(1,000) bps
Weighted average number of units/shares - basic (000s)	67,912	62,097	9.4%
Weighted average number of units/shares - diluted (000s)	68,188	62,360	9.3%

(1) The calculation of weighted average units/shares outstanding for diluted AFFO excludes the convertible debentures for the years ended December 31, 2016, and 2015 as they are anti-dilutive.

(2) Based on Killam's annualized distribution/dividend of \$0.60 for the years ended December 31, 2016, and 2015.

Killam's Annual Dividend Distribution & AFFO Payout Ratio



2016 Management's Discussion & Analysis

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

Cash Generated from Operating Activities to AFFO Reconciliation

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles cash generated from operating activities to AFFO.

For the years ended December 31,

	2016	2015	% Change
Cash generated from operating activities	\$63,584	\$50,947	24.8%
Adjustments:			
Net change in non-cash operating activities	(4,963)	312	(1,690.7)%
Non-controlling interest	(531)	(1,058)	(49.8)%
Non-cash compensation expense	(896)	(316)	183.5%
Interest expense related to exchangeable units	2,659	—	—
Unrealized gain on derivative liability	(297)	—	—
REIT conversion costs	1,548	1,654	(6.4)%
Depreciation and amortization (net of depreciation on owner-occupied building)	(2,220)	(2,523)	(12.0)%
Provision for maintenance property capital investments	(6,537)	(6,377)	2.5%
AFFO	\$52,347	\$42,639	22.8%

Distribution Reinvestment Plan ("DRIP") and Net Distributions Paid

For the years ended December 31,

	2016	2015	% Change
Distributions declared on trust units/common shares	\$38,328	\$37,488	2.2%
Distributions declared on exchangeable units	2,659	—	— %
Distributions declared on awards outstanding under RTU/RSU plan	114	106	7.5%
Total distributions declared	\$41,101	\$37,594	9.3%
Less:			
Distributions on trust units reinvested	(6,849)	(7,299)	(6.2)%
Distributions on RTU/RSUs reinvested	(114)	(106)	7.5%
Net distributions paid	\$34,138	\$30,189	13.1%
Percentage of distributions reinvested	16.9%	19.7%	

2016 Management's Discussion & Analysis

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

PART VI

Investment Properties

As at December 31,

	2016	2015	% Change
Investment properties	\$1,887,302	\$1,794,580	5.2%
Investment properties under construction ("IPUC")	55,507	45,676	21.5%
	\$1,942,809	\$1,840,256	5.6%

Continuity of Investment Properties

For the years ended December 31,

	2016	2015	% Change
Balance, beginning of year	\$1,794,580	\$1,693,055	6.0%
Acquisition of properties ⁽¹⁾	48,214	41,924	15.0%
Disposition of properties	(8)	—	—%
Transfer to IPUC	—	(2,300)	(100.0)%
Transfer from IPUC	15,490	36,147	(57.1)%
Capital expenditures	32,775	31,857	2.9 %
Fair value adjustment - Apartments	(9,188)	(6,837)	34.4 %
Fair value adjustment - MHCs	5,896	734	703.3 %
Fair value adjustment - Other	(457)	—	— %
Balance, end of year	\$1,887,302	\$1,794,580	5.2%

(1) The acquisition of the remaining 51% interest in Garden Park Apartments in June 2016 is not reflected in the acquisition of properties in the table above since the property was already recorded at 100% as Killam had control over the property.

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 model as at December 31, 2016 and 2015, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2016			December 31, 2015		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	4.12%	8.00%	5.49%	4.12%	8.00%	5.52%
MHCs	5.75%	8.00%	6.81%	5.75%	8.00%	6.82%

2016 Management's Discussion & Analysis

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

2016 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price ⁽¹⁾
<u>Apartments</u>					
Kanata Lakes III ⁽²⁾	Ottawa	10-Jun-16	2015	173	\$31,123
270 Parkside Drive	Fredericton	17-Jun-16	1979	28	1,770
Garden Park Apartments ⁽³⁾	Halifax	30-Jun-16	1979	128	23,724
960/970/980 Cheapside Street	London	22-Dec-16	1960	113	10,250
298 Fairview Avenue & 1447 Trafalgar Street	London	22-Dec-16	1960/1965	40	3,150
<u>Other</u>					
Vacant Land	Halifax	2-Feb-16			340
Vacant Land ⁽⁴⁾	Halifax	24-Nov-16			1,160
Total Acquisitions				482	\$71,517

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in a 173-unit building, which includes 2,712 SF of commercial space and a 25% interest in a shared clubhouse. This building is part of a five-building complex. Killam and its 50/50 partner now own three of the buildings and have the two remaining buildings under contract with closings scheduled for Q1-2017.

(3) Purchase price represents Killam's acquisition of the remaining 51.02% interest in Garden Park Apartments. Post acquisition, Killam has a 100% interest in the 246-unit building, which includes 8,159 SF of commercial space.

(4) Purchase price represents Killam's acquisition of remaining 50% interest in vacant land adjacent to the Brewery Market and The Alexander development.

Investment Properties Under Construction

For the years ended December 31,

	2016	2015	% Change
Balance, beginning of period	\$45,676	\$40,840	11.8 %
Capital expenditures	24,411	20,764	17.6%
Interest capitalized	910	1,089	(16.4)%
Land acquisitions	—	17,973	(100.0)%
Land dispositions	—	(1,143)	(100.0)%
Transfer from investment properties	—	(36,147)	(100.0)%
Transfer to investment properties	(15,490)	2,300	(773.5)%
Balance, end of period	\$55,507	\$45,676	21.5%

Killam currently has two projects under development. Killam has continued to expand its development program as it has recently been able to generate yields in the range of 75-100 bps higher than available on the acquisition of similar quality assets. Killam's new developments typically have higher operating margins, in the range of 70% as compared to 50%-60% on older stock, and also require a lower annual capital spend. Killam's development program also enables quality control during construction and also allows Killam to maximize its return on excess land within the portfolio.

Killam completed construction of the 142-unit Southport development, located in downtown Halifax, on September 1, 2016. Killam owns a 50% interest in the project, representing 70 rental units and 1,880 SF of commercial space. The remaining 72 units are condo units. Killam's construction cost for the development was \$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. Southport's lease-up exceeded Management's expectations and was fully leased within three months of opening. Killam did not provide any rental incentives or discounts as part of the lease-up and also earned full parking rates.

Killam and its 50% partner began construction in downtown Halifax on a 240-unit building, The Alexander, late in the third quarter of 2015 and the project is expected to be completed in Q1-2018. The cost to develop is approximately \$70.2 million (\$290,000 per unit) resulting in an expected all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets. As of December 31, 2016, Killam had invested \$11.5 million in the project, representing its 50% equity interest. Construction financing was obtained for the remainder of the project costs and the first loan draw took place in November 2016. As Killam has control over the development for accounting purposes, 100% of the costs are included in IPUC.

2016 Management's Discussion & Analysis

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

During Q3-2016 Killam commenced construction on a 93-unit, seven-story development in Cambridge, ON. The development is adjacent Killam's 122-unit building, Saginaw Gardens, which was completed in June 2015. The new building will include underground parking, a guest suite, fitness facility and tenant lounge. The units are expected to be approximately 30 SF larger than Saginaw Gardens. The project is expected to cost approximately \$25.0 million (\$269,000 per unit) resulting in an all-cash yield of approximately 5.4%, an approximate 65 bps premium over the yield anticipated on acquisitions of similar quality assets.

During Q4-2016, Killam acquired the remaining 50% interest in land adjacent to The Alexander development for \$1.16 million. Killam now has 100% ownership over the 42-unit development project.

As noted below, Killam has a robust development pipeline. Future developments that may begin in late 2017 or early 2018 include Carlton Towers, an 18-storey, 104-unit development adjacent Killam's Spring Garden Terrace apartments in downtown Halifax. Killam is also in the design and approval stage for its Silver Spear II development on excess land adjacent its 199-unit building in Mississauga, ON. Killam will have a 50% ownership in the 12-storey, 128-unit development.

Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Silver Spear ⁽¹⁾	Mississauga, ON	64	In design and approval process
Spring Garden Terrace Land	Halifax, NS	104	Approved development agreement
The Governor	Halifax, NS	42	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	198	Future development
Total Development Opportunities		1,013	

(1) Represents Killam's 50% interest in the potential development units.

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2016, Killam invested a total of \$32.8 million in its portfolio, compared to \$31.9 million for the year ended December 31, 2015.

For the years ended December 31,	2016	2015	% Change
Apartments	\$30,139	\$28,511	5.7%
MHCs	2,098	2,285	(8.2)%
Commercial	538	1,061	(49.3)%
	\$32,775	\$31,857	2.9%

2016 Management's Discussion & Analysis

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

Apartments - Capital Spend

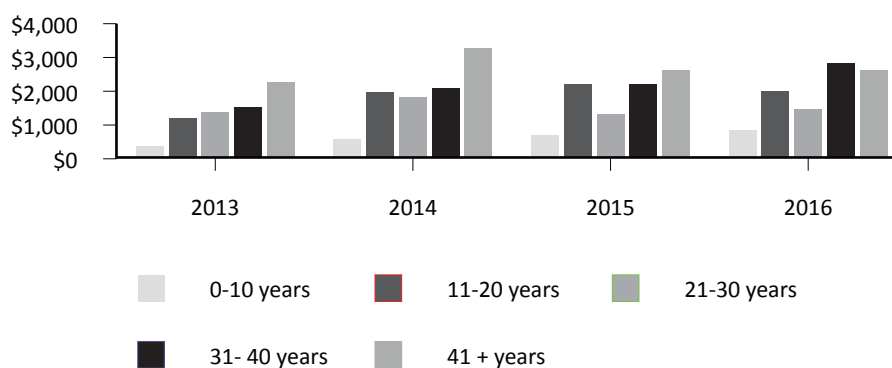
A summary of the capital spend on the apartment segment is included below:

For the years ended December 31,

	2016	2015	% Change
Building improvements	\$17,103	\$16,052	6.5%
Suite renovations	10,335	9,701	6.5%
Appliances	1,219	944	29.1%
Boilers and heating equipment	821	1,335	(38.5)%
Other	367	210	74.8%
Equipment	227	218	4.1%
Parking lots	33	40	(17.5)%
Land improvements	34	11	209.1%
Total capital spend	\$30,139	\$28,511	5.7%
Average number of units outstanding	13,371	13,171	1.5%
Capital spend - \$ per unit	\$2,254	\$2,165	4.1 %

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 is 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.

**Average Capital Spend Per Unit by Building Age
For the years ended December 31**



As the above chart highlights, the capital spend per unit is less for newer (built in the past 10 years) properties, averaging \$846 per unit in 2016, compared to \$2,620 per unit for buildings over 40 years old. Killam's focus on development and acquiring newer properties results in a lower capital spend per unit versus acquiring older properties. Twenty-six percent of Killam's apartments, as a percentage of anticipated 2017 NOI, have been built in the past ten years.

Killam invested \$2,254 per unit for the year ended December 31, 2016, compared to \$2,165 per unit for year ended December 31, 2015. Of the \$30.1 million capital investment made in the apartment segment, approximately 57% was invested in building improvements including common area renovations and energy efficiency investments to increase the quality of Killam's portfolio.

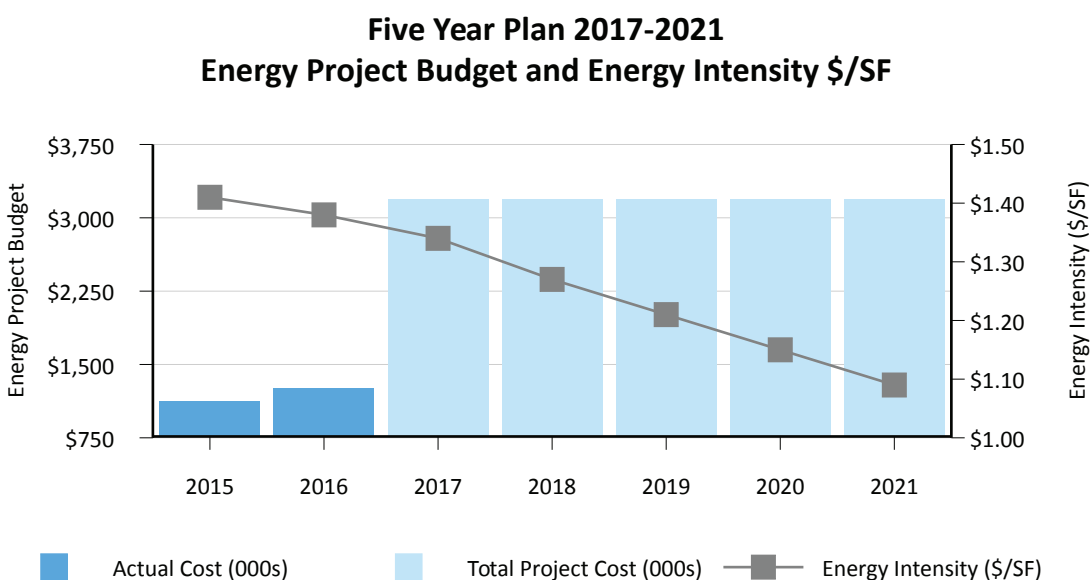
2016 Management's Discussion & Analysis

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

Killam has continued to complete energy efficiency projects across its portfolio. These value enhancing upgrades are investments that are designed to decrease the energy intensity of the portfolio. In 2016, approximately \$1.6 million was invested in ultra low-flow toilets (estimated \$0.5 million annualized savings with a 2.9 year payback), common area lighting retrofits (estimated \$0.1 million in annualized savings with a 2.4 year payback) and the implementation of various condensed gas boiler controls and upgrades.

Killam's 2017-2021 energy strategy has identified over \$25 million in potential efficiency related opportunities with an average payback of four years. This comprises over 700 projects with an estimated annual savings up to \$7 million. At a 5% average cap-rate, these savings could increase the net asset value of Killam's portfolio by \$140 million.

As shown in the following chart, Killam has committed to doubling its energy investment in 2017, and in each of the following four years, to over \$3 million annually. This will allow Killam to decrease its energy intensity from its current \$1.40 per SF to \$1.10 per SF, a 23% decrease, by the end of 2021. Killam's energy intensity measures all energy sources (including water) used within its properties, which is converted to one common measurement of dollars per SF. This \$0.30 decline is an estimated \$4.3 million in annual energy costs, which will more than offset rising energy rates and other operating pressures.



Approximately 34% of the apartment capital investment in 2016 was invested in suite renovations. Killam continues to focus on unit upgrades to maximize occupancy and rental increases.

Killam also continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. As an example, Garden Park Apartments in Halifax, the property that Killam now owns 100%, was identified as a property with potential for repositioning and rental growth. In 2016, Killam completed 43 unit renovations at this property with capital spending averaging \$15,000 per unit turn, which includes new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 22%, or \$190 per month, and an average return on investment of 16%. Killam expects to complete an additional 40-60 unit upgrades over the course of the next 24 months as turnover permits.

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.

Killam expects to invest between \$33-35 million during 2017 on capital investments across its apartment portfolio.

2016 Management's Discussion & Analysis

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

MHCs - Capital Spend

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

For the years ended December 31,

	2016	2015	% Change
Water and sewer upgrades	\$993	\$1,236	(19.7)%
Site expansion and land improvements	512	261	96.2%
Other	438	410	6.8%
Roads and paving	127	302	(57.9)%
Equipment	28	76	(63.2)%
Total capital spend - MHCs	\$2,098	\$2,285	(8.2)%
Average number of units outstanding	5,165	5,165	—%
Capital spend - \$ per site	\$406	\$442	(8.1)%

Management expects to invest between \$300 - \$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 considered value enhancing. Management estimates that \$100 per unit is allocated to 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 investments.

The reduction in capital spend for the year ended December 31, 2016, compared to 2015 is based on timing of projects.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest between \$1.0-\$3.0 million during 2017 on capital investments across its MHC portfolio.

Loan Receivable

On July 5, 2016, Killam received full repayment of the \$4.0 million loan receivable outstanding. The mezzanine loan was issued in May 2014 to a third-party developer for the construction of a multi-family residential property and earned interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly.

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity to fund major property improvements and property maintenance, debt principal and interest payments, distributions to Unitholders and property acquisitions and developments. Killam's sources of capital include: (i) cash flows generated from operating activities; (ii) cash inflows from annual mortgage refinancings; (iii) mortgage debt secured by investment properties; (iv) secured revolving demand credit facilities with two Canadian chartered banks; and (v) equity and debt issuances.

Management expects to have sufficient liquidity for the foreseeable future based on its evaluation of capital resources as summarized below:

- (i) Cash flows from operating activities are expected to be sufficient to fund the current level of distributions.
- (ii) Killam has a \$30 million revolving demand credit facility to be used for Killam's acquisition and development program, as well as general business purposes. There is currently no balance drawn on the credit facility.
- (iii) Killam's available credit facilities and cash on hand provide Killam with approximately \$45 million of capital for future acquisitions and developments. Based on 60% mortgage debt on acquisitions, the capital is expected to support future acquisitions of approximately \$112 million.
- (iv) A combination of the retained portion of its annual FFO and AFFO, mortgage refinancings, and the available borrowing capacity of its revolving demand credit facilities is expected to be sufficient to fund ongoing property capital investments, principal repayments and developments.

2016 Management's Discussion & Analysis

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

- (v) Killam is well positioned to meet its mortgage renewals and refinancing goals for 2017 due to the continued availability of CMHC insured financing. Management does not anticipate any difficulties in completing the renewal of mortgages maturing during 2017 of approximately \$71.5 million, which have effective interest rates of approximately 3.69%.

Killam is in compliance with all financial covenants contained in the DOT and credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of the assets of Killam as shown on the most recent consolidated statement of financial position and (ii) the historical cost of the assets of Killam. Killam's total debt as a percentage of assets as at December 31, 2016 was 53.5%.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at,	December 31, 2016	December 31, 2015	Change
Weighted average years to debt maturity (years)	4.3	4.2	0.1
Gross mortgage, loan and vendor debt as a percentage of total assets	51.2%	51.1%	10 bps
Total debt as a percentage of total assets	53.5%	56.4%	(290) bps
Interest coverage	2.74x	2.34x	40 bps
Debt service coverage	1.43x	1.35x	8 bps
Debt to EBITDA	11.14x	11.73x	(59) bps
Weighted average mortgage interest rate	3.01%	3.27%	(26) bps
Weighted average interest rate of total debt	3.11%	3.60%	(49) bps

Killam's long-term debt consists largely of fixed-rate, long-term mortgage financings. In certain cases, Killam will also utilize vendor-take-back 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, 2016, weighted average interest rate on mortgages improved to 3.01% from 3.27% as at December 31, 2015, as a result of refinancing at lower interest rates during the year. This trend is expected to continue over the next 12 months with \$71.5 million of mortgage balances maturing at rates above current mortgage interest rates.

Refinancings

For the year ended December 31, 2016, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	\$117,144	4.18%	\$179,384	2.30%	6.7 years	\$62,240
MHCs	2,903	5.07%	7,251	3.29%	5.0 years	4,348
	\$120,047	4.20%	\$186,635	2.34%	6.5 years	\$66,588

2016 Management's Discussion & Analysis

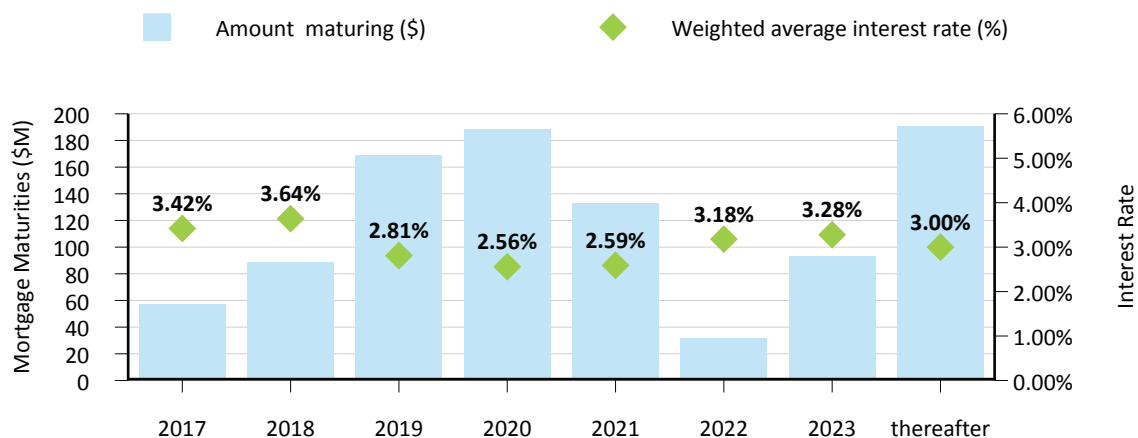
Dollar amounts in thousands of Canadian dollars (except as noted)

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

Year of Maturity	Apartments			MHC		Total	
	Balance December 31, 2016	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2016	Weighted Avg Int. Rate %	Balance December 31, 2016	Weighted Avg Int. Rate %
2017	\$57,370	3.42%	43.3%	\$15,715	4.66%	\$73,085	3.69%
2018	88,597	3.64%	40.6%	11,629	4.33%	100,226	3.72%
2019	169,192	2.81%	96.6%	18,886	3.85%	188,078	2.91%
2020	188,414	2.56%	57.4%	6,960	3.52%	195,374	2.59%
2021	132,755	2.59%	84.3%	7,145	3.30%	139,900	2.62%
2022	31,760	3.18%	70.2%	—	—	31,760	3.18%
2023	93,562	3.28%	84.4%	—	—	93,562	3.28%
Thereafter	190,724	3.00%	100.0%	—	—	190,724	3.00%
	\$952,374	2.94%	77.3%	\$60,335	4.05%	\$1,012,710	3.01%

(1) Excludes \$16.2 million related to demand loans classified as current mortgage debt on the December 31, 2016, consolidated financial statements.

Apartment Mortgages Maturities by Year



As at December 31, 2016, approximately 77% of Killam's apartment mortgages were CMHC-insured (73% of total mortgages as MHC mortgages are not eligible for CMHC insurance) (December 31, 2015 – 73% and 69%). The weighted average interest rate on the CMHC-insured mortgages was 2.80% as at December 31, 2016 (December 31, 2015 – 3.01%).

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.

2016 Management's Discussion & Analysis

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2017 and 2018:

2017 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	13	\$7,411	\$56,352
MHCs with debt maturing	9	2,787	15,151
	22	\$10,198	\$71,503

2018 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	19	\$9,523	\$84,093
MHCs with debt maturing	9	802	10,604
	28	\$10,325	\$94,697

Future Contractual Debt Obligations

As at December 31, 2016, the timing of Killam's future contractual debt obligations is as follows:

For the year ending December 31,	Mortgage and Loans Payable	Construction Loans	Convertible Debentures	Total
2017	\$111,862	\$9,719	\$—	\$121,581
2018	125,005	8,790	46,000	179,795
2019	196,479	—	—	196,479
2020	193,097	—	—	193,097
2021	131,931	—	—	131,931
Thereafter	261,741	—	—	261,741
	\$1,020,115	\$18,509	\$46,000	\$1,084,624

Convertible Debentures

On July 4, 2016, Killam completed the redemption of the \$57.5 million, 5.65%, convertible unsecured debentures.

Killam's remaining \$46.0 million convertible unsecured subordinated debentures mature on June 30, 2018, bear interest at 5.45% and are convertible, at the holders' option, to trust units at a price of \$14.60. As of December 31, 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 five days preceding the fixed date for redemption or maturing). Management may redeem the remaining convertible debentures with equity in the future and thereby further reduce Killam's debt levels. Replacing the convertible debentures with equity would reduce Killam's debt levels further, to below 52%.

Construction Loans

As at December 31, 2016, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects for \$10.1 and \$51.8 million. The \$51.8 million construction loan relates to a joint development project where Killam has a 50% interest. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625% - 0.75%.

As at December 31, 2016, \$18.5 million (December 31, 2015 - \$4.1 million) was drawn on the construction loans at a weighted average interest rate of 3.39% (December 31, 2015 - 3.45%). The construction loan related to the Southport development project for \$9.7 million is expected to be repaid in full and replaced with a conventional mortgage in the first quarter of 2017. The construction loan related to the Alexander development project is expected to be replaced with a conventional mortgage once construction is completed and rental targets are achieved.

2016 Management's Discussion & Analysis

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

Credit Facilities

On July 20, 2016, Killam increased its \$2.0 million revolving demand facility to \$30.0 million. This facility can be used for Killam's acquisition program and general business purposes. The interest rate on this debt is prime plus 75 bps on prime rate advances or 175 bps over banker's acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At year-end 2016, Killam has assets with a carrying value of \$46.4 million pledged to the line and a balance outstanding of \$nil. The agreement includes certain covenants and undertakings with which Killam is in compliance.

Killam also has 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, 2016, Killam had assets with a carrying value of \$1.8 million pledged as collateral and letters of credit totaling \$1.2 million outstanding against the facility (December 31, 2015 - \$1.5 million). The agreement includes certain covenants and undertakings, with which Killam is in compliance.

Unitholders' Equity

Unitholders' equity represents the issued and outstanding trust units, including any units issued in connection with unit-based incentive plans, as they have claims similar or identical to those of the trust units. Unitholders' equity excludes the exchangeable units.

Under the reorganization of Killam to a real estate investment trust, the former Shareholders of the Corporation received trust units or exchangeable units. The interests in Killam Apartment REIT are represented by two classes of units: a class described and designated as "trust units", and a class described and designated as "special voting units". The special voting units are used to provide voting rights to holders of exchangeable units that are exchangeable for trust units. The exchangeable units are classified as a financial liability in accordance with IAS 32 and are discussed in note 2 of the consolidated financial statements.

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2016, no Unitholders redeemed units.

2016 Management's Discussion & Analysis

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:

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	\$44,137	\$45,078	\$43,847	\$42,207	\$42,433	\$43,193	\$41,452	\$39,536
NOI	\$26,372	\$28,350	\$27,270	\$23,430	\$25,361	\$27,178	\$25,196	\$20,655
Net income	\$4,638	\$17,966	\$3,666	\$45,169	\$8,069	\$11,620	\$8,942	\$7,169
Earnings per share - diluted ⁽¹⁾	\$—	\$—	\$—	\$—	\$0.12	\$0.17	\$0.14	\$0.11
FFO	\$15,223	\$17,021	\$15,133	\$11,509	\$12,403	\$14,779	\$12,912	\$8,922
FFO per unit/share - diluted	\$0.21	\$0.24	\$0.23	\$0.18	\$0.20	\$0.24	\$0.21	\$0.15
AFFO per unit/share - diluted	\$0.19	\$0.21	\$0.20	\$0.16	\$0.17	\$0.21	\$0.18	\$0.12
Weighted average units/shares - diluted (000s)	75,022	75,045	73,361	63,184	62,951	70,104	62,360	61,035

(1) Upon conversion to a REIT, Killam is no longer required to disclose earnings per share.

Killam's total property revenue for the three months ended December 31, 2016, was \$44.1 million, a 4.0% increase in revenue over the same period of 2015. The growth was generated through revenue from acquisitions and developments, as well as increased same property revenue. Total property expenses increased 4.1% in Q4-2016 compared to Q4-2015 as a result of expenses associated with the addition of new acquisitions and completed developments.

Q4 Same Property NOI

For the three months ended December 31,

	Total Portfolio			Apartments			MHCs		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Property revenue	\$40,728	\$39,998	1.8%	\$37,425	\$36,767	1.8%	\$3,303	\$3,231	2.2%
Property operating expenses									
Operating expenses	(6,904)	(6,493)	6.3 %	(5,973)	(5,667)	5.4 %	(931)	(826)	12.7 %
Utility and fuel expenses	(5,052)	(5,205)	(2.9)%	(4,722)	(4,893)	(3.5)%	(330)	(312)	5.8 %
Property taxes	(4,615)	(4,575)	0.9 %	(4,453)	(4,427)	0.6 %	(162)	(148)	9.5 %
Total property expenses	(16,571)	(16,273)	1.8 %	(15,148)	(14,987)	1.1 %	(1,423)	(1,286)	10.7 %
NOI	\$24,157	\$23,725	1.8%	\$22,277	\$21,780	2.3%	\$1,880	\$1,945	(3.3)%
Operating margin	59.3%	59.3%	—	59.5%	59.2%	30 bps	56.9%	60.2%	(330) bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 2.3% for Q4-2016 due to a 1.8% increase in net revenues along with a modest increase in total property operating expenses of 1.1%. Net apartment revenue growth of 1.8%, or \$0.7 million, quarter-over-quarter is the result of increased rental rates of 1.6% and a 40 bps increase in occupancy. The same property portfolio achieved 96.1% occupancy during the fourth quarter of 2016.

Operating expenses increased 5.4% in the fourth quarter due to higher contract service costs, increased salaries and additional advertising spend. Contract services increased as a result of higher snow removal contract pricing in certain regions for the 2016-17 winter season and early winter weather that required additional hauling in parts of Newfoundland and Ontario. Salary costs increased as Management rolled out a new scorecard compensation program for the majority of property-level employees, adjusting the timing of salary costs quarter-over-quarter. Higher advertising costs related to an increase in community events, as a part of Killam's tenant retention program.

2016 Management's Discussion & Analysis

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

Utility and fuel expenses decreased 3.5% in Q4-2016 compared to Q4-2015. Natural gas expense savings were realized due to warmer weather and overall lower variable natural gas pricing predominately in Nova Scotia and Ontario. Water expense decreased by 2.7% despite pricing increases quarter-over-quarter as Killam achieved water consumption savings from its low-flow toilet installations across many properties.

Property taxes increased a modest 0.6% due to successful tax appeals offsetting rising property tax assessments and rates.

Q4-2016 Occupancy by Region

For the three months ended December 31,	Total Occupancy			Same Property Occupancy		
	2016	2015	Change (bps)	2016	2015	Change (bps)
Halifax, NS	96.4%	96.0%	40	96.4%	96.0%	40
Moncton, NB	95.4%	93.9%	150	95.4%	93.9%	150
Fredericton, NB	95.2%	95.1%	10	95.2%	95.1%	10
Saint John, NB	92.5%	95.6%	(310)	93.1%	96.1%	(300)
St. John's, NL	94.6%	96.2%	(160)	94.2%	95.7%	(150)
Charlottetown, PE	99.4%	98.8%	60	99.4%	98.8%	60
Ontario	96.6%	95.8%	80	96.9%	96.8%	10
Alberta	90.1%	77.9%	1,220	90.1%	77.9%	1,220
Other Atlantic	98.2%	97.5%	70	98.2%	97.5%	70
Total Apartment (Weighted Average)	95.9%	95.6%	30	96.1%	95.7%	40

Killam realized stronger occupancy in Halifax, Moncton, Alberta, Charlottetown, Fredericton, and Ontario in Q4-2016, increasing same property apartment occupancy 40 bps in the fourth quarter to 96.1% compared to 95.7% in Q4-2015. Although overall occupancy for Alberta was lower for the year, Q4-2016 occupancy was much stronger than Q4-2015 with a 1,220 increase to 90.1%. Both the Saint John and St. John's markets have softened quarter-over-quarter and increased vacancy was realized in both markets.

Q4-2016 Apartment NOI by Region

For the three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Halifax	\$14,936	\$14,552	2.6%	(\$5,551)	(\$5,718)	(2.9)%	\$9,385	\$8,834	6.2%
Moncton	4,309	4,223	2.0%	(2,107)	(2,067)	1.9%	2,202	2,156	2.1%
Fredericton	3,763	3,710	1.4%	(1,620)	(1,529)	6.0%	2,143	2,181	(1.7)%
Saint John	2,479	2,568	(3.5)%	(1,350)	(1,354)	(0.3)%	1,129	1,214	(7.0)%
Ontario	5,608	5,472	2.5%	(2,161)	(2,088)	3.5%	3,447	3,384	1.9%
St. John's	2,475	2,441	1.4%	(845)	(773)	9.3%	1,630	1,668	(2.3)%
Charlottetown	2,666	2,635	1.2%	(1,082)	(1,022)	5.9%	1,584	1,613	(1.8)%
Alberta	657	656	0.2%	(222)	(221)	0.5%	435	435	—%
Other	532	510	4.3%	(210)	(215)	(2.3)%	322	295	9.2%
	\$37,425	\$36,767	1.8%	(\$15,148)	(\$14,987)	1.1%	\$22,277	\$21,780	2.3%

Halifax was the leader in Q4-2016, recording 6.2% growth in NOI. This market had strong rental rate growth of 2.2% and occupancy improvements of 40 bps for the quarter, combined with operational efficiencies and lower natural gas costs. Moncton and Ontario also posted positive same property results for Q4-2016 with rental rate growth, occupancy improvement and minimal expense growth.

2016 Management's Discussion & Analysis

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

Despite a 2.4% increase in rental rates in St. John's, occupancy declined 150 bps, lowering net revenue gains to 1.4% for the quarter. Along with St. John's, Fredericton and Charlottetown also realized modest net revenue growth (1.4% and 1.2%) in Q4-2016. Combined with higher operating expenses, in particular, higher contract service costs, insurance premiums and property taxes, these regions recorded NOI declines in the range of 1.7% - 2.3%.

Saint John's occupancy dropped 300 bps for the quarter, resulting in a net revenue decline of 3.5%. Despite flat operating expenses quarter-over-quarter, Saint John realized a 7.0% decline in NOI in Q4-2016.

Alberta achieved the same NOI in Q4-2016 and Q4-2015. Revenues were relatively flat as decreases in rental rates of 12.2% were offset by a 1,220 bps increase in occupancy. Operating costs remained flat with operational efficiencies mitigating the rising property tax expense in the quarter.

MHC Same Property

The MHC same property portfolio recorded a 3.3% decline in NOI in Q4-2016. The portfolio continues to generate solid revenue growth, up 2.2% from Q4-2015, driven by increased rental rates of 2.8% and a 30 bps occupancy improvement quarter-over-quarter. Total same property expenses increased 10.7%, or \$137 thousand, due to higher water consumption at three of the communities, timing of repairs and maintenance, and increased property tax costs.

Q4 FFO and AFFO

For the three months ended December 31,	2016	2015	% Change
Net income	\$4,638	\$8,069	(42.5)%
Fair value adjustments	1,657	7,651	(78.3)%
Non-controlling interest	7	(264)	(102.7)%
Deferred tax expense (recovery)	8,467	(4,577)	(285.0)%
Interest expense related to exchangeable units	580	—	NA
Unrealized loss on derivative liability	(412)	—	NA
Depreciation on owner-occupied building	46	47	(2.1)%
REIT conversion costs	240	1,477	(83.8)%
FFO	\$15,223	\$12,403	22.7%
FFO unit/share - diluted	\$0.21	\$0.20	5.0%
AFFO per unit/share - diluted	\$0.19	\$0.17	11.8%
AFFO payout ratio - diluted	79%	87%	(800) bps

FFO was \$15.2 million in the fourth quarter, up 22.7% from \$12.4 million in the fourth quarter of 2015. FFO per unit was \$0.21 in Q4-2016, a 5% increase over the same period in 2015. This increase was related to increased earnings from the same property portfolio (\$0.7 million), acquisitions and developments (\$0.8 million), lower administrative costs (\$0.3 million), and interest expense savings on the redemption of the 5.65% convertible debentures (\$1.0 million), offset by a 19.2% increase in the weighted average units outstanding.

Selected Consolidated Financial Information

For the years ended December 31,	2016	2015	2014
Property revenue	\$175,269	\$166,614	\$147,507
Net income	\$71,439	\$35,800	\$32,667
Earnings per share - diluted ⁽¹⁾	\$—	\$0.55	\$0.53
FFO	\$58,886	\$49,016	\$40,162
FFO per unit/share - diluted	\$0.86	\$0.79	\$0.72
Investment properties	\$1,942,809	\$1,840,256	\$1,733,895
Total assets	\$1,987,633	\$1,876,276	\$1,775,234
Total liabilities	\$1,237,167	\$1,190,948	\$1,112,551
Distribution/dividend per unit/share	\$0.60	\$0.60	\$0.60

(1) Upon conversion to a REIT, Killam is no longer required to disclose earnings per share.

2016 Management's Discussion & Analysis

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

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 Killam 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, 2016, no mortgages or vendor debt had floating interest rates except for four demand loans totaling \$7.9 million and two revolving demand facilities. These loans have an interest rate of prime plus 1.0%-2.0%. Killam also has two construction loans with a total balance drawn of \$18.5 million. The construction loans have interest rates of prime plus 0.625% - 0.75%, and consequently, Killam is exposed to short-term interest rate risk on these loans.

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 24 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.

2016 Management's Discussion & Analysis

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

Cyber Security Risk

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of Killam's information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. Killam's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to Killam's business relationships with its vendors and tenants and disclosure of confidential vendor or tenant information. Killam has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays will 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 natural gas, oil, 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.

2016 Management's Discussion & Analysis

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

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* 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 is 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 of 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 that 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

2016 Management's Discussion & Analysis

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

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 comprising real or movable 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.

2016 Management's Discussion & Analysis

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

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 Canada Revenue Agency, 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.

Competition for Real Property Investments

Killam competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) that are presently seeking, or that may seek in the future, real property investments similar to those desired by Killam. Many of these investors will have greater financial resources than those of the Trust. An increase in the availability of investment funds, and an increase in interest of real property investments, would tend to increase competition for real property investments, thereby increasing purchase prices and reducing yields therefrom. In addition, Killam may require additional financing to complete future real property acquisitions, which may not be available on terms acceptable to Killam.

Future Acquisitions of Real Property Investments

Unitholders will have no advance opportunity to evaluate the merits and risks of any future acquisitions of real property investments made by Killam and will need to rely on the experience and judgment of Management. There can be no assurance that any such acquisitions will be successfully completed. Management and the Board will have responsibility for and substantial discretion in the making of such acquisitions. Therefore, the future profitability of Killam will depend upon the ability of Management to identify and complete commercially viable acquisitions.

Zoning and Approval

Future acquisitions and development projects may require zoning and other approvals from local government agencies. The process of obtaining such approvals may take months or years, and there can be no assurance that the necessary approvals for any particular project will be obtained. Holding costs accrue while regulatory approvals are being sought, and delays could render future acquisitions and developments uneconomical.

Dependence on Key Personnel

The success of Killam will be largely dependent upon the quality of its Management and personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could adversely affect the Killam's business operations and prospects.

Market for Securities and Price Volatility

There can be no assurance that an active trading market in Killam's securities will be sustained. In addition, the market price for Killam's securities could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results, changes in interest rates, as well as market conditions in the industry, may have a significant impact on the market price of the securities of Killam. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies. At times, following periods of volatility in the market price of some companies' securities, securities litigation has been instituted against such companies. The institution of this type of litigation against Killam could result in substantial costs and a diversion of Management's attention and resources, which could harm the Trust's business and prospects.

2016 Management's Discussion & Analysis

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

Co-ownership

Killam has co-ownership of six properties, including the Trust's interest in five properties that are subject to joint control and are joint operations with KingSett and AIMCo. In addition, during 2015, Killam entered into a joint development agreement with another company for the development of a 240-unit mixed-use building in downtown Halifax. Risks associated with co-ownership include the risk of non-payment for operating and capital costs from the partner, risk of inability to finance a property associated with a joint venture or limited partnership and the risk of a partner selling their interest in the properties.

Ground Leases

Three of Killam's properties, including 6101 South Street and Chapter House located in Halifax, and 1033 Queen Street West in Toronto, are subject to long-term ground leases in which the underlying land is owned by an arms-length third party and leased to Killam. Under the terms of the ground lease, Killam must pay rent for the use of the land and is generally responsible for all the costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all the improvements made, will revert to the owner of the land upon the expiration of the lease. The leases are scheduled to expire in 2041 (there is an option for a ten year renewal), 2080 and 2060, respectively.

Related Party Transactions

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 Trustee of Killam. In addition, the property manager for the commercial complex is controlled by the executive and Trustee of Killam and is paid an industry standard property management fee of 4.5%. 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 \$nil (2015 - \$45,000) in project management fees related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, for \$22.3 million, from Halkirk Properties Limited ("Halkirk"), a company that is partially owned by a Trustee of Killam. Killam also acquired a 50% interest in a corporation that owns vacant land adjacent to the Brewery Market for future development for \$5.2 million. The remaining 50% is also owned by Halkirk.

During the third quarter of 2015, Killam and Halkirk began development of a 240-unit building on the vacant land adjacent to the Brewery Market. Construction of the development is managed by Killam, and the cost of construction will be funded 50/50 by each partner.

During the fourth quarter of 2016, Killam acquired the remaining 50% interest in a portion of vacant land held in the corporation from Halkirk in exchange for \$1.16 million in Killam trust units, as required per the original purchase and sale contract entered into during 2015.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgment in Applying Accounting Policies

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

(i) Income taxes

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

2016 Management's Discussion & Analysis

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

The Trust's accounting policies relating to financial instruments are described in note 2(m). Critical judgments inherent in these policies related to applying the criteria set out in IAS 39 to designate financial instruments into categories i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

(iv) Basis of consolidation

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 6. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and expected maintenance costs) used in the overall capitalization rate valuation method as well as discount rates and forecasted cash flows used in the discounted cash flow valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 6 for sensitivity analysis.

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

(ii) Deferred unit-based compensation plan

The compensation costs relating to the deferred unit plan are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised.

(iii) Deferred taxes

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 19.

Future Accounting Policy Changes

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

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 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 plans to adopt the new standard on the effective date. During 2016, Killam performed a high level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to Killam in the future. Overall, Killam expects no significant impact on its statement of financial position.

2016 Management's Discussion & Analysis

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

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 recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The 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.

IAS 40, Investment Properties ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. These amendments are not expected to have any significant impact on Killam's consolidated financial statements.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, 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 will perform a detailed analysis which considers any leases that would be affected by this and the impact it may have on the 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, 2016, 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, 2016, 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, 2016, 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, 2016, that have materially affected or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

2016 Management's Discussion & Analysis

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

Subsequent Events

On January 16, 2017, Killam acquired Spruce Grove Lane Apartments in Calgary. The property consists of 66 townhouse-style apartments. The acquisition cost was \$12.8 million (\$195,000 per unit). This acquisition increases Killam's Calgary portfolio to 373 rental units.

On January 18, 2017, Killam announced a distribution of \$0.05 per unit, payable on February 15, 2017, to Unitholders of record on January 31, 2017.

On February 14, 2017, the Board of Trustees approved a 3.3% increase to Killam's annual distribution, to \$0.62 per unit from \$0.60 per unit. The monthly distribution will be \$0.05167 per unit, up from \$0.05 per unit. The increase will become effective for the March 2017 distribution, to be paid in April 2017.

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

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

As at December 31, 2016, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 14, 2017



Philip Fraser
President and Chief Executive Officer



Robert Richardson
Executive Vice President and Chief Financial Officer

Independent auditors' report

To the Unitholders of
Killam Apartment Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of **Killam Apartment Real Estate Investment Trust**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 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

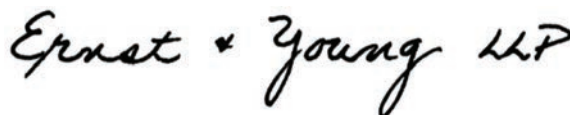
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 Apartment Real Estate Investment Trust** as at December 31, 2016 and 2015 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.



Halifax, Canada
February 14, 2017

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Financial Position

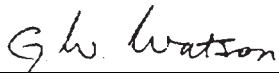
In thousands of Canadian dollars,

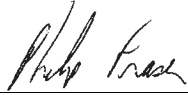
As at December 31,

	Note	2016	2015
ASSETS			
Non-current assets			
Investment properties	[6]	\$1,942,809	\$1,840,256
Property and equipment	[8]	4,787	4,973
Other non-current assets	[9]	950	4,965
		\$1,948,546	\$1,850,194
Current assets			
Cash		\$24,652	\$14,298
Rent and other receivables	[11]	2,895	2,080
Other current assets	[10]	11,540	9,704
		39,087	26,082
TOTAL ASSETS		\$1,987,633	\$1,876,276
EQUITY AND LIABILITIES			
Unitholders'/shareholders' equity		\$750,450	\$669,826
Accumulated other comprehensive loss ("AOCL")		(97)	(156)
Non-controlling interest		113	15,658
Total Equity		\$750,466	\$685,328
Non-current liabilities			
Mortgages and loans payable	[12] [26]	\$885,652	\$784,629
Convertible debentures	[15]	46,690	99,627
Other liabilities		12,563	8,723
Exchangeable units	[16]	46,158	—
Deferred tax	[19]	84,547	112,145
Deferred unit-based compensation	[20]	2,988	—
		\$1,078,598	\$1,005,124
Current liabilities			
Mortgages and loans payable	[12]	\$111,862	\$156,218
Construction loans	[13]	18,509	4,115
Accounts payable and accrued liabilities	[14]	28,198	25,491
		158,569	185,824
Total Liabilities		\$1,237,167	\$1,190,948
TOTAL EQUITY AND LIABILITIES		\$1,987,633	\$1,876,276
Commitments and Contingencies	[25]		
Financial guarantees	[26]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees


Trustee


Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars,

For the years ended December 31,

	Note	2016	2015
Property revenue		\$175,269	\$166,614
Property operating expenses			
Operating expenses		(29,097)	(27,590)
Utility and fuel expenses		(20,462)	(21,299)
Property taxes		(20,286)	(19,335)
		(69,845)	(68,224)
Net operating income		\$105,424	\$98,390
Other income		1,227	1,495
Financing costs	[21]	(36,193)	(37,044)
Depreciation		(884)	(802)
Amortization of deferred financing costs		(1,505)	(1,913)
Administration		(12,733)	(11,898)
Income before fair value adjustments, loss on disposition and income taxes		\$55,336	\$48,228
Fair value adjustment on convertible debentures		1,118	—
Fair value adjustment on unit-based compensation		(826)	—
Fair value adjustment on Exchangeable Units		(7,774)	—
Fair value adjustment on investment properties		(3,749)	(6,103)
Loss on disposition		(264)	(109)
Income before income taxes		43,841	42,016
Deferred tax recovery	[19]	27,598	(6,216)
Net income		\$71,439	\$35,800
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to finance costs		59	42
Comprehensive income		\$71,498	\$35,842
Net income attributable to:			
Unitholders/common shareholders		67,982	34,557
Non-controlling interest		3,457	1,243
		\$71,439	\$35,800
Comprehensive income attributable to:			
Unitholders/common shareholders		68,041	34,599
Non-controlling interest		3,457	1,243
		\$71,498	\$35,842

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, 2016

	Trust Units	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non- controlling Interest	Total Equity
As at January 1, 2016	\$—	\$484,132	\$2,150	\$5,681	\$177,863	(\$156)	\$15,658	\$685,328
REIT conversion - See note 3	447,566	(484,132)	(1,355)	(5,681)	(12,463)	—	—	(56,065)
Unit capital								
Exchange of exchangeable units	11,043	—	—	—	—	—	—	11,043
Distribution reinvestment plan	6,482	—	—	—	—	—	—	6,482
Restricted trust unit plan	323	—	—	—	—	—	—	323
Issued for cash	93,623	—	—	—	—	—	—	93,623
Issuance of units for acquisitions	1,160	—	—	—	—	—	—	1,160
Net income	—	—	—	—	67,982	—	3,457	71,439
Amortization of loss on forward interest rate hedge	—	—	—	—	—	59	—	59
Distributions on non-controlling interest	—	—	—	—	—	—	(505)	(505)
Acquisition of non-controlling interest	—	—	—	—	(5,599)	—	(18,497)	(24,096)
Distributions on trust units								
Distributions declared and paid	—	—	—	—	(34,908)	—	—	(34,908)
Distributions payable	—	—	—	—	(3,417)	—	—	(3,417)
As at December 31, 2016	\$560,197	\$—	\$795	\$—	\$189,458	(\$97)	\$113	\$750,466

For the year ended December 31, 2015

	Capital Stock	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non- controlling Interest	Total Equity
As at January 1, 2015	\$459,138	\$2,417	\$5,681	\$180,793	(\$198)	\$14,852	\$662,683
Share capital							
Dividend reinvestment plan	6,907	—	—	—	—	—	6,907
Stock options exercised	3,458	(486)	—	—	—	—	2,972
Issuance of shares for acquisitions	14,535	—	—	—	—	—	14,535
Restricted share units issued	—	797	—	—	—	—	797
Restricted share units redeemed	286	(530)	—	—	—	—	(244)
Repurchase through normal course issuer bid	(192)	(48)	—	—	—	—	(240)
Net income	—	—	—	34,557	—	1,243	35,800
Amortization of loss on forward interest rate hedge	—	—	—	—	42	—	42
Distribution to non-controlling interest	—	—	—	—	—	(437)	(437)
Dividends declared and paid	—	—	—	(34,326)	—	—	(34,326)
Dividends payable	—	—	—	(3,161)	—	—	(3,161)
At December 31, 2015	\$484,132	\$2,150	\$5,681	\$177,863	(\$156)	\$15,658	\$685,328

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	2016	2015
OPERATING ACTIVITIES			
Net income		\$71,439	\$35,800
Add (deduct) items not affecting cash			
Fair value adjustments	[6], [16], [17]	11,231	6,103
Depreciation and amortization		2,389	2,715
Non-cash compensation expense	[20]	896	316
Deferred income taxes		(27,598)	6,216
Loss on disposition		264	109
Net change in non-cash operating activities	[23]	4,963	(312)
Cash provided by operating activities		\$63,584	\$50,947
FINANCING ACTIVITIES			
Deferred financing costs paid		(4,685)	(3,852)
Proceeds on issuance of units/common shares		93,491	2,874
Repurchase common shares through normal course issuer bid		—	(241)
Redemption of convertible debentures		(57,500)	—
Proceeds of repayment of mezzanine loan		4,000	—
Mortgage financing		200,537	201,797
Mortgages repaid on maturity		(105,831)	(91,134)
Mortgage principal repayments		(31,662)	(28,809)
Proceeds from construction loans		10,558	15,383
Construction loans repaid on maturity		—	(43,214)
Distributions paid to non-controlling interest		(24,610)	(437)
Distributions to unitholders/shareholders	[18]	(31,515)	(30,413)
Cash provided by financing activities		\$52,783	\$21,954
INVESTING ACTIVITIES			
Increase in restricted cash		(340)	(908)
Net proceeds on sale of land		—	50
Acquisition of investment properties, net of debt assumed		(46,897)	(23,889)
Disposition of investment property		8	—
Development of investment properties		(25,324)	(21,853)
Capital expenditures		(33,460)	(32,778)
Cash used in investing activities		(\$106,013)	(\$79,378)
Net increase (decrease) in cash		10,354	(6,477)
Cash, beginning of year		14,298	20,775
Cash, end of year		\$24,652	\$14,298

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

1. Organization of the Trust

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

Effective January 1, 2016, Killam Properties Inc. (the "Company") completed its plan of arrangement to convert into a real estate investment trust ("REIT") and approval was granted by the Toronto Stock Exchange ("TSX") on January 4, 2016 under the symbol KMP.UN. Under the reorganization, shareholders of Killam received one trust unit ("Trust Unit") or one Class B Limited Partnership Unit ("Exchangeable Unit") of a controlled limited partnership of the Trust, for each common share of Killam held. Consequently, any references to common shares, shareholders and per share amounts relate to periods prior to the conversion on January 1, 2016 and any references to Trust Units, unitholders and per unit amounts relate to periods subsequent to January 1, 2016.

Since the Trust is a continuation of Killam Properties Inc., the prior year comparatives included in these consolidated financial statements are those of the Company. The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2016. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Trust's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

2. Significant Accounting Policies

(A) Statement of Compliance

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

The consolidated financial statements of the Trust for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 14, 2017.

(B) Basis of Presentation

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

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling 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 unitholders'/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; and
- 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.

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

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.

Killam owns 50% of the shares of a Corporation, which owns a property under development. Killam has determined that it controls the Corporation and therefore consolidates 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 Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
661047 N.B Inc.	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Blackshire Court Limited Partnership	96.94%
Killam KamRes (Silver Spear) Inc.	50%
Killam KamRes (Grid 5) Inc.	50%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Killam - Keith Development Ltd.	50%

(ii) Joint arrangements

Killam has joint arrangements in and joint control of five properties. Killam has assessed the nature of its joint arrangements as at December 31, 2016, and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is 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.

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

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 that 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.

(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.

(ii) Other Income

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

(iii) Service charges and expenses recoverable from tenants

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

(iv) 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 include multi-family residential properties, manufactured home communities and commercial properties 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 Standard ("IAS") 40, *Investment Property* ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation.

Killam's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with the economies of scale from owning a large portfolio or the consolidation of value from having compiled a large portfolio of properties over a long period of time, 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 properties are recognized in the consolidated statements of income and comprehensive income in the year of retirement or disposal.

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

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 properties under construction ("IPUC")

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

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

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

Properties under development are also adjusted for fair value at each consolidated balance sheet date with fair value adjustments recognized in net earnings.

(H) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and consist mainly 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 categorized into the following classes and their respective useful economic life is used to calculate the amount of depreciation or amortization for each period.

<u>Category</u>	<u>Useful Life / Depreciation Rate</u>	<u>Depreciation method used</u>
Building	40 years	Straight-line
Heavy equipment	7.5%	Declining balance
Vehicles	10%	Declining balance
Furnitures, fixtures and office	10% to 30%	Declining balance
Computer software	100%	Declining balance
Leaseholds	Lease term	Straight-line

(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.

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

(J) Consolidated Statements of Cash Flows

Cash consists 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) Unit-based Compensation

Unit-based compensation benefits in the form of restricted trust units ("RTUs") are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the RTUs are presented as a liability on the consolidated statements of financial position as the Trust is obliged to provide the holder with Trust Units once the RTUs vest. Compensation expense is recognized over the vesting period and included in administration costs.

Under IAS 19 – *Employee Benefits*, the RTUs are classified at fair value through profit or loss ("FVTPL") and are measured at each reporting period at fair value with changes in fair value recognized in the consolidated statements of income and comprehensive income. Fair value is determined with reference to the market price of the Trust's Units.

(L) Financial Instruments

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7, *Financial Instruments: Disclosures*, 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 FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

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

Type	Classification	Measurement
Rent, loans and other receivables	Loans and Receivables	Amortized cost
Accounts payable, accrued and other liabilities	Other Financial Liabilities	Amortized cost
Mortgages, loans payable and construction loans	Other Financial Liabilities	Amortized cost
Convertible debentures	FVTPL	Fair value
Exchangeable Units	FVTPL	Fair value
Unit-based compensation	FVTPL	Fair value

Financial liabilities at fair value through profit and loss

Convertible debentures issued by the Trust are convertible into Trust Units at the option of the holder and the number of Trust Units to be issued does not vary with changes in their fair value. As the Trust's Units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the convertible debentures are considered a liability containing liability-classified embedded derivatives.

Effective January 1, 2016, the Trust elected to record the full outstanding amount of each convertible debenture at fair value determined using the closing trading price, for each publicly traded convertible debenture. Changes in fair value are recognized in the consolidated statements of income and comprehensive income (refer to note 3).

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

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

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

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.

Trust Units

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

Restricted Trust Units ("RTUs")

The RTUs are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon conversion of the RTUs. As the Trust Units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the RTUs are also considered a financial liability. The RTUs are measured at fair value using Killam's unit price on each reporting date with changes in fair value recognized in the consolidated statements of income and comprehensive income.

Exchangeable Units

The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date is reported under other current liabilities on the consolidated statements of financial position. On initial recognition, the Exchangeable Units are measured at fair value, with the related fair value gain being recorded through retained earnings. Subsequently, the Exchangeable Units are remeasured at each reporting date at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income.

Mortgages and loans payable

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

Financing costs

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

Prepaid insurance premiums

Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are presented within other non-current assets. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial period is typically 25 years) and are included in interest and other financing costs in the consolidated statements of income and comprehensive income.

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

Transaction costs

Transaction costs related to financial assets classified as FVTPL are expensed as incurred. Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method. Transaction costs relating to available-for-sale financial assets are included in the cost of the asset on initial recognition.

Determination of fair value

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. Killam classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and Killam's own assumptions about market value. See note 6 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

Derivatives

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

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.

(M) 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.

Cash flow hedges

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

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

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

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

(N) Comprehensive Income

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

(O) Accumulated Other Comprehensive Loss

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

(P) Distributions

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

(Q) Provisions

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

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

(R) Taxation

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

Notes to the Consolidated Financial Statements

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

2. Significant Accounting Policies (continued)

(S) Earnings Per Unit

As a result of the redemption feature of Killam's Trust Units, these Units are considered financial liabilities under IAS 33, Earnings per share, and they may not be considered as equity for the purposes of calculating net income on a per Unit basis. Consequently, Killam has elected not to report earnings per Unit calculation, as permitted under IFRS.

3. REIT Conversion Adjustments

A description of the adjustments recorded effective January 1, 2016 related to Killam's conversion to a REIT are as follows:

Exchangeable Units

Effective January 1, 2016, 4,748,061 Exchangeable Units were issued and \$36.6 million was reclassified from unitholders' equity to Exchangeable Units on the consolidated statements of financial position. The Exchangeable Units were recorded at fair value using Killam's unit price on January 4, 2016, and a fair value loss of \$12.9 million was recorded through retained earnings. Effective January 1, 2016, \$1.4 million was reclassified from contributed surplus to unit-based compensation and a fair value gain of \$0.4 million was recorded through retained earnings. The unit-based compensation was calculated using Killam's unit price on the TSX on January 4, 2016.

Convertible debentures

Effective January 1, 2016, Killam elected to record the full outstanding amount of each convertible debenture at fair value using the closing trading price for each convertible debenture on the TSX on each reporting date with changes in fair value recognized in the consolidated statements of income and comprehensive income.

Effective January 1, 2016, the convertible debentures were remeasured at fair value. The difference between the fair value and the carrying amount included \$5.7 million recorded in other paid-in capital, which represented the value of the conversion option of each convertible debenture on issuance. This balance net of \$1.4 million in deferred financing costs was reclassified to the convertible debentures liability. The modification of the convertible debentures as a result of the REIT conversion was treated as an extinguishment and resulted in a fair value gain of \$3.1 million included on the consolidated statements of income and comprehensive income.

Restrictive Trust Units

Effective January 1, 2016, \$1.4 million was reclassified from contributed surplus to unit-based compensation and a fair value gain of \$0.4 million was recorded through retained earnings. The unit-based compensation was calculated using Killam's unit price on the TSX on January 4, 2016.

Deferred Income Taxes

Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability to reflect the tax status of the Trust as a flow-through vehicle. The deferred tax liability recorded on the consolidated statements of financial position relates only to the corporate subsidiary entity of the REIT. The derecognition of the deferred tax liability was recorded through net income.

The reconciliation of the deferred tax liability as at January 1, 2016, is as follows:

Deferred tax liability as at January 1, 2016, opening	\$ 112,145
Derecognition on conversion to a REIT	<u>(39,997)</u>
Deferred tax liability as at January 1, 2016, closing	\$ 72,148

Notes to the Consolidated Financial Statements

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

4. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

The Trust's accounting policies relating to financial instruments are described in note 2(m). Critical judgments inherent in these policies related to applying the criteria set out in IAS 39 to designate financial instruments into categories i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

(iv) Basis of consolidation

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 6. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and expected maintenance costs) used in the overall capitalization rate valuation method as well as discount rates and forecasted cash flows used in the discounted cash flow valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 6 for sensitivity analysis.

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

(ii) Deferred unit-based compensation plan

The compensation costs relating to the deferred unit plan are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised.

Notes to the Consolidated Financial Statements

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

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

(iii) Deferred taxes

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 19.

5. Future Accounting Policy Changes

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

IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 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 plans to adopt the new standard on the effective date. During 2016, Killam performed a high level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to Killam in the future. Overall, Killam expects no significant impact on its statement of financial position.

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 recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The 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.

IAS 40, Investment Properties ("IAS 40")

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. These amendments are not expected to have any significant impact on Killam's consolidated financial statements.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, 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 will perform a detailed analysis which considers any leases that would be affected by this and the impact it may have on the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

6. Investment Properties

As at December 31, 2016					
Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of year	\$1,636,744	\$125,648	\$32,188	\$45,676	\$1,840,256
Fair value adjustment on investment properties	(9,188)	5,896	(457)	—	(3,749)
Acquisitions	48,214	—	—	—	48,214
Dispositions	—	(8)	—	—	(8)
Transfer from IPUC	15,490	—	—	(15,490)	—
Capital expenditure on investment properties	30,139	2,098	538	—	32,775
Capital expenditure on IPUC	—	—	—	24,411	24,411
Interest capitalized on IPUC	—	—	—	910	910
Balance, end of year	\$1,721,399	\$133,634	\$32,269	\$55,507	\$1,942,809

As at December 31, 2015					
Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of year	\$1,568,203	\$122,629	\$2,223	\$40,840	\$1,733,895
Fair value adjustment 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

During the year ended December 31, 2016, Killam acquired the following properties:

Property	Location	Acquisition Date	Year Built	Units	Purchase Price ⁽¹⁾
<u>Apartments</u>					
Kanata Lakes III ⁽²⁾	Ottawa	10-Jun-16	2015	173	\$31,123
270 Parkside Drive	Fredericton	17-Jun-16	1979	28	1,770
Garden Park Apartments ⁽³⁾	Halifax	30-Jun-16	1979	128	23,724
960/970/980 Cheapside Street	London	22-Dec-16	1960	113	10,250
298 Fairview Avenue & 1447 Trafalgar Street	London	22-Dec-16	1960/1965	40	3,150
<u>Other</u>					
Vacant Land	Halifax	2-Feb-16			340
Vacant Land ⁽⁴⁾	Halifax	24-Nov-16			1,160
Total Acquisitions				482	\$71,517

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in a 173-unit building, which includes 2,712 SF of commercial space and a 25% interest in a shared clubhouse. This building is part of a five-building complex. Killam and its 50/50 partner now own three of the buildings and have the two remaining buildings under contract with closings scheduled for Q1-2017.

(3) Purchase price represents Killam's acquisition of the remaining 51.02% interest in Garden Park Apartments. Post acquisition, Killam has a 100% interest in the 246-unit building, which includes 8,159 SF of commercial space.

(4) Purchase price represents Killam's acquisition of the remaining 50% interest in vacant land for future development adjacent to the Brewery Market and The Alexander development.

Notes to the Consolidated Financial Statements

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

6. Investment Properties (continued)

During the twelve months ended December 31, 2016, Killam capitalized salaries of \$3.0 million (December 31, 2015 - \$3.0 million) as part of its project improvement, suite renovation and development programs.

For the twelve months ended December 31, 2016, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 3.11% (December 31, 2015 - 3.60%). Interest costs associated with construction loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of \$1.9 billion as at December 31, 2016, (December 31, 2015 - \$1.8 billion) have been pledged as collateral against Killam's mortgages, construction loans and credit facilities.

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

Notes to the Consolidated Financial Statements

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

6. Investment Properties (continued)

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 4.12% to 8.00%, applied to a stabilized NOI of \$96.1 million (December 31, 2015 - 4.12% to 8.00% and \$91.3 million), resulting in an overall weighted average cap-rate of 5.49% (December 31, 2015 - 5.52%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.0% to 98.1% (December 31, 2015 - 93.2% to 97.9%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of \$9.0 million (December 31, 2015 - 5.75% to 8.00% and \$8.5 million), resulting in an overall weighted average cap-rate of 6.81% (December 31, 2015 - 6.82%). The stabilized occupancy rate used in the calculation of NOI was 97.9% (December 31, 2015 - 97.5%).

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, 2016			December 31, 2015		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments			5.49%			5.52%
Halifax	4.85%	7.33%	5.51%	5.00%	7.33%	5.58%
Moncton	5.15%	8.00%	6.00%	5.15%	8.00%	6.04%
Fredericton	5.15%	6.50%	5.98%	5.15%	6.25%	5.90%
Saint John	6.00%	6.75%	6.41%	6.00%	6.75%	6.40%
St. John's	5.00%	6.00%	5.68%	5.00%	6.00%	5.68%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.25%	5.94%
Ontario	4.12%	5.02%	4.63%	4.12%	5.00%	4.63%
Alberta	4.75%	4.75%	4.75%	4.85%	4.85%	4.85%
Other Atlantic	5.75%	8.00%	6.83%	5.75%	7.00%	6.57%
MHCs			6.81%			6.82%
Ontario	7.00%	8.00%	7.49%	7.00%	8.00%	7.49%
Nova Scotia	5.75%	7.00%	6.17%	5.75%	7.00%	6.22%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland and Labrador	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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 model as at December 31, 2016 and 2015, as provided by Killam's external valuator, is as follows:

	December 31, 2016			December 31, 2015		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	4.12%	8.00%	5.49%	4.12%	8.00%	5.52%
MHCs	5.75%	8.00%	6.81%	5.75%	8.00%	6.82%

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:

Notes to the Consolidated Financial Statements

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

6. Investment Properties (continued)

Class of property	Capitalization rate	
	10 basis points increase	10 basis points decrease
Apartments	\$(31,306)	\$32,468
MHCs	\$(1,913)	\$1,971

The investment property segment defined as "other" consists of three commercial properties.

7. Joint Operations and Investments in Joint Venture

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

8. Property and Equipment

As At	December 31, 2016		December 31, 2015	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$270	\$—	\$270	\$—
Building	1,913	271	1,836	204
Heavy equipment	255	102	225	92
Vehicles	1,547	550	1,318	457
Furniture, fixtures and office equipment	5,225	4,153	4,847	3,495
Leasehold improvements	879	226	895	170
	10,089	5,302	9,391	4,418
Less: accumulated depreciation	(5,302)		(4,418)	
	\$4,787		\$4,973	

Land and building represents Killam's ownership of a 50% interest in the property 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, 2015 - \$1.9 million) is pledged as collateral against Killam's mortgage payable.

For the years ended December 31,	2016	2015
Balance, beginning of the year	\$4,973	\$4,854
Capital expenditures	698	921
Depreciation	(884)	(802)
Balance, end of year	\$4,787	\$4,973

9. Other non-current assets

Other non-current assets as at December 31, 2016, include a vendor take-back loan issued in June 2015 for \$0.95 million and bearing interest at a rate of 6.5%. As at December 31, 2015, Killam had a vendor take-back loan for \$0.95 million, bearing interest at a rate of 6.5%, and a \$4.0 million mezzanine loan, bearing interest at prime plus 7% or a minimum of 10%, paid quarterly.

Notes to the Consolidated Financial Statements

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

10. Other Current Assets

As at	December 31, 2016	December 31, 2015
Restricted cash	\$7,279	\$6,939
Prepaid expenses	4,162	2,734
Inventory	99	31
	\$11,540	\$9,704

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.

11. Rent and Other Receivables

As at	December 31, 2016	December 31, 2015
Rent receivable	\$1,014	\$864
Other receivables	1,881	1,216
	\$2,895	\$2,080

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

12. Mortgages and Loans Payable

As at	December 31, 2016		December 31, 2015	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	3.01%	\$989,638	3.27%	\$923,835
Variable rate	4.28%	7,863	4.34%	11,778
Vendor financing	4.43%	13	3.01%	5,234
Total		\$997,514		\$940,847
Current		111,862		156,218
Non-current		885,652		784,629
		\$997,514		\$940,847

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 or a general corporate guarantee.

As at December 31, 2016, unamortized deferred financing costs of \$22.9 million (December 31, 2015 - \$19.8 million) and mark-to-market premiums on mortgages assumed on acquisitions of \$0.3 million (December 31, 2015 - \$0.8 million) are netted against mortgages and loans payable.

Notes to the Consolidated Financial Statements

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

12. Mortgages and Loans Payable (continued)

Estimated future principal payments and maturities required to meet mortgage obligations by twelve-month periods as at December 31, 2016 are as follows:

	Principal Amount	% of Total Principal
2017	\$111,862	11.0%
2018	125,005	12.3%
2019	196,479	19.3%
2020	193,097	18.9%
2021	131,931	12.9%
Subsequent to 2021	261,741	25.6%
	\$1,020,115	100.0%
Unamortized deferred financing costs	(22,947)	
Unamortized mark-to-market adjustments	346	
	\$997,514	

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

I. A \$30 million revolving demand credit facility to be used for Killam's acquisition and development program, as well as general business purposes. The interest rate on the credit facility is prime plus 75 bps on prime rate advances or 175 bps over Banker's Acceptance. Killam has assets with an aggregate carrying value of \$46.4 million pledged to the line. There is currently no balance drawn on the credit facility. 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, 2016, Killam had assets with a carrying value of \$1.8 million (December 31, 2015 - \$1.6 million) pledged as collateral and letters of credit totaling \$1.2 million were outstanding against the facility (December 31, 2015 - \$1.5 million). The agreement includes certain covenants and undertakings of which Killam is in compliance.

13. Construction Loans

As at December 31, 2016, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects for \$10.1 and \$51.8 million. The \$51.8 million construction loan relates to a joint development project where Killam has a 50% interest. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625% - 0.75%.

Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. As at December 31, 2016, \$18.5 million (December 31, 2015 - \$4.1 million) was drawn on the construction loans at a weighted average interest rate of 3.39% (December 31, 2015 - 3.45%).

14. Accounts Payable and Accrued Liabilities

As at	December 31, 2016	December 31, 2015
Accounts payable and other accrued liabilities	\$19,969	\$17,592
Mortgage interest payable	2,240	2,427
Security deposits	5,989	5,472
	\$28,198	\$25,491

Notes to the Consolidated Financial Statements

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

15. Convertible Debentures

Face Interest Rate %	Conversion Price	Face Amount	Maturity Date	December 31, 2016 ⁽¹⁾	December 31, 2015 ⁽²⁾
5.65%	\$13.40	\$57,500	November 30, 2017	\$—	\$55,873
5.45%	\$14.60	\$46,000	June 30, 2018	46,690	45,160
				46,690	101,033
				—	(1,406)
				\$46,690	\$99,627

(1) Recorded at fair value based on closing market trading prices of the debentures.

(2) Recorded at carrying value net of unamortized deferred financing costs.

On July 4, 2016, Killam completed the redemption of its \$57.5 million, 5.65% convertible debentures.

Killam's \$46.0 million convertible subordinated 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 five days preceding the fixed date for redemption or maturity).

Effective January 1, 2016, the convertible debentures were classified as FVTPL and measured at fair value (refer to note 3).

16. Exchangeable Units

The Exchangeable Units, representing an aggregate fair value of \$46.2 million as at December 31, 2016 (December 31, 2015 - \$nil), are non-transferable, but are exchangeable, on a one-for-one basis, into Killam Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on these Exchangeable Units in an amount equivalent to the distributions that would have been made had the units been exchanged for Killam Trust Units.

	2016	
	Number of Exchangeable Units	Value
Balance, beginning of year	—	\$—
Trust units exchanged for Exchangeable Units on conversion	4,748,061	36,567
Fair value adjustment on conversion	—	12,860
Exchangeable Units exchanged	(882,225)	(11,043)
Fair value adjustment	—	7,774
Balance, end of year	3,865,836	\$46,158

Notes to the Consolidated Financial Statements

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

17. Unitholders' Equity/Shareholders' Equity

Under the reorganization of the Company to a real estate investment trust, the former shareholders of the Company received Trust Units or Exchangeable Units. The interests in Killam are represented by two classes of units: a class described and designated as "Trust Units" and a class described and designated as "Special Voting Units". The Special Voting Units are used to provide voting rights to holders of Exchangeable Units that are exchangeable for Trust Units. The Exchangeable Units are classified as a financial liability in accordance with IAS 32 (refer to note 3).

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

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

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

The units issued and outstanding are as follows:

	Number of Trust Units	Number of Common Shares	Value
Balance, January 1, 2015	—	60,475,979	\$459,138
Dividend reinvestment plan	—	667,594	6,907
Stock options exercised	—	367,907	3,458
Shares issued for acquisition	—	1,341,859	14,535
Restricted share units redeemed	—	30,695	286
Repurchase through normal course issuer bid	—	(21,000)	(192)
Balance December 31, 2015	—	62,863,034	\$484,132
REIT conversion, January 1, 2016	58,114,973	(4,748,061)	(36,567)
Distribution reinvestment plan	558,182	—	6,482
Restricted trust units redeemed	51,688	—	323
Units issued on exchange of Exchangeable Units	882,225	—	11,043
Units issued for cash	8,165,000	—	93,623
Units issued for acquisitions	97,734	—	1,161
Balance, December 31, 2016	67,869,802	—	\$560,197

Distribution Reinvestment Plan ("DRIP")

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

Notes to the Consolidated Financial Statements

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

17. Unitholders' Equity/Shareholders' Equity (continued)

New Units Issued

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (June 2, 2016)	\$12.00	\$85,200	\$3,846	\$81,354	7,100,000
Over-allotment (June 2, 2016)	\$12.00	12,780	511	12,269	1,065,000
Total		\$97,980	\$4,357	\$93,623	8,165,000

On November 24, 2016 Killam also issued 97,134 units at a price per unit of \$11.87 to acquire the remaining 50% interest in a piece of vacant land for future development for \$1.2 million.

18. Distributions

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

For the years ended December 31, 2016, the distributions declared related to the Trust Units were \$38.3 million (dividends declared for the year ended December 31, 2015 - \$37.5). For the year ended December 31, 2016, distributions declared related to the Exchangeable Units were \$2.7 million (year ended December 31, 2015 - \$nil). Distributions on the Exchangeable Units are recorded in financing costs.

19. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective January 1, 2016, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2016, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the year ended December 31, 2016, the deferred tax expense relates to these corporate subsidiaries.

The source of deferred tax balances and movements were as follows:

As at December 31,	2015	Recognized on REIT conversion January 1, 2016	Revised opening balance	Recognized in statement of income and comprehensive income	2016
Deferred tax assets (liabilities) related to:					
Real estate properties	\$108,785	(\$35,934)	\$72,851	\$11,111	\$83,962
Loss carryforwards	(194)	(1,273)	(1,467)	(2,393)	(3,860)
Convertible debentures	720	(720)	—	—	—
Unrealized capital gains	—	—	—	2,777	2,777
Other	2,834	(2,070)	764	904	1,668
Net deferred tax liabilities	\$112,145	(\$39,997)	\$72,148	\$12,399	\$84,547

Notes to the Consolidated Financial Statements

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

19. Deferred Income Tax (continued)

As at December 31,	2014	Recognized in equity on issuance of shares	Recognized in statement of income and comprehensive income	Recognized in other comprehensive loss	2015
Deferred tax assets (liabilities) related to:					
Real estate properties	\$103,490	\$—	\$5,295	\$—	\$108,785
Loss carryforwards	(374)	—	180	—	(194)
Convertible debentures	1,034	—	(314)	—	720
Other	1,808	(46)	1,055	17	2,834
Net deferred tax liabilities	\$105,958	(\$46)	\$6,216	\$17	\$112,145

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

For the years ended December 31,	2016	2015
Net income before taxes	\$43,841	\$42,016
Statutory tax rate	29.7%	29.2%
Income tax expense at statutory rates	13,008	12,260
Amounts not subject to tax	(12,113)	(363)
Effect of provincial tax rate changes	1,186	(253)
Initial derecognition of deferred tax liability on REIT conversion	(39,997)	—
Change to tax basis in excess of book basis	10,318	(3,721)
Other	—	(1,707)
Total tax (recovery) expense	(\$27,598)	\$6,216

20. Deferred Unit-based Compensation

Unit/Stock Option Plan

Killam replaced its stock option plan with a restricted share unit plan in 2011. All remaining outstanding stock options were exercised in May 2015. For the year ended December 31, 2016, there were no options granted (December 31, 2015 - nil).

Restricted Trust Units ("RTUs") / Restricted Share Units ("RSUs")

Killam's Restricted Trust Unit 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 Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The Compensation Committee has established the following parameters on the percentage of the annual bonus and annual retainer that may be allocated to RTUs:

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

Notes to the Consolidated Financial Statements

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

20. Deferred Unit-based Compensation (continued)

Killam will match the elected amount in the form of RTUs having a value equal to the volume weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which the compensation is payable. The RTUs earn distributions based on the same distributions paid on the Trust Units, and such distributions are used to acquire additional RTUs. The initial RTUs and RTUs acquired through distribution reinvestment are credited to each person's account and are not issued to the employee or Board member until they redeem such RTUs. The RTUs will be redeemed and paid out in Trust Units by December 31 of the year in which the RTUs have vested. The RTUs shall vest with the following schedule: (a) 50% on the second anniversary of the grant date; and (b) 50% on the third anniversary of the grant date.

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust Units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value for the year ended December 31, 2016, is \$3.0 million (December 31, 2015 - \$nil). As at December 31, 2015, \$1.4 million was included in contributed surplus related to the RSUs.

For the year ended December 31, 2016, compensation expense of \$1.3 million (December 31, 2015 - \$0.5 million) has been recognized in respect of the RTUs/RSUs.

The details of the RTUs issued under the RTU Plan are shown below:

	2016		2015	
	Number of RTUs	Weighted Average Issue Price	Number of RSUs	Weighted Average Issue Price
Outstanding, beginning of year	184,106	\$10.40	140,513	\$11.01
Granted	155,918	10.93	82,328	10.74
Redeemed	(89,656)	10.44	(48,957)	12.38
Forfeited	(530)	10.88	—	—
Additional restricted trust unit/share distributions	13,898	11.89	10,222	10.42
Outstanding, end of year	263,736	\$10.78	184,106	\$10.40

21. Financing Costs

For the years ended December 31,	2016	2015
Mortgage, loan and construction loan interest	\$30,919	\$31,808
Interest on exchangeable units	2,659	—
Amortization of fair value adjustments on assumed debt	(415)	(570)
Amortization of loss on interest rate hedge	59	59
Unrealized gain on derivative liability	(297)	—
Convertible debenture interest	4,178	6,836
Capitalized interest	(910)	(1,089)
	\$36,193	\$37,044

Notes to the Consolidated Financial Statements

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

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

- Apartment segment - acquires, operates, manages and develops multi-family residential properties across Canada;
- MHC segment - acquires and operates MHC communities in Ontario and Eastern Canada; and
- Other segment - includes three commercial properties, and Killam's head office and regional office administration costs.

Killam's administration costs, other income, financing costs, depreciation and amortization, fair value adjustments, gain or loss on disposition and deferred tax recovery are not reported to the members of executive management on a segment basis and therefore are not presented below.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 of the consolidated financial statements for the year ended December 31, 2016. Reportable segment performance is analysed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

For the year ended December 31, 2016	Apartments	MHCs	Other	Total
Property revenue	\$155,839	\$14,715	\$4,715	\$175,269
Property operating expenses	(61,450)	(5,728)	(2,667)	(69,845)
Net operating income	\$94,389	\$8,987	\$2,048	\$105,424
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
As at December 31, 2016	Apartments	MHCs	Other	Total
Total assets	\$1,701,080	\$142,071	\$144,482	\$1,987,633
Total liabilities	\$966,870	\$61,367	\$208,930	\$1,237,167
As at December 31, 2015	Apartments	MHCs	Other	Total
Total assets	\$1,639,988	\$126,394	\$109,894	\$1,876,276
Total liabilities	\$893,914	\$59,360	\$237,674	\$1,190,948

Notes to the Consolidated Financial Statements

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

23. Supplemental Cash Flow Information

For the years ended December 31,	2016	2015
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	\$30,357	\$31,202
Interest paid on convertible debentures	4,178	5,756
	\$34,535	\$36,958
Net change in non-cash operating assets and liabilities		
Rent and other receivables	(\$815)	(\$126)
Inventory	—	108
Other current assets	(1,495)	845
Accounts payable and other accrued liabilities	7,273	(1,139)
	\$4,963	(\$312)

24. Financial Instruments and Financial Risk Management Objectives and Policies

During Q2-2016, Killam entered into an interest rate swap agreement fixing the rate on one \$15.0 million commercial mortgage at 3.14%, which matures in April 2023, for which hedge accounting is not being applied. The mark-to-market gain on the derivative instrument for the year ended December 31, 2016 of \$0.3 million has been recorded in net income and the swap derivative liability is recorded within other non-current liabilities on the consolidated statements of financial position.

Killam's principal financial liabilities consist 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. It is, and has been, Killam's policy that no speculative trading in derivatives shall be undertaken. The main risks arising from Killam's financial instruments are interest rate risk, credit risk and liquidity risk. These risks are managed as follows:

(i) Interest Rate Risk

Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Management's strategy to 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, 2016, no mortgages or vendor debt had floating interest rates except for four demand loans totalling \$7.9 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2015 - prime plus 1.0% - 2.0%). As at December 31, 2016, Killam also had two construction loans with balances drawn of \$8.8 and \$9.7 million with a weighted average floating interest rate of 3.39% and consequently, Killam is exposed to short-term interest rate risk on these loans. An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt as at December 31, 2016 would affect financing costs by approximately \$10.1 million per year. However, only \$73.1 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 \$0.7 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 Killam's exposure to bad debt is not significant. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 1% of the tenant receivables as at December 31, 2016 or 2015. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

Notes to the Consolidated Financial Statements

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

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

(iii) Liquidity Risk

Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, thereby reducing the refinancing risk upon mortgage maturities. Killam's MHCs do not qualify for CMHC insured debt; however, MHCs 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, 2016, Killam refinanced \$117.1 million of maturing apartment mortgages with new mortgages totalling \$179.4 million for net proceeds of \$62.3 million. As well, Killam refinanced \$2.9 million of maturing MHC mortgages with new mortgages totalling \$7.3 million for net proceeds of \$4.4 million.

The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities over the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2017	\$111,862	\$9,719	\$—	\$121,581
2018	125,005	8,790	46,000	179,795
2019	196,479	—	—	196,479
2020	193,097	—	—	193,097
2021	131,931	—	—	131,931
Thereafter	261,741	—	—	261,741
	\$1,020,115	\$18,509	\$46,000	\$1,084,624

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 Unitholder value. Killam manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Killam may adjust the distribution payment to unitholders, issue new units, issue debt securities or adjust mortgage financing on properties.

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

As at	December 31, 2016	December 31, 2015
Mortgages, loans payables and construction loans	\$1,011,623	\$943,044
Convertible debentures	\$46,000	\$99,627
Total debt	\$1,057,623	\$1,042,671
Total assets ⁽¹⁾	\$1,976,133	\$1,850,076
Total debt as a percentage of assets	53.5%	56.4%

(1) Total assets adjusted for Killam's non-controlling interest related to The Alexander - \$11.5 million (December 31, 2015 - total assets adjusted for Killam's non-controlling interest related to The Alexander - \$7.1 million and Garden Park - \$19.1 million). Total Mortgages, loans payables and construction loans adjusted for Killam's non-controlling interest related to The Alexander - \$4.4 million (December 31, 2015- \$1.9 million).

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, 2016 would increase the debt as a percentage of assets by 90 bps.

Notes to the Consolidated Financial Statements

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

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

Fair Value of Financial Instruments

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

(i) the fair 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;

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

(iii) the fair value of the convertible debentures are based on a quoted market price as at the reporting date;

(iv) the fair value of the deferred unit-based compensation and the Exchangeable Units are estimates at the reporting date, based on the closing market price of the Trust Units listed on the TSX. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in estimates could significantly affect fair values. The significant financial instruments of Killam and their carrying values as at December 31, 2016 and December 31, 2015 are as follows:

Classification	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets carried at amortized cost:				
Loans ⁽¹⁾	\$950	\$955	\$4,950	\$4,949
Financial liabilities carried at amortized cost:				
Mortgages	\$997,514	\$1,036,288	\$940,847	\$995,709
Convertible debentures	\$—	\$—	\$99,627	\$102,160
Financial liabilities carried at FVTPL:				
Exchangeable units	\$46,158	\$46,158	\$—	\$—
Convertible debentures	\$46,690	\$46,690	\$—	\$—
Deferred unit-based compensation	\$2,988	\$2,988	\$—	\$—
Derivative liability	\$296	\$296	\$—	\$—

(1)The \$0.95 million loan receivable is included in the other non-current assets within the consolidated statements of financial position.

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

As at	December 31, 2016	December 31, 2015
Mortgages - Apartments	2.34%	1.73%
Mortgages - MHC	3.76%	3.33%

Notes to the Consolidated Financial Statements

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

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

Assets and Liabilities Measured at Fair Value

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

As at	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	\$1,942,809	—	—	\$1,840,256
Liabilities						
Exchangeable units	—	\$46,158	—	—	—	—
Convertible debentures	\$46,690	—	—	—	—	—
Deferred unit-based compensation	—	\$2,988	—	—	—	—
Derivative liability	—	\$296	—	—	—	—

The three levels of the fair value hierarchy are described in note 2 to these consolidated financial statements. Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the years ended December 31, 2016 and 2015.

25. Commitments and Contingencies

Commitments primarily related to capital investment in investment properties of \$26.9 million were outstanding as at December 31, 2016 (December 31, 2015 - \$8.1 million).

Killam is also committed to acquire a 50% interest in two new apartment buildings in Ottawa, the two remaining buildings of the five-building Kanata Lakes Apartments, of which Killam is already a 50% owner. The \$50.0 million acquisition for Killam is expected to close in March 2017.

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

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

Area	Usage Coverage	Term	Cost
Ontario	70%	November 1, 2016 - October 31, 2017	\$12.60/m3

26. Financial Guarantees

Killam is the guarantor for 100% mortgage debt held through its joint operations. As at December 31, 2016, the maximum potential obligation resulting from these guarantees is \$87.9 million, all related to long-term mortgage financing (December 31, 2015 - \$71.4 million). These loans are secured by a first ranking mortgage over the associated investment properties. Half of the total mortgages for these properties are recorded as a mortgage liability on the consolidated financial statements. Killam also is the guarantor for 100% of the construction loan debt related to the Southport Apartments development project. As at December 31, 2016, the maximum potential obligation resulting from this guarantee is \$10.9 million.

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2016, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2015 - \$nil).

Notes to the Consolidated Financial Statements

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

27. Related Party Transactions

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 Trustee of Killam. In addition, the property manager for the commercial complex is controlled by the executive and Trustee of Killam and is paid an industry standard property management fee of 4.5%. 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 \$nil (2015 - \$45,000) in project management fees related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, for \$22.3 million, from Halkirk Properties Limited ("Halkirk"), a company that is partially owned by a Trustee of Killam. Killam also acquired a 50% interest in a corporation that owns vacant land adjacent to the Brewery Market for future development for \$5.2 million. The remaining 50% is also owned by Halkirk.

During the third quarter of 2015, Killam and Halkirk began development of a 240-unit building on the vacant land adjacent to the Brewery Market. Construction of the development is managed by Killam, and the cost of construction will be funded 50/50 by each partner.

During the fourth quarter of 2016, Killam acquired the remaining 50% interest in a portion of vacant land held in the corporation from Halkirk in exchange for \$1.16 million in Killam trust units, as required per the original purchase and sale contract entered into during 2015.

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,	2016	2015
Salaries, board compensation and incentives	\$3,318	\$3,189
Restricted trust/share units	2,070	1,613
Total	\$5,388	\$4,802

28. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. Killam reclassified a portion of cash related to security deposits from "other current assets" to "cash" as these deposits are not required to be held in a restricted account.

29. Subsequent Events

On January 16, 2017, Killam acquired Spruce Grove Lane Apartments in Calgary. The property consists of 66 townhouse-style apartments. The acquisition cost was \$12.8 million (\$195,000 per unit). This acquisition increases Killam's Calgary portfolio to 373 rental units.

On January 18, 2017, Killam announced a distribution of \$0.05 per unit, payable on February 15, 2017, to Unitholders of record on January 31, 2017.

On February 14, 2017, the Board of Trustees approved a 3.3% increase to Killam's annual distribution, to \$0.62 per unit from \$0.60 per unit. The monthly distribution will be \$0.05167 per unit, up from \$0.05 per unit. The increase will become effective for the March 2017 distribution, to be paid in April 2017.

Five Year Summary

In thousands (except per unit and share data)

Statement of Income Information	2016	2015	2014	2013	2012
Net operating income	\$105,424	\$98,390	\$84,601	\$83,040	\$80,444
Other income	\$1,227	\$1,495	\$2,065	\$2,365	\$2,189
Financing costs	(\$36,193)	(\$37,044)	(\$34,609)	(\$35,231)	(\$34,633)
Administration	(\$12,733)	(\$11,898)	(\$8,525)	(\$7,878)	(\$8,832)
Depreciation and amortization	(\$2,389)	(\$2,715)	(\$2,355)	(\$2,232)	(\$2,145)
Fair value adjustments	(\$11,231)	(\$6,103)	\$4,768	\$13,070	\$37,726
Loss on disposition	(\$264)	(\$109)	(\$1,257)	(\$1,401)	(\$1,286)
Current tax recovery (expense)	\$ -	\$ -	\$1,451	(\$1,451)	\$ -
Deferred tax recovery (expense)	\$27,598	(\$6,216)	(\$13,472)	(\$9,350)	(\$19,234)
Net income	\$71,439	\$35,800	\$32,667	\$40,932	\$54,229
Net income attributable to unitholders/common shareholders	\$67,982	\$34,557	\$29,772	\$39,779	\$51,727

Funds From Operations (FFO)

FFO	\$58,886	\$49,016	\$40,162	\$38,770	\$36,096
FFO per unit/share (diluted)	\$0.86	\$0.79	\$0.72	\$0.71	\$0.71

Statement of Financial Position Information

Total assets	\$1,987,633	\$1,876,826	\$1,775,234	\$1,532,431	\$1,443,128
Total liabilities	\$1,237,167	\$1,190,948	\$1,112,551	\$928,371	\$854,692
Total equity	\$750,466	\$685,328	\$662,683	\$604,060	\$588,436

Statement of Cash Flow Information

Cash provided by operating activities	\$63,584	\$50,947	\$51,524	\$39,080	\$46,027
Cash provided by financing activities	\$52,783	\$21,954	\$142,603	\$49,238	\$43,878
Cash used in investing activities	(\$106,013)	(\$79,378)	(\$202,958)	(\$117,366)	(\$76,527)

Unit/Share Information

Weighted average number of units/shares ⁽¹⁾	67,912	62,097	55,394	54,143	50,227
Units/shares outstanding at December 31 ⁽¹⁾	71,736	62,863	60,476	54,459	53,802
Unit/share price at December 31	\$11.94	\$10.51	\$10.26	\$10.48	\$12.49

(1) Units outstanding include Trust Units and Exchangeable Units.

Executive Team



Philip Fraser
President & Chief Executive Officer



Erin Cleveland, CPA, CA
Vice President, Finance



Colleen McCarville
Vice President, Human Resources



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



Pamela Crowell
Vice President, Tenant Experience
& MHC Management



Michael McLean
Vice President, Development



Ruth Buckle
Vice President, Property Management



Jeremy Jackson
Vice President, Marketing



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

Board of Trustees

Timothy Banks⁽³⁾
*President & CEO,
APM Group of Companies
Charlottetown, Prince Edward Island*

Philip Fraser
*President & CEO,
Killam Apartment REIT
Halifax, Nova Scotia*

Robert Kay⁽¹⁾
*Chairman of the Board,
Killam Apartment REIT
Chairman,
Springwall Group International
and Springwall Sleep Products Inc.
Moncton, New Brunswick*

James Lawley⁽²⁾
*General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia*

Arthur Lloyd⁽²⁾
*President, Office, North America,
Ivanhoé Cambridge
Calgary, Alberta*

Karine MacIndoe⁽¹⁾⁽³⁾
*Trustee,
Toronto, Ontario*

(1) member of the Audit Committee

*(2) member of the Governance, Nomination
and Succession Committee*

(3) member of the Compensation Committee

Robert Richardson, FCPA, FCA
*Executive Vice President & CFO,
Killam Apartment REIT
Halifax, Nova Scotia*

Manfred Walt, CPA, CA⁽²⁾
*President & CEO,
Walt & Co. Inc.
Toronto, Ontario*

Wayne Watson, CPA, CA⁽¹⁾⁽³⁾
*Trustee,
Halifax, Nova Scotia*

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

Computershare Investor Services Inc.
1500 Robert-Bourassa Blvd
7th Floor
Montreal, Quebec
H3A 3S8

Unit Listing

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

Monthly Distribution

\$0.05167 per unit

Head Office

Suite 100
3700 Kempt Road
Halifax, NS B3K 4X8
902.453.9000
866.453.8900

Investor Inquiries

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902.442.0388

Annual Meeting

The Annual Meeting of Unitholders will be held on Friday, May 5, 2017,
at 10:00 am Atlantic Time at the Halifax Marriott Harbourfront Hotel,
1919 Upper Water Street, Halifax, Nova Scotia.



Killam Apartment REIT

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