Home.
For all.

Killam Apartment REIT
Annual Report 2017

About Killam

Profile

Killam Apartment Real Estate Investment Trust ("Killam", or "Killam Apartment REIT") is a growth-oriented investment trust owning, operating, and developing apartments and manufactured home communities ("MHCs"). Killam owns a $2.3 billion real estate portfolio, located in Atlantic Canada, Ontario, and Alberta.

Growth Strategy

Killam's strategy to maximize value and long-term profitability is focused on three priorities:

- 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

Emily Anne & Family

Calling Killam Home Since 2016

2017 Highlights

Home. For all.

Killam launched its **Home. For all.** advertising campaign in October 2017. This program provides a window into the lives of Killam's residents, demonstrating just how much "home" matters to the diverse group of people who live in Killam's properties.

This campaign features several residents – young loves and vintage loves, supermoms and superheroes, teenagers and couples who have been together since their teens, showcasing the rich diversity of Killam's communities.

Total Unitholder Return

24.3%

Increase in Same Property Net Operating Income ("NOI")

3.6%

Acquisitions Completed

$200M

Debt to Total Assets

48.7%

Tenant Satisfaction Survey Results

90%

@killamapartments
killam.apartments
@KillamTweets
snapsofkillam

Letter to Unitholders

Dear Unitholders,

I am pleased to report that 2017 was a very successful year for Killam. We executed on our three strategic priorities for growth and generated FFO of $0.90 per unit, up 4.7% from 2016. Our units delivered a total return of 24% over the past year, and Killam achieved a significant milestone when we were added to the S&P/TSX Composite Index in December 2017. This achievement will expand our investor base and increase liquidity for all unitholders. With our strong results and expectations of continued growth, our Board of Trustees approved a 3.2% increase to Killam's distribution in February 2018.

Our portfolio performed very well in 2017, achieving its highest occupancy level in the past five years and rental rate increases in all of our major markets. Results were particularly strong in the three Maritime provinces. Overall, same property revenues increased 2.6%, leading to a 3.6% increase in same property net operating income. These results reflect the commitment and dedication of our employees, who work diligently every day to provide Killam tenants with exceptional service and ensure that all of our properties look their best.

Killam invested $200 million in acquisitions in the past year, making 2017 the most active year of acquisitions since 2005.

Killam's balance sheet improved significantly in 2017. We raised $77 million of equity in March and used $46 million of the proceeds to redeem our last tranche of convertible debentures. In late November, we issued a further $77 million of equity to fund acquisitions and developments. With these transactions, we reduced debt as a percentage of total assets to 48.7%, 480 basis points lower than on December 31, 2016. We also expanded our acquisition line of credit from $30 million to $70 million. This larger credit facility enhances our ability to react quickly to investment opportunities.

Killam invested $200 million in acquisitions in the past year, making 2017 the most active year of acquisitions since 2005. Approximately 75% of the properties purchased were in Ontario and Alberta, aligned with our focus on geographic diversification. Ontario acquisitions included the final two buildings in a five-building, 739-unit complex in Ottawa, and 106 units adjacent to existing Killam properties in London. In Alberta, we purchased our first properties in Edmonton, with the acquisition of 296 units in Sherwood Park, and added 66 units in Calgary. We also added to our market-leading presence in Halifax with the purchase of 245 units.

Killam generated 23% of its NOI outside Atlantic Canada in 2017 and more than one-quarter of 2018 NOI is forecast to come from Ontario and Alberta. We are on our way to achieving our target of generating 30% of earnings outside Atlantic Canada by 2020. Our strong operating platform can support a larger portfolio and expanding in Ontario and Alberta gives us access to more of Canada's largest rental markets.

I am very excited about our development program. What sets us apart from many other developers is our desire to embrace new technologies and environmentally friendly features. I believe the future of the multi-family real estate business is to build new buildings with geothermal heating, solar photovoltaic panels with battery storage capacity, and individually metered water. Killam has three development projects underway with a total budget of

2017 Performance Summary

	2017 Target	2017 Performance	2018 Target	Longer-term Target
Growth in Same Property NOI	Same property NOI growth of 1% to 3%.	**Target exceeded.** Same property NOI grew by 3.6%.	Same Property NOI growth of 1% to 2%.	Same Property NOI growth averaging more than 2%.
Expanded Portfolio through Accretive Acquisitions	A minimum of $75 million of acquisitions.	**Target exceeded.** Killam completed $200 million of acquisitions.	A minimum of $125 million of acquisitions.	Grow the portfolio to more than $2.8 billion by 2020.
Geographic Diversification	At least 75% of acquisitions made outside Atlantic Canada and to have over 23% of 2017 NOI earned outside Atlantic Canada.	**Target achieved.** 75% of capital invested in properties outside Atlantic Canada. 23% of NOI generated by properties in Alberta and Ontario.	At least 75% of acquisitions made outside Atlantic Canada and at least 26% of NOI generated outside Atlantic Canada.	More than 30% of NOI generated outside Atlantic Canada by 2020.
Development of High-Quality Properties	Remain on schedule to complete the 240-unit Alexander development by Q1-2018 and the 93-unit Saginaw development by Q2-2018.	**Target partially achieved.** The Saginaw development remains on schedule and The Alexander development has been delayed 3-6 months.	Complete the Alexander and Saginaw developments, and break ground on one additional development project.	Create a minimum of $20 million of value from developments through 2020.
Strengthened Balance Sheet	Further reduce debt as a percentage of total assets.	**Target achieved.** Debt as a percentage of total assets was 48.7% at December 31, 2017, compared to 53.5% at December 31, 2016.	Maintain debt as a percentage of assets ratio below 52%.	Reduce debt as a percentage of assets to below 50%.

We enter 2018 with significant momentum and are well positioned for growth. I am optimistic and excited for the year ahead.

$135 million: Saginaw Park in Cambridge, The Alexander in Halifax and Frontier in Ottawa. We are on track to complete the $26 million Saginaw Park and the $77 million Alexander in 2018. Last April, Killam partnered with RioCan REIT to develop a four-phase, 840-unit project in Ottawa. The first building, Frontier, is well underway and is scheduled for occupancy by mid-2019. Construction of the second building is planned for next year. Killam has an experienced development team that oversees all of our projects and is creating value for unitholders.

In October, we launched the ***Home. For all.*** marketing campaign. Our properties are home to more than 30,000 residents and we are pleased to share images from the marketing campaign throughout this year's annual report. We contribute positively to society by satisfying the basic need of shelter, and by doing so with care. We also promote, encourage, and organize events for our residents. This is an example of our core value, Build Community.

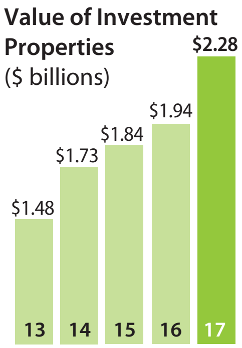
We enter 2018 with significant momentum and are well positioned for growth. I am optimistic and excited for the year ahead. Earnings from our existing portfolio are expected to increase as our leasing and property management teams build on 2017's solid foundation. Economic fundamentals are strong in Atlantic Canada and the Federal Government's recent announcement of the Ocean Supercluster funding program will increase investment in the region over time. The Ontario markets show no signs of slowing down and conditions are starting to stabilize in Alberta.

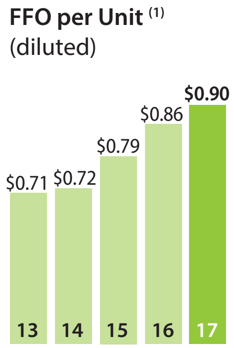
Thank you for your interest and investment in Killam. I invite you to attend Killam's annual meeting of unitholders on May 10, 2018 at 9:00 AM Atlantic Time at the Halifax Marriott Harbourfont Hotel, either in person or via webcast. I look forward to providing updates on our 2018 progress over the coming months.

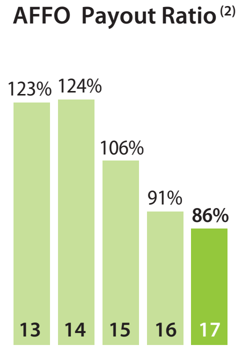
Yours truly,

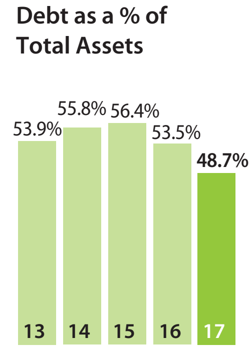
Philip Fraser
President & CEO

Financial & Operating Highlights



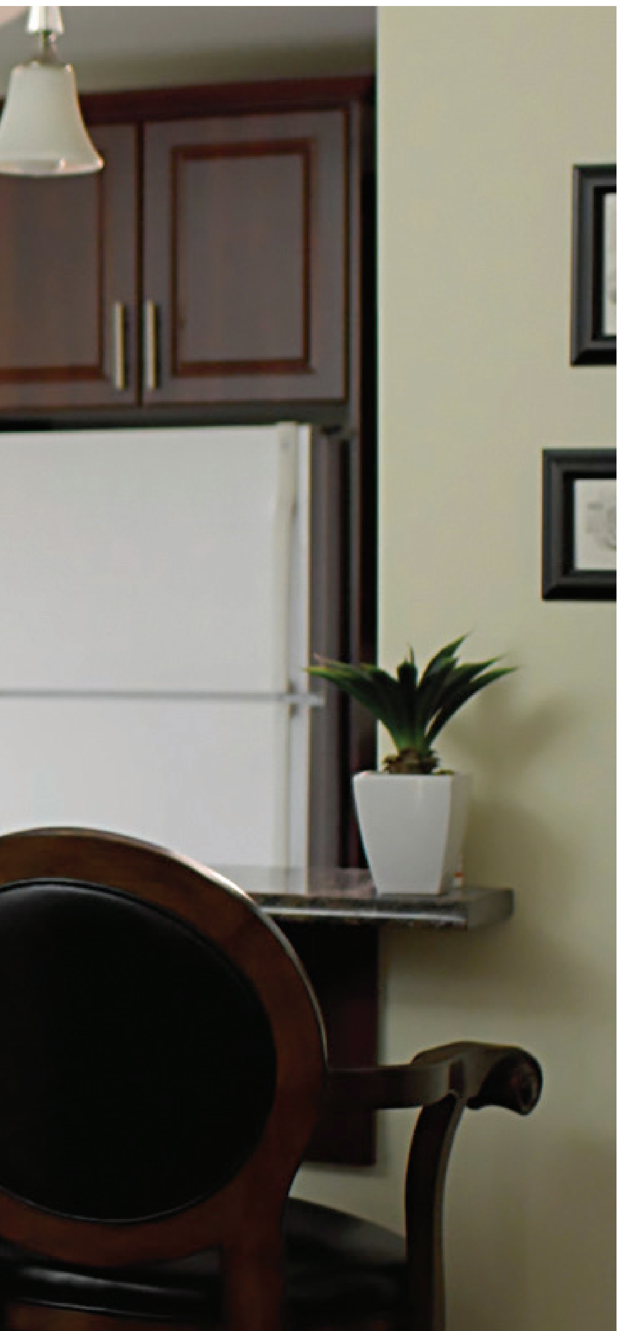






Financial & Operating Highlights

(Value in thousands, except per unit amount and portfolio information)



As at and for the years ended	2017	2016	2015
Operations			
Property revenue	**$187,377**	$175,269	$166,614
Net operating income	**$115,220**	$105,424	$98,390
Net income	**$104,760**	$71,439	$35,800
Funds from operations (FFO) (1)	**$69,873**	$58,886	$49,016
FFO per unit/share (diluted)	**$0.90**	$0.86	$0.79
Adjusted funds from operations (AFFO) (2)	**$55,982**	$44,746	$36,257
AFFO per unit/share (diluted)	**$0.72**	$0.66	$0.57
Distributions declared per unit/share	**$0.62**	$0.60	$0.60
AFFO payout ratio	**86%**	91%	106%
Financial Position			
Total assets	**$2,311,210**	$1,987,929	$1,876,276
Total liabilities	**$1,343,488**	$1,237,463	$1,190,948
Total equity	**$967,722**	$750,466	$685,328
Units/shares outstanding (3)	**84,428**	71,736	62,863
Total debt as a percent of total assets	**48.7%**	53.5%	56.4%
Interest coverage ratio	**3.13**	2.70	2.34
Debt to EBITDA	**10.70**	11.00	11.87
Portfolio Information			
Apartment units	**14,983**	14,105	13,681
MHC sites	**5,165**	5,165	5,165
Average rent per apartment unit	**$1,018**	$973	$951
Average rent per MHC site	**$248**	$242	$236

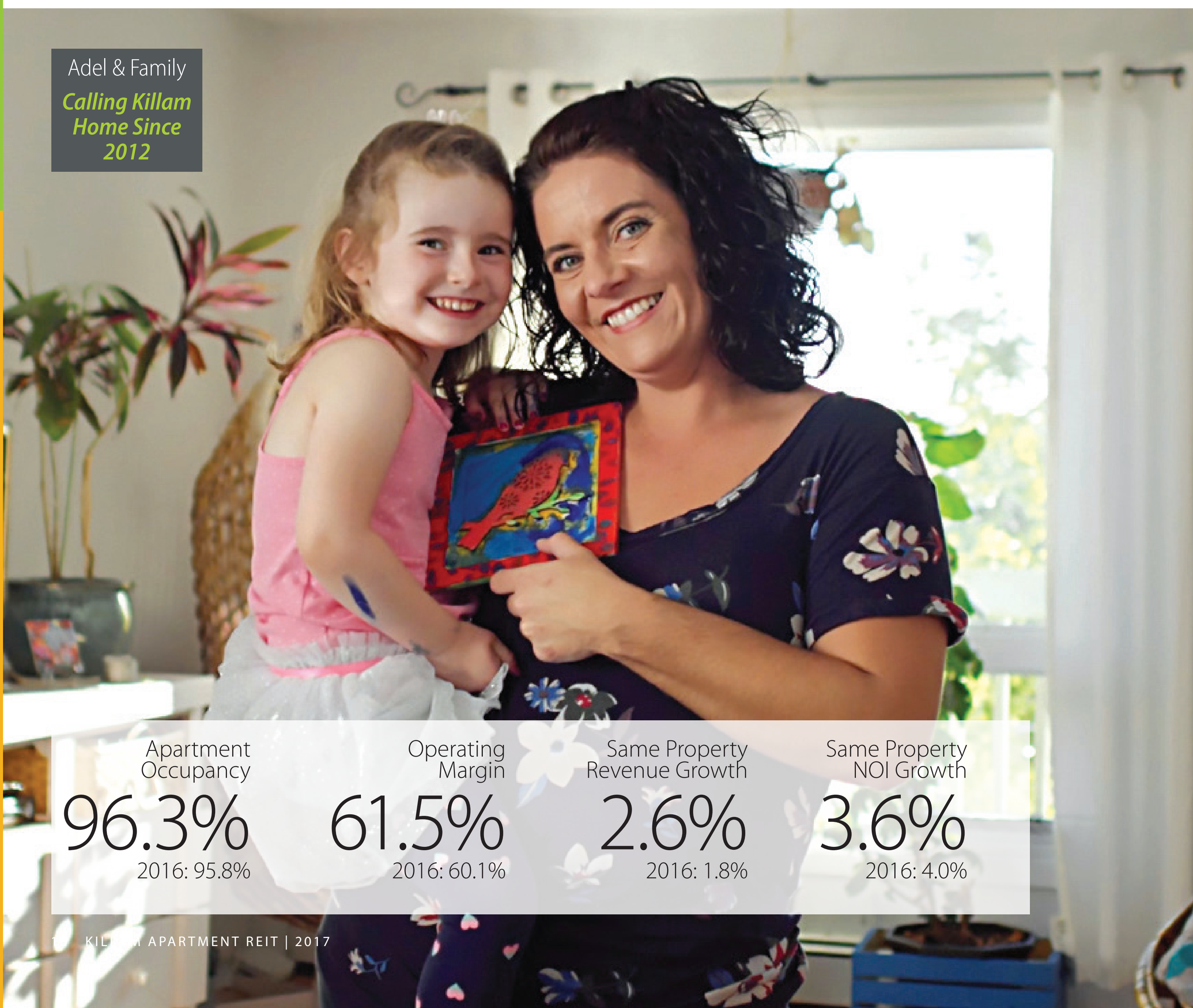
(1) FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, REIT conversion costs and non-controlling interest. A reconciliation between net income and FFO is included on page 48 of this annual report.

(2) AFFO, and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less $900 per apartment unit (2013 to 2016–$970) and $300 per MHC site (2013 to 2016–$225) for maintenance capital costs. A reconciliation from FFO to AFFO is included on page 50 of this annual report.

(3) Killam converted to a real estate investment trust ("REIT") effective January 1, 2016. Units outstanding at December 31, 2017, include 80,565,279 REIT Units and 3,863,336 Exchangeable Units (December 31, 2016 – 67,869,802 REIT Units and 3,865,836 Exchangeable Units). Shares outstanding at December 31, 2015 are common shares.

Growth Strategy
Existing Portfolio

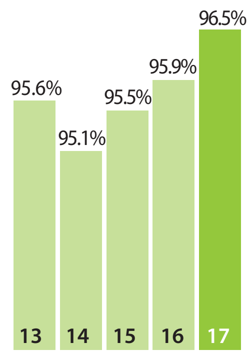
Increasing earnings from Killam's existing portfolio is central to unitholder value creation. NOI growth comes from three factors: occupancy, rental rates, and operating costs. Killam focuses on customer service, leasing and marketing, employee training, and operating efficiencies to maximize performance. Killam's same property portfolio, representing properties owned for more than two years, achieved 3.6% growth in net operating income in 2017.



Adel & Family

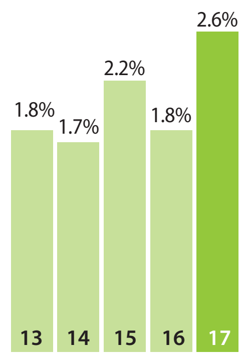
Calling Killam Home Since 2012

Apartment Occupancy	Operating Margin	Same Property Revenue Growth	Same Property NOI Growth
96.3%	61.5%	2.6%	3.6%
2016: 95.8%	2016: 60.1%	2016: 1.8%	2016: 4.0%



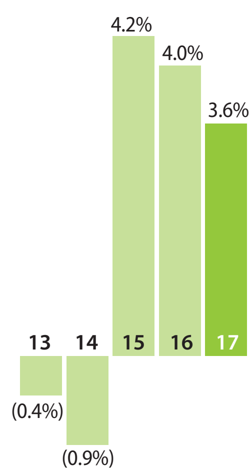
Same Property Apartment Occupancy

Killam's same property apartment portfolio achieved 96.5% occupancy for 2017, the highest level in five years. Performance was particularly strong in the Maritimes due to immigration and demographics.



Same Property Revenue Growth

Same property revenue increased 2.6% compared to 2016, as a result of higher occupancy and a 1.8% increase in the average rental rate for the apartment portfolio, as well as 3.1% top-line growth within the MHC portfolio. Over the past five years, total same property revenues have grown by an average of 2% per year.

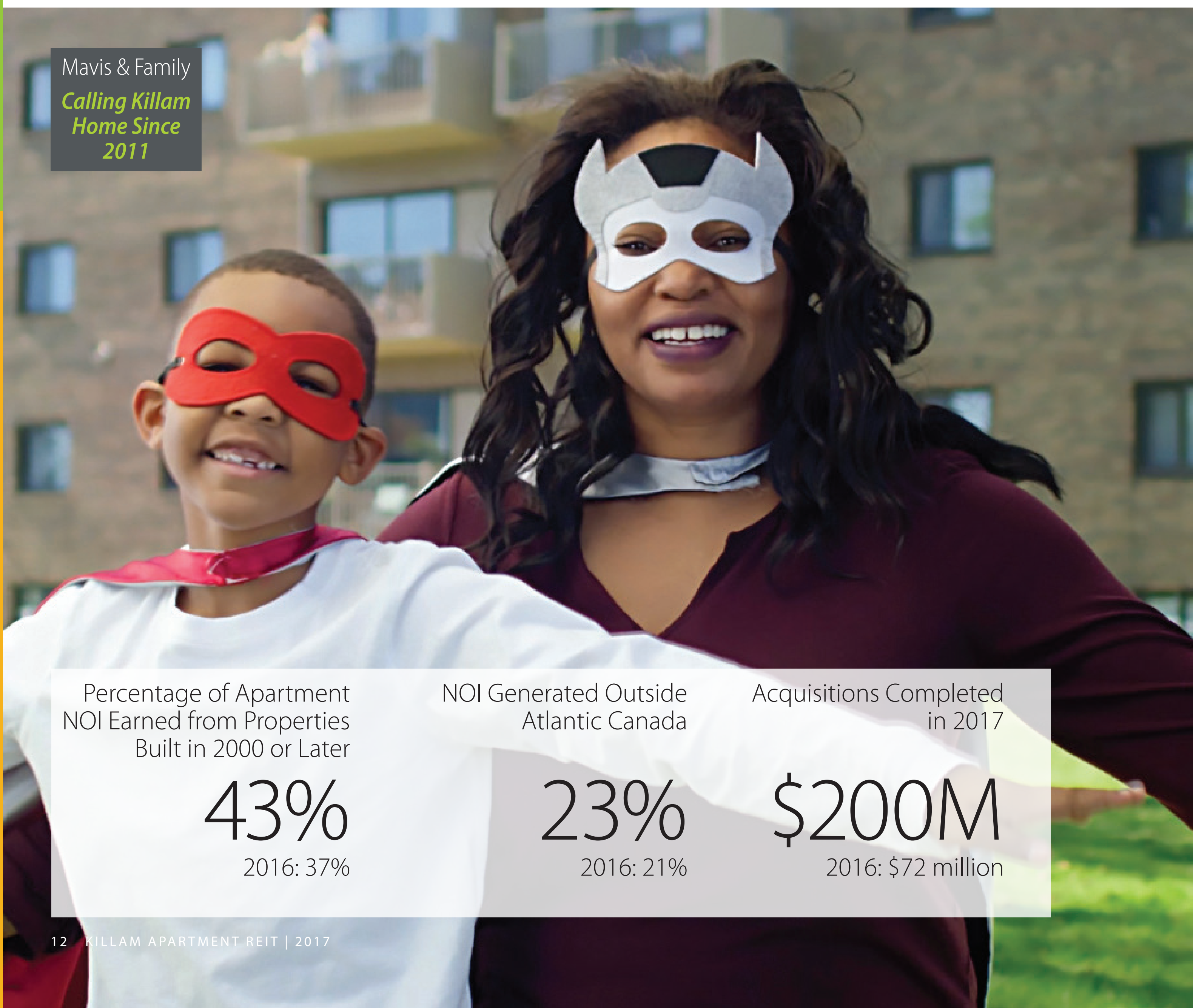


Same Property NOI Growth

Same property NOI was 3.6% ahead of 2016 as revenue growth and energy savings more than offset operating expense and property tax pressures. NOI growth has averaged almost 4% per year since 2015. Results from 2013 and 2014 were negatively impacted by unusually cold weather and supply constraints that caused natural gas prices to spike in Atlantic Canada.

Growth Strategy
Acquisitions

Killam is expanding its portfolio through accretive acquisitions, with an emphasis on geographic diversification and newer properties. Killam is acquiring well-located buildings in urban markets, increasing its presence in Ontario and Alberta, and adding to its established portfolio in Atlantic Canada. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Increased investment outside Atlantic Canada will also enhance Killam's exposure to urban centres with higher expected population growth. By acquiring newer properties Killam improves the quality of its portfolio and reduces maintenance and capital requirements.



Mavis & Family

Calling Killam Home Since 2011

Percentage of Apartment NOI Earned from Properties Built in 2000 or Later	NOI Generated Outside Atlantic Canada	Acquisitions Completed in 2017
43%	23%	$200M
2016: 37%	2016: 21%	2016: $72 million

William's Court

Killam acquired a 50% interest in the final two buildings of the William's Court complex in March 2017. Killam now co-owns and manages this five-building complex, one of the most luxurious communities in Ottawa.

Innovation Drive

In July, Killam purchased two adjacent, newly-constructed concrete buildings at 246 and 300 Innovation Drive in Halifax. These buildings are comprised of large two and three-bedroom units, with underground parking and condo-quality common area amenities.

Waybury Park and Tisbury Crossing

Killam purchased its first apartments in Edmonton, Alberta in 2017. The four-building, 296-unit complex is located in the suburb of Sherwood Park, close to shopping, schools, and transit.

Growth Strategy
Developments

Killam enhances its external growth opportunities through development, building high-quality properties for people seeking the convenience and flexibility of renting, with the quality and amenities associated with ownership. Killam began developing in 2010 and has completed $136 million of developments. Over $100 million of projects are currently underway. Killam targets yields of 5% to 6% on development, higher than the yields available through acquisitions, which creates value for unitholders. With a pipeline of almost 1,500 units, developments will continue to be an important component of growth.

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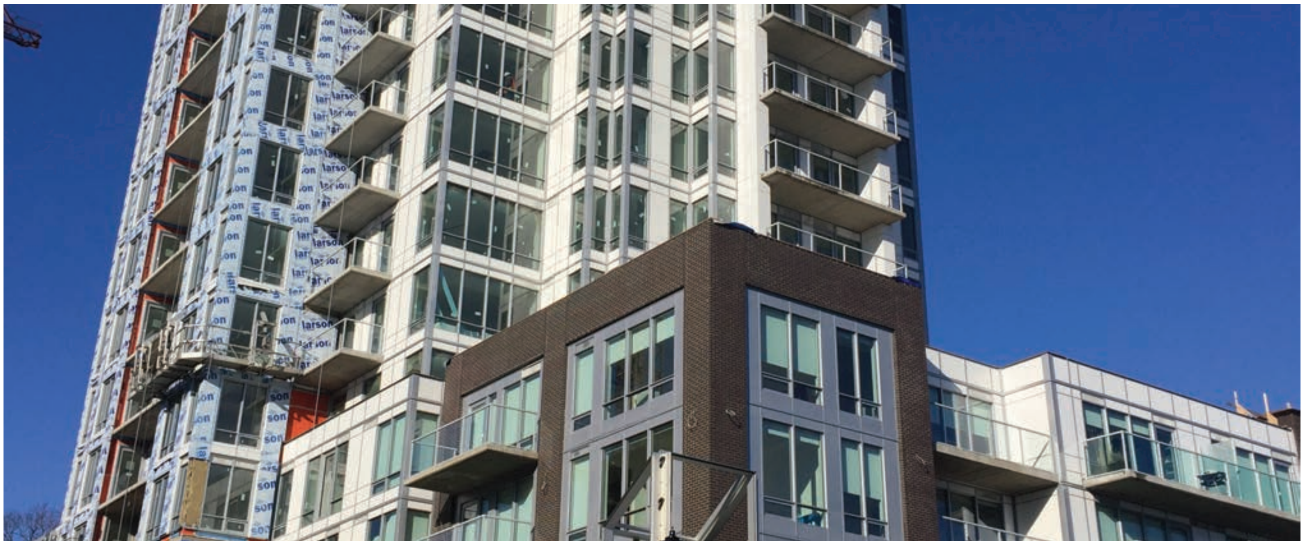
& Family

Calling Killam Home Since 2016

$130
million of projects completed

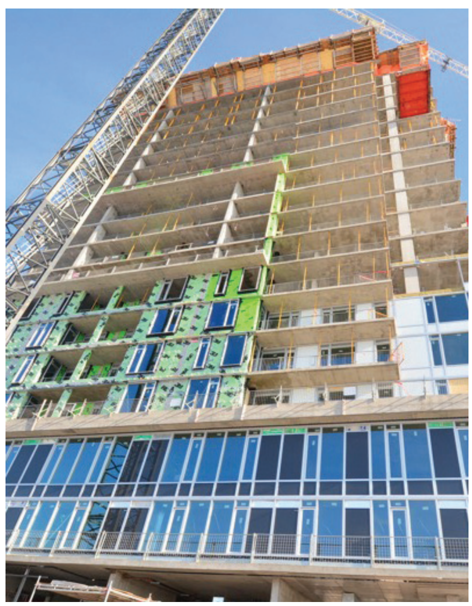
$38
million invested in developments in 2017

1,500
unit development pipeline



The Alexander

Killam began construction of The Alexander, a 240-unit property in downtown Halifax, during the second half of 2015. The property is integrated with Halifax's historic Brewery Market and will have commanding views of the city and Halifax harbour. The project is expected to be completed in mid-2018. Killam's 50% ownership in the project is expected to increase to 100% in 2019.



Frontier

Our newest development, located in Ottawa, will include four residential towers totaling up to 840 units. Killam has a 50% ownership in this project. The first phase of the development is a 217,000 square foot, 23-storey tower containing 227 units. Occupancy is anticipated in mid-2019 and Phase II is expected to begin during the second half of 2019.

Saginaw Park

Following the successful Saginaw Gardens development in 2015, Killam began construction of its second development in Cambridge, Saginaw Park, during Q3-2016. The 93-unit development is adjacent to Saginaw Gardens and is scheduled for occupancy starting in Q1-2018.

Asset Portfolio

Apartment Portfolio

Halifax, NS

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
246 & 300 Innovation Drive	2016	134
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
Shaunslieve Apartments	1978	154
Sheradon Place	1979	82
Southport Apartments	2016	75
Spring Garden Terrace	1964	201
Stoney Brook Apartments	2000	106
The Alexander [1] [3]	2017	54
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		**5,459**
Halifax Average Rent		**$1,028**

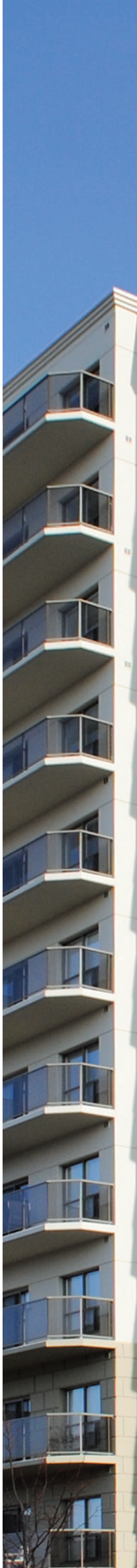
Fredericton, NB	Year Built	Units
25 McKnight Street	2001	64
110 McKnight Street	1996	45
116 & 126 Wilsey Avenue	1975	48
120 McKnight Street	1998	45
127 & 157 Biggs Street	1985/92	46
200 Reynolds Street	2001	52
260 Wetmore Road	1978	38
270 Parkside Drive	1979	28
300 Reynolds Street	2006	52
305 Reynolds 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		**$936**

Moncton, NB		
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		**$843**

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		**$796**

St. John's, NL		
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		**$971**

Charlottetown, PE		
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		**$925**



180 Mill Street, London, ON

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		**$1,552**
London, ON		
180 Mill Street	2011	127
1447 Trafalgar/ 298 Fairview	1960/65	40
Bellwood Terrace	1960	113
Fairview Terrace	1950s	106
Richmond Hill Apartments	2009	137
London Total		**523**
London Average Rent		**$1,234**
Ottawa, ON		
1090 Kristin Way	1974	102
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
William's Court IV (1)	2016	268
Ottawa Total		**1,064**
Ottawa Average Rent		**$1,450**
Toronto, ON		
100 Lower Ossington Ave	2012	179
1355 Silver Spear Road (1)	1968	199
Toronto Total		**378**
Toronto Average Rent		**$1,147**
Calgary, AB		
Grid 5 (1)	1965	307
Spruce Grove	1978	66
Calgary Total		**373**
Calgary Average Rent		**$1,140**
Edmonton, AB		
Tisbury Crossing	2017	172
Waybury Park	2016	124
Edmonton Total		**296**
Edmonton Average Rent		**$1,505**
Other		
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		**$874**
Total Apartment Portfolio		**14,983**
Total Apartment Average Rent		**$1,018**

Notes: (1) Killam has a 50% ownership interest.
(2) Seasonal resort community.
(3) 54-units of the 240-unit development opened in October 2017.

MHC Portfolio

Nova Scotia	Acres	Sites
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		**$248**

Commercial Portfolio

Halifax, NS	Square Feet
3700 Kempt Road (1)	38,000
3770 Kempt Road (1)	34,000
Benjamin Weir House	6,000
Brewery Market	158,000
Medical Arts Building	18,000
Halifax Total	**254,000**

Environmental, Social & Governance

A Letter from Philip Fraser, President and CEO

As one of Canada's largest housing providers, we take the responsibilities of corporate citizenship seriously. Our core values of Build Community and Do the Right Thing guide our commitment to environmental, social, and governance (ESG) programs and investments. I am pleased and proud to share more about our ESG initiatives in the following pages.

Our environmental efforts are focused on two priorities: improving the efficiency of our current buildings and developing the next generation of energy efficient apartments. We are in the second year of a five-year, $25 million energy program and our investments have already led to significant reductions in water and electricity consumption and greenhouse gas emissions. We have three buildings under construction which incorporate technologies to maximize energy and water efficiencies, and include geothermal heating and water sub-metering. Investing in energy initiatives reduces our carbon footprint and leads to higher earnings.

As a corporate citizen, Killam is an active participant in our communities, supporting local charities with shelter, funds, and employee time. We strive to provide excellent customer service and maintain our status as an employer of choice.

Killam's Board of Trustees and governance processes are another key to our success. Our eight non-executive trustees bring significant real estate, corporate finance, government relations, and management expertise to Killam. Individually, and as part of the Audit, Compensation, Governance, Nomination, and Succession Committees, trustees are responsible for ensuring Killam fulfils its commitments as a responsible corporate citizen.

I look forward to sharing our progress on ESG initiatives as a regular feature in Killam's annual report. Sustainability will continue to be a priority at Killam. It makes good business sense, and it's the right thing to do.

Yours truly,

Philip Fraser

Philip Fraser

William's Court, Ottawa, ON

Environmental Responsibility

Reducing energy and water consumption is a priority for Killam. With utility and fuel costs representing 27% of total operating expenses, using less results in savings, and is the right thing to do.

The centerpiece of Killam's efforts is a five-year, $25 million program launched in 2016. Following a comprehensive operational review, Killam identified 700 projects to increase efficiency, reduce consumption and greenhouse gas emissions, and enhance tenant comfort. Killam expects to lower its energy intensity (measured as dollars per square foot of real estate) by 23% over the next five years, upon completion of the program.

Killam is also focused on designing and constructing the next generation of energy efficient apartment buildings. Using the latest technologies improves the resident experience and reduces Killam's costs to operate.

KILLAM GREEN
MAKING ENERGY EFFICIENT

2017 Environmental Highlights

REDUCTION OF ENERGY CONSUMPTION BY
6.8M kWh
THE SAME AS 600 HOMES

REDUCTION OF WATER CONSUMPTION BY
100,000 m^3
EQUAL TO 40 OLYMPIC SWIMMING POOLS

INVESTED MORE THAN
$3.5M
IN EFFICIENCY PROJECTS

REDUCTION OF CARBON FOOTPRINT BY
5%
WITH ENERGY PROJECTS

INCLUDED MORE THAN
50%
OF OUR TENANTS IN CONSERVATION PROGRAMS

INSTALLED
2,500
LOW-FLOW TOILETS

Environmental Responsibility

CASE STUDY | **WILLIAM'S COURT**

Killam completed an LED lighting retrofit at William's Court in July 2017. Though recently constructed, the property's common area lighting was a mix of incandescent and fluorescent fixtures. Killam replaced more than 2,000 bulbs with LED lights and expects to save 540,000 kilowatt hours of electricity each year from the project, enough to power ten homes.

CASE STUDY | **FRONTIER**

Killam is co-developing an 880-unit, four-building project in Ottawa. The first building, a 23-storey tower, incorporates geothermal heating and cooling, sub-metered electricity and water, LED lighting, occupancy sensors, and e-car charging stations to reduce resource consumption. This building is located steps from the Blair light rail transit station and features a walk-score of 75 and a bike-score of 100, allowing residents to live car-free.

CASE STUDY | **PARKER STREET**

Killam replaced 240 toilets with low flow fixtures at its Parker Street properties in Halifax in January 2017. Since installation, water consumption at these buildings has fallen 41%, and water costs are 36% below 2016. In total, Killam installed 2,500 low-flow toilets during the past year and more than 75% of the fixtures in our portfolio have been upgraded.

Social Engagement with Our Communities

Killam's interactions with its stakeholders embody our core values.

Giving back is an important part of being a corporate citizen. We strive to do what is right and we invest in our communities through several programs.

Image courtesy Giacomo Bruno, snapd Halifax

- Killam partners with non-profit housing agencies, including Housing First, The Nova Scotia Health Authority, Shelter Nova Scotia, YWCA, and Phoenix House, to provide subsidized units to previously under-housed individuals.
- Killam donates fully furnished units to hospitals to provide comfortable accommodation to families as they support loved ones through treatment.
- Killam provides financial assistance to charities that provide shelter and support to tenants and families.
- Killam grants a full day of paid leave each year for employees to volunteer with a charity of their choice.
- Members of Killam's Board of Trustees personally pledge $100,000 annually to an organization of a Trustee's choice. In 2017, Trustees donated to St. Michael's Hospital Foundation in Toronto. Cumulatively, the Trustees have donated $800,000 to organizations across Canada.

Home to an Olympian

Jillian Saulnier, a silver medalist with Canada's women's hockey team, resides in a Killam property in Halifax. She recently visited our team, including super fan Matthew, son of Kathy Askew, Associate Director, Accounting.

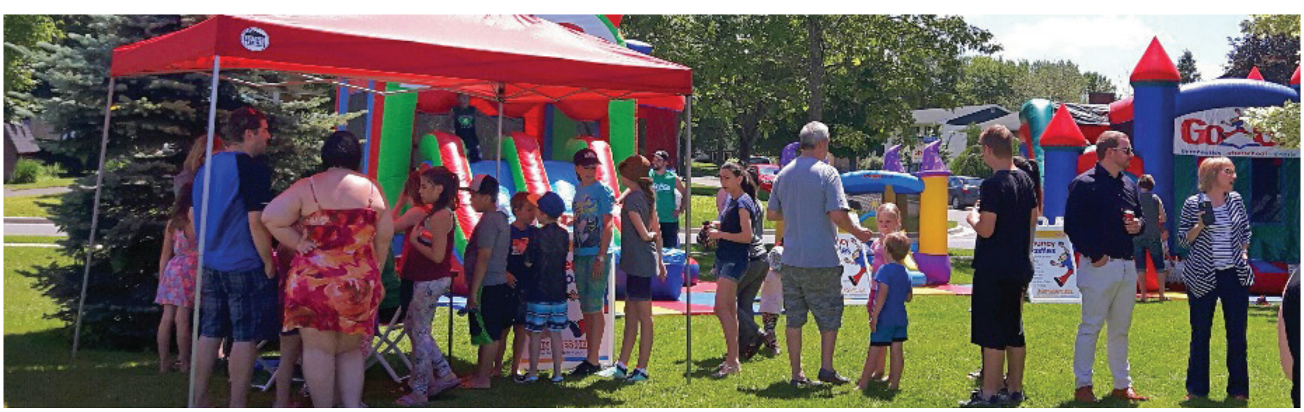
CASE STUDY | **HOME AWAY FROM HOME**

Since 2006, Killam has partnered with hospitals in its largest Atlantic Canadian markets to provide temporary housing to patients and their families. These two-bedroom suites are fully furnished, include wi-fi and cable, and are stocked with linens and toiletries. Stays range from a few days to up to six months. These suites act as a home base while a loved one is in hospital, allowing families to stay together while receiving care.

Social Engagement with Our Residents

Killam provides outstanding customer service and a sense of community at its properties. Killam surveys residents to measure our success in meeting expectations and 90% of the almost 3,000 surveyed in 2017 reported satisfaction, the third straight year we received this score. Below are examples of programs, events and amenities that contribute to resident engagement.

- Holiday gatherings, community barbecues, meet and greets, pizza parties and movie nights.
- Community gardens, playgrounds, fitness rooms, recreational facilities, and waterfront and pool upgrades at seasonal resorts.
- The corporate website, including the launch of an on-line live chat option, and expanded communication options for existing and prospective tenants.
- Tenant assistance program which offers temporary rent relief to residents experiencing short-term financial hardship.



Social Engagement with Our Employees

Killam's success is due to the hard work and dedication of our people. Our 600 employees exemplify Killam's core values and are the key to tenant satisfaction. In our 2017 employee survey, 97% of respondents said they are willing to give extra effort to see Killam succeed. Killam supports its employees at work and in their communities in many ways.

- Killam invests in employee education and coaching programs, and provides financial assistance for learning.
- Killam's employee unit purchase plan rewards employees with a 50% investment match after two years of service.
- Scholarships are granted to children and grandchildren of Killam employees who pursue post-secondary education.
- Quarterly newsletters, team summits, and senior management property visits foster an engaged workforce.
- Killam's Employee and Family Assistance Program provides counseling and support for employees and their family members experiencing depression, anxiety, stress, grief, and other common issues.

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

Killam recognizes employees who demonstrate its core values through a quarterly awards program.

Chris French
Resident Manager
Saint John
Strong Customer Relationships

Cathy, Dana & Mike Mulholland
Community Managers
Ontario
Build Community

Barry Wicklam
Foreman
Ontario
Build Community

Ed Hasselman & Kim Wright
Resident Managers
Saint John
Strong Customer Relationships

Clarence Savoy, John McAlary, Jeff Spencer
Maintenance
Saint John
Strong Customer Relationships

Linda Reardon, Glenna Brown, Janie Malay
Resident Managers
Halifax
Build Community

Garnet Smalley
Resident Manager
Ontario
Strong Customer Relationships

Terry Weagle
Maintenance Foreman
Halifax
Do the Right Thing

Carolynn Whitfield
Community Manager
Ontario
Creative Solutions

Jeremy Jackson, Pamela Crowell, Philip Fraser, and Colleen McCarville receiving Canada's Most Admired Corporate Culture award.

Governance

A Letter from Robert Kay, Chairman of the Board

Killam's Board of Trustees believes that sound governance practices contribute to effective decision-making and create unitholder value. Trustees are responsible for setting and monitoring execution against Killam's strategy, managing risk, setting compensation, and planning for succession. The Board is composed of eight non-executive trustees, as well as Killam's CEO and Executive Vice-President. Members possess significant experience in real estate, corporate finance, executive management, and governance. Three committees, described in detail below, have been formed to provide recommendations to the Board. You can find more details on the mandates of the Board and its committees under the Governance section of Killam's website www.killamreit.com.

Killam's Audit Committee supports the Board in fulfilling its responsibilities for the integrity of the Trust's financial reporting, internal controls, risk management, and regulatory compliance. The committee also monitors the independence and performance of Killam's external auditors and administers the whistleblower program.

Killam's Compensation Committee is responsible for determining the compensation of Killam's CEO and other senior officers. In 2017, following the engagement of Meridian Compensation Partners, the Committee finalized a new executive remuneration program which more closely aligns the interests of management with unitholders. Details of the new program are described in detail in Killam's 2018 Management Proxy Circular.

The Governance, Nomination and Succession Committee recommended the appointment of Aldéa Landry to the board in October 2017. Aldéa's legal, government relations, and corporate governance experience strengthens the group. In addition, her appointment fulfills our commitment to add another woman to our Board by the end of 2017. The Committee maintains a list of qualified candidates and is committed to increasing the number of women on our Board by 2020. The Board and management recognize the importance of diversity and 55%–or five of nine–of Killam's executive officers are women.

On behalf of the Board, I would like to thank Philip Fraser and Killam's 600 employees for their work delivering clean, safe, quality housing to residents who are proud to call our properties home.

Bob Kay

Alex & Brianna

Calling Killam Home Since 2015

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $2.3 billion portfolio of apartments and manufactured home community ("MHC") properties. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010 and made its first investment in Alberta ("AB") in 2014. Killam broke ground on its first development in 2010 and has completed eight projects to date, with a further three projects currently under construction.

Killam's strategy to enhance value and profitability focuses on three priorities:

1) increase earnings from the existing portfolio;

2) expand the portfolio and diversify geographically through accretive acquisitions, targeting newer properties; and

3) develop high-quality properties in its core markets.

The apartment business is Killam's largest segment and accounted for 90.2% of Killam's net operating income ("NOI") for the year ended December 31, 2017. As at December 31, 2017, Killam's apartment portfolio consisted of 14,983 units, including 1,245 units jointly owned with institutional partners. Killam's 189 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario (Ottawa, London, Toronto and Cambridge), and Alberta (Calgary and Edmonton). Killam is Atlantic Canada's largest residential landlord, owning a 14% share of multi-family rental units in its core markets. Killam plans to expand its presence in Ontario and Alberta through acquisitions and developments and will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,165 MHC sites, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases lots to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 8.1% of Killam's NOI for 2017. Killam also owns commercial properties that accounted for 1.7% of Killam's NOI for the year ended December 31, 2017.

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 the Trust's audited consolidated financial statements for the years ended December 31, 2017 and 2016, 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 2016 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at February 13, 2018. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

Killam's investment guidelines and operating policies are set out in Killam's Amended and Restated Declaration of Trust ("DOT") dated November 27, 2015, which is available on SEDAR. A summary of the guidelines and policies are as follows:

Investment Guidelines
- The Trust will acquire, hold, develop, maintain, improve, lease and manage income-producing real estate properties;
- Investments in joint ventures, partnerships (general or limited) and limited liability companies are permitted;
- Investments in land for development that will be capital property for Killam are permitted; and
- Investments that would disqualify Killam as a "mutual fund trust" or a "unit trust" as defined within the *Income Tax Act* (Canada) are prohibited.

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" or a "unit trust" as defined within the *Income Tax Act* (Canada) are prohibited; and
- Killam must maintain property insurance coverage in respect of potential liabilities of the Trust.

As at December 31, 2017, Killam was in compliance with all investment guidelines and operating policies.

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 or cash flow from operating activities determined in accordance with IFRS, as indicators of Killam's performance, or sustainability of Killam's distributions. These measures do not have standardized meanings under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded organizations.

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, REIT conversion costs and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of REIT conversion costs as noted above; REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 24.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less $900 (2016 - $970) per apartment unit per annum and $300 (2016 - $225) per MHC site per annum for maintenance capital expenditures ("capex"), representing a three-year rolling historical average capital spend to maintain and sustain Killam's properties. AFFO are calculated in accordance with the REALpac definition, most recently updated in February 2017. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 26, and the calculation of the maintenance capex reserve is included on page 25.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow from operations with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash flow from operating activities to ACFO is included on page 27. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gain (loss) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, adjusted for interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, adjusted for interest expense related to exchangeable units, and principal mortgage repayments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2017 and 2016 (93.7% of the portfolio based on the December 31, 2017 unit count).

PART II

Key Performance Indicators

To assist Management and investors in monitoring Killam's achievement of its objectives, Killam has defined a number of key performance indicators to measure the success of its operating and financial performance:

1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit.
2) AFFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing AFFO per unit.
3) Payout Ratio – Killam monitors its AFFO and ACFO payout ratios and targets improved payout ratios. The ACFO payout ratio is a measure to assess the sustainability of distributions. The AFFO payout ratio is used as a supplemental metric. Although Killam expects to continue to sustain and grow distributions, the amount of distributions will depend on debt repayments and refinancings, capital investments, and other factors that may be beyond the control of the REIT.
4) Rental Increases – Management expects to increase average annual rental rates and tracks average rate increases.
5) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on vacancy cost divided by gross potential residential rent (in dollars).
6) Same Property NOI – 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.
7) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage and total debt.
8) Debt to Total Assets – Killam's primary measure of its leverage is debt as a percentage of total assets. Killam's DOT operating policies stipulate that overall indebtedness is not to exceed 70% of Gross Book Value. Debt to total assets is calculated by dividing total interest-bearing debt by total assets.
9) Weighted Average Years to Debt Maturity – Management monitors the average number of years to maturity on its debt.
10) Debt to Earnings Before Interest, Taxes, Depreciation and Amortization – A common measure of leverage used by lenders, this measure considers Killam's financial health and liquidity. Generally, the lower the debt to EBITDA ratio, the lower the credit risk.
11) 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.
12) 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.

Financial and Operational Highlights

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

For the years ended December 31,			
Operating Performance	**2017**	2016	Change [(2)]
Property revenue	**$187,377**	$175,269	6.9%
Net operating income	**$115,220**	$105,424	9.3%
Net income	**$104,760**	$71,439	46.6%
FFO [(1)]	**$69,873**	$58,886	18.7%
FFO per unit - diluted [(1)]	**$0.90**	$0.86	4.7%
AFFO [(1)]	**$55,982**	$44,746	25.1%
AFFO per unit - diluted [(1),(3)]	**$0.72**	$0.66	9.1%
Weighted average number of units outstanding - diluted (000s)	**78,658**	73,381	7.2%
Distributions paid per unit	**$0.62**	$0.60	3.3%
AFFO payout ratio - diluted[(1),(3)]	**86%**	91%	(500) bps
Portfolio Performance			
Same property NOI[(1)]	**$104,595**	$100,972	3.6%
Same property NOI margin	**61.4%**	60.8%	60 bps
Same property apartment weighted average rental increase [(4)]	**1.8%**	1.6%	20 bps
Same property apartment occupancy	**96.5%**	95.9%	60 bps

As at December 31,	**2017**	2016	Change
Leverage Ratios and Metrics			
Debt to total assets	**48.7%**	53.5%	(480) bps
Weighted average mortgage interest rate	**2.91%**	3.01%	(10) bps
Weighted average years to debt maturity	**4.0**	4.3	(0.3) years
Debt to EBITDA [(1)]	**10.70x**	11.00x	(2.7)%
Debt service coverage [(1)]	**1.51x**	1.41x	7.1%
Interest coverage [(1)]	**3.13x**	2.70x	15.9%

(1) FFO, AFFO, AFFO payout ratio, debt to EBITDA, debt service coverage ratio, interest coverage ratio, and same property NOI 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) AFFO calculation was revised in 2017 based on the issuance of the February 2017 REALpac white paper on AFFO. Prior period balances have been restated to conform to the current period calculation. Refer to Part VI of the MD&A for additional disclosure.

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

Summary of 2017 Results and Operations

FFO per Unit Growth of 4.7%
Killam generated FFO per unit of $0.90 in 2017, 4.7% higher than the $0.86 generated in 2016. FFO growth was attributable to a 9.3% increase in NOI due to strong same property performance, incremental contributions from recent acquisitions and interest savings on mortgage refinancings and the repayment of the $46 million convertible debentures in April 2017. This growth was partially offset by a 7.2% increase in the weighted average number of units outstanding from an aggregate $154.1 million of equity issued in March and November 2017, to redeem the convertible debentures, to reduce leverage and fund acquisitions and developments.

Strengthened Balance Sheet and Increased Liquidity
Killam completed a $77.0 million equity raise in March at a price of $12.65 per unit. Proceeds were used to redeem the $46.0 million, 5.45% convertible debenture in April and to fund Killam's acquisition of a 50% interest in a property in Ottawa. In November, Killam raised $77.1 million at a price of $13.55 per unit. Proceeds were used to fund $60 million of acquisitions, reduce indebtedness and provide liquidity for future acquisitions and developments. The transactions contributed to a marked reduction in Killam's debt levels, ending the year at 48.7%.

In December 2017, Killam also increased availability under its revolving credit facility to $70 million from $30 million. The facility includes a $20 million accordion, bringing the total potential credit availability to $90 million. The facility is available to finance acquisitions, developments and for general Trust purposes. With the expanded line of credit, cash on hand and anticipated mortgage proceeds from three recently acquired properties, Killam ended 2017 with over $300 million of acquisition capacity.

Higher Rents and Improved Occupancy Drove Same Property Revenue Growth
Same property revenue increased 2.6% compared to 2016 as a result of a 60 bps increase in average apartment occupancy and a 1.8% increase in the average rental rate for the apartment portfolio, as well as 3.1% top-line growth within the MHC portfolio. With an experienced leasing team and positive apartment fundamentals, Killam's same property apartment portfolio achieved 96.5% occupancy for 2017. Apartment performance was particularly strong in New Brunswick and Halifax, where same property apartment revenues increased by 4.0% and 2.6%, compared to 2016.

Same Property NOI growth of 3.6% Augmented by Expense Management
Killam's same property total operating expenses increased only 1.0% for the year ended December 31, 2017, compared to 2016, contributing to the 3.6% increase in same property NOI. Utility and fuel expenses for 2017 were down 5.7% compared to 2016, due to lower fuel, electricity and water consumption as a result of recent energy initiatives, as well as a reduction in the pricing for natural gas in Nova Scotia and electricity in Ontario. These savings largely offset inflationary general operating expense pressures and a 5.5% increase in property taxes.

Lower Interest Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in 2017, contributing to a 4.0% reduction in same property mortgage interest expense year over year. In total, Killam refinanced $69.7 million of maturing mortgages with $101.7 million of new debt at a weighted average interest rate of 2.61%, 106 basis points lower than the weighted average rate of the maturing debt.

Portfolio Growth from Acquisitions and Developments
Killam acquired over $200 million of investment properties in 2017. Specifically, Killam acquired eight buildings totaling $184 million which added approximately 850 units across Calgary, Edmonton, Halifax, London and Ottawa. Killam also acquired $12 million of sites in Edmonton and Ottawa that have development potential for an additional 600 units. Over 75% of the capital deployed in 2017 was in Alberta and Ontario as Killam executed on its strategy of increasing the portion of NOI generated outside Atlantic Canada.

In addition, Killam invested $37.5 million in its three active developments, The Alexander in Halifax, Saginaw Park in Cambridge and The Frontier in Ottawa during 2017. Killam expects to complete construction of The Alexander and Saginaw Park in 2018 and The Frontier in 2019.

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

Strategic Targets

Growth in Same Property NOI	
2017 Target	Same property NOI growth of 1% to 3%.
2017 Performance	Target exceeded. Same property NOI grew by 3.6% in 2017 due to rental rate increases, higher occupancy and utility cost savings.
2018 Target	Same Property NOI growth of 1% to 2%.
Longer-term Target	Same Property NOI growth averaging over 2%.

Expanded Portfolio through Accretive Acquisitions	
2017 Target	A minimum of $75 million of acquisitions.
2017 Performance	Target exceeded. Killam completed $200 million of acquisitions. A summary of the acquisitions in 2017 is shown on page 29. The weighted average all-cash yield on these acquisitions is expected to be approximately 5.4%. In addition, Killam recycled $9 million of capital with the disposition of two non-core Ottawa properties in April.
2018 Target	A minimum of $125 million of acquisitions.
Longer-term Target	Grow the portfolio to over $2.8 billion by 2020, from $2.3 billion in 2017.

Geographic Diversification	
2017 Target	At least 75% of acquisitions made outside Atlantic Canada and to have over 23% of 2017 NOI earned outside Atlantic Canada.
2017 Performance	Target achieved. 75% of capital invested in properties located outside Atlantic Canada. 23% of 2017 NOI generated by properties located in Alberta and Ontario.
2018 Target	At least 75% of acquisitions made outside Atlantic Canada and to earn at least 26% of 2018 NOI outside Atlantic Canada.
Longer-term Target	Over 30% of NOI generated outside Atlantic Canada by 2020.

Development of High-Quality Properties	
2017 Target	To remain on schedule to complete the 240-unit Alexander development by Q1-2018 and the 93-unit Saginaw development by Q2-2018.
2017 Performance	Target partially achieved. The Saginaw development remains on schedule and is expected to be completed in early spring 2018. The Alexander development has been delayed 3-6 months and is expected to be completed in mid-2018. Killam remains on schedule with the Gloucester City Centre development.
2018 Target	To complete the Alexander and Saginaw developments, and break ground on one additional development project.
Longer-term Target	To create a minimum of $20 million of value from developments through 2020.

Strengthened Balance Sheet	
2017 Target	Further reduce debt as a percentage of total assets.
2017 Performance	Target achieved. Debt as a percentage of total assets was 48.7% at December 31, 2017, compared to 53.5% at December 31, 2016, due to the redemption of the $46.0 million convertible debentures in April and the acquisition of three properties without debt in December. Capital flexibility increased with expansion of the credit facility to $70 million.
2018 Target	Maintain debt as a percentage of assets ratio below 52%.
Longer-term Target	Reduce debt as a percentage of assets below 50%.

Outlook

Strong Fundamentals Expected to Drive Rental Growth
Population growth from immigration, a wave of baby boomers and seniors transitioning from home ownership to apartment living, a growing number of single households and a trend for young Canadians to delay homeownership is expected to support strong rental demand for the foreseeable future. Rapidly rising home prices in Ontario are also increasing demand for rental units in that province. Home ownership levels are also expected to be impacted by recent mortgage qualification changes that increase the income required to obtain financing, further supporting demand for apartments.

With one of the newest and highest-quality portfolios of apartments in Canada, Killam is well positioned to respond to this strong demand. Management expects to grow revenues with a balance of maximizing rental rates and maintaining high occupancy levels. With the majority of Killam's portfolio not exposed to rent controls, Management has the flexibility to move rents to market on an annual basis. In Ontario and PEI, both with rent control, Management expects to maximize the rental rates on unit turns as extremely tight rental markets are expected to lead to higher-than-normal rental rate growth.

Rollout of Energy Efficiency Opportunities to Reduce Consumption and Increase Margins
Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's resource consumption and contribute to improved operating margins. Killam is two years into its five-year, $25 million program to reduce the footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and retrofit of temperature and lighting systems. Killam has expanded its operations team to bring energy specialists in-house to optimize this capital investment. Management has spent $5.7 million to date and is forecasting investments of at least $3.5 million in 2018 with an average payback of 4 years.

These projects are expected to improve same property NOI with lower consumption, reducing Killam's exposure to fluctuating energy costs and volatile winter weather. Killam is further reducing its exposure by locking in natural gas rates for most of its portfolio during the heating season. Although Killam remains exposed to changes in consumption linked to temperature variations, the initiatives underway are expected to mitigate expense volatility.

Technology to Enhance Efficiencies
Management will continue to invest in technology to improve efficiencies, enhance communication with staff and tenants and use increased data analytics to maximize returns. Following a successful year of in-house technology enhancements, including mobile maintenance and inspection capabilities and paperless invoice processing, Management plans to roll out enhancements to its leasing platform improving the tenant online and mobile communication experience.

On Track to Meet Geographic Diversification Targets
Management is focused on continuing to increase its presence in Ontario and Alberta. Based on its current portfolio, approximately 26% of Killam's NOI is forecasted to be generated outside Atlantic Canada, up from 23% in 2017. With acquisitions and developments planned in both Ontario and Alberta, Killam expects to meet its goal of 30% of NOI generated outside Atlantic Canada by 2020.

Developments will Enhance NAV Growth
Killam is an experienced developer with $100 million of projects currently underway in Halifax, Cambridge and Ottawa. The podium portion of The Alexander development opened on October 1, 2017, and the entire project is expected to be complete by mid-2018. The Cambridge development is scheduled for completion by April 2018, and the first phase of the Ottawa development is planned to open in mid-2019. The equity components of all three projects are fully funded with cash flow to complete the projects coming from construction financing. Once stabilized, these projects are expected to contribute approximately $0.03 per unit of FFO growth, and $15 million of NAV growth.

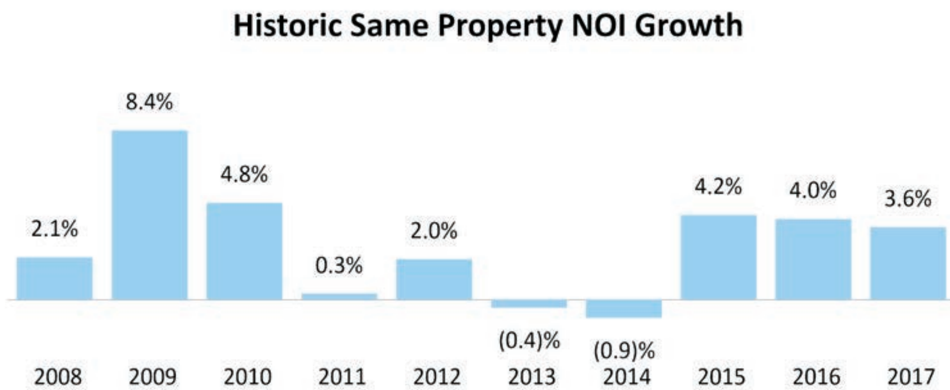
Additionally, Killam has a development pipeline of almost 1,500 units, representing a potential investment of $500 million. One of these projects, in Mississauga, is in the final stages of planning and approval, and construction is expected to commence in 2018. The second phase of the Ottawa project is scheduled to commence in mid-2019, following the completion of the first phase. Developments reinforce Killam's position as the owner of 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 this MD&A.

Rising Interest Rates May Lead to Higher Interest Expense Beyond 2018
Management expects to refinance near-term maturities at lower interest rates. Killam has $77.2 million of apartment mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.54%, approximately 50 bps and 30 bps higher than prevailing 5-year and 10-year CMHC-insured rates. $10.6 million of MHC mortgages are also maturing through to the end of 2018 at a weighted average interest rate above current market rates. Beyond 2018, Killam may face higher interest rates on mortgage refinancings. The average interest rate on its mortgages maturing in 2019 - 2022 are below current market rates. Should bond-yields continue to rise, Management expects to experience an increase in interest expense after 2018. Management has spread out its debt maturity schedule and reduced its leverage to minimize its annual exposure to a rising interest rate environment. Management plans to maintain its conservative debt metrics and continue to flatten out its debt maturity schedule as its mortgages mature.

PART III

Business Strategy

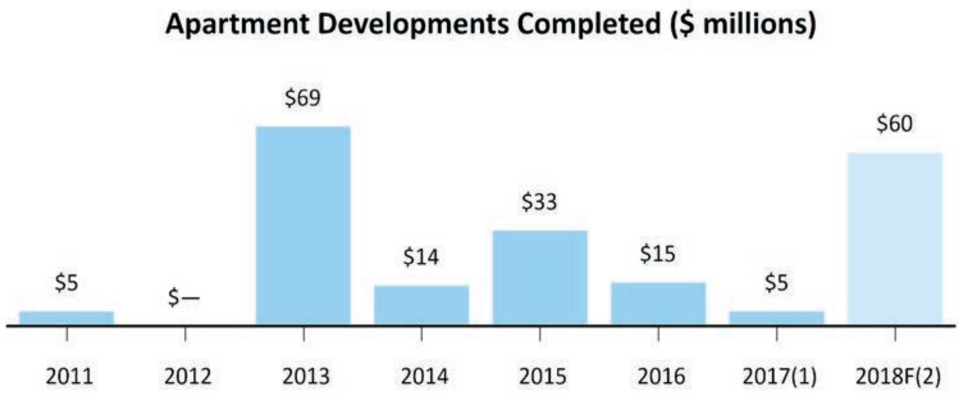
Maximize NOI from Existing Portfolio
Killam increases the value of its portfolio by maximizing revenue and managing expenses. To achieve NOI growth, Killam must address three critical factors: occupancy, rental rates and operating costs. Killam focuses on customer service, leasing and marketing, employee training and unit renovations and repositions to maximize revenues. Operating cost management is focused on energy efficiency and technology investments, economies of scale, claims and loss management and staff and tenant education. Killam has increased same property NOI by an average of 2.8% per annum over the past decade.



Growth through Acquisitions
Killam is expanding its portfolio through the acquisition of centrally located buildings in its target markets of Ontario and Alberta, and continuing to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. Killam has acquired an average of $100 million of properties each year since the organization's first acquisition in 2002.

Expansion through Development
Killam enhances its external growth opportunities with development. Killam started apartment developments in 2010 and has completed eight projects to date, investing $136 million to construct 626 units. Killam has an experienced development team that oversees all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets yields of 5.0% - 6.0% on development, and expects to build at a 50 - 150 bps discount to the market capitalization rates ("cap-rates") on completion, creating value for unitholders.

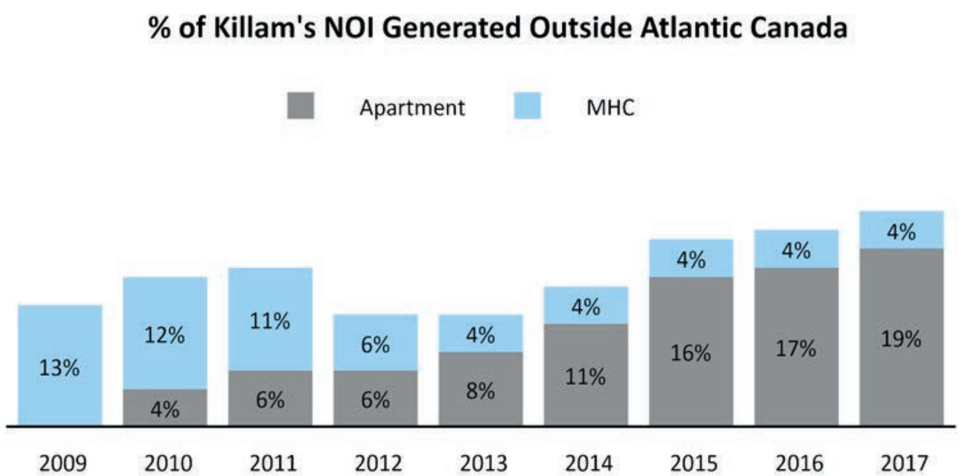
To mitigate risk and manage the short-term dilution impact associated with development, Killam expects to manage the capital invested in active developments to approximately 5% of its total assets.



(1) Relates to Killam's 50% interest in the podium portion (55 units) of The Alexander.
(2) 2018 forecast includes Saginaw Park and 50% of The Alexander, excluding the podium portion.

Geographic Diversification

Geographic diversification is a priority for Killam, and the organization is focused increasing the portion of NOI generated outside Atlantic Canada. Killam is targeting expansion in selected markets including Ottawa, the Greater Toronto Area, Southwestern Ontario, Calgary and Edmonton. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Increased investment in Ontario and Western Canada will enhance Killam's diversification and exposure to the urban centres in Canada with traditionally higher population growth than Atlantic Canada.



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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at December 31, 2017:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,459	63	$41,936	36.5%
Sydney	139	2	$1,300	1.1%
	5,598	65	$43,236	37.6%
New Brunswick				
Fredericton	1,422	21	$9,157	7.9%
Moncton	1,629	31	$8,680	7.5%
Saint John	1,202	14	$5,520	4.8%
Miramichi	96	1	$582	0.5%
	4,349	67	$23,939	20.7%
Ontario				
Ottawa	1,064	9	$6,945	6.0%
London	523	5	$4,566	4.0%
Toronto	378	2	$3,586	3.1%
Cambridge	347	3	$4,170	3.6%
	2,312	19	$19,267	16.7%
Newfoundland & Labrador				
St. John's	915	12	$7,315	6.3%
Grand Falls	148	2	$792	0.7%
	1,063	14	$8,107	7.0%
Prince Edward Island				
Charlottetown	906	18	$6,054	5.3%
Summerside	86	2	$529	0.5%
	992	20	$6,583	5.8%
Alberta				
Edmonton	296	2	$742	0.6%
Calgary	373	2	$2,077	1.8%
	669	4	$2,819	2.4%
Total Apartments	**14,983**	**189**	**$103,951**	**90.2%**

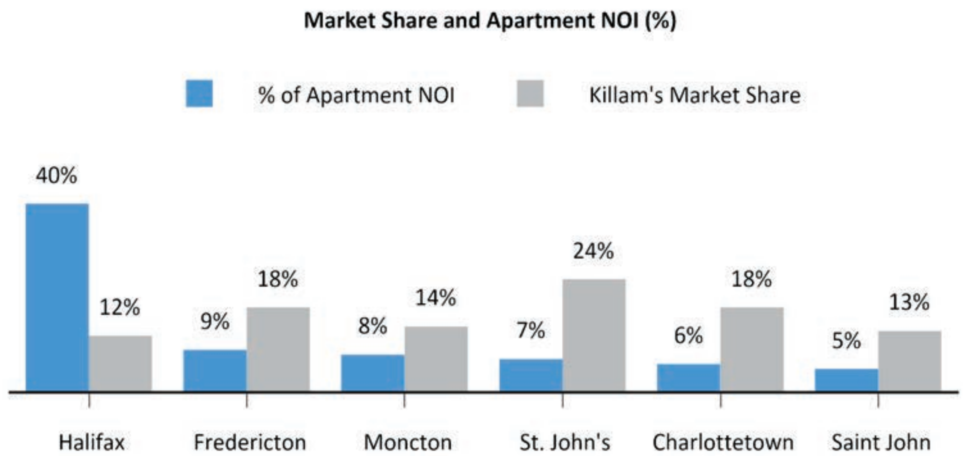
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,626	16	$4,354	3.8%
Ontario	2,145	16	$4,510	3.9%
New Brunswick	224	1	$170	0.1%
Newfoundland & Labrador	170	2	$343	0.3%
	5,165	**35**	**$9,377**	**8.1%**

Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($)	NOI (% of Total)
Halifax, NS	254,000	5	$1,892	1.7%
Total Portfolio			**$115,220**	**100.0%**

(1) Unit count includes properties held through Killam's joint arrangements. Killam has a 50% ownership interest in one property in Alberta and two properties in Ontario, representing a proportionate ownership of 623 units of the 1,245 units in these properties. Killam manages the operations of all the co-owned properties.
(2) For the year ended December 31, 2017.

Unique Portfolio Features

Atlantic Canada's Market Leader
Killam is the single largest residential landlord in Atlantic Canada, with a 14% market share of apartments in its core markets as of December 31, 2017. 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 strong rental fundamentals in Atlantic Canada, Canada Mortgage and Housing Corporation's ("CMHC") Fall 2017 Rental Market Reports reported improved occupancy in all six of Killam's Atlantic Canadian markets versus October 2016. This corresponds with Killam's experience in the market, with five of six of its Atlantic Canadian markets experiencing improved occupancy during 2017 compared to 2016.



Modest Exposure to Rent Control
Over 75% of Killam's current apartment portfolio is not impacted by rent control, allowing Killam to move rents to market rates annually. Prince Edward Island, representing 6.3% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. Killam's Ontario portfolio, accounting for 18.5% of apartment NOI, is also subject to rent control. In Ontario, landlords 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, rent controls do not apply to new tenants. Overall, only 30% of Killam's NOI is generated in markets subject to rent control; however, owners may apply for above-guideline increases to offset significant capital expenditures in these regions. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for existing tenants and on turnovers.

CMHC Insured Debt Available for Over 90% of Killam's Portfolio
Apartment owners are eligible for CMHC mortgage loan insurance. These policies eliminate default risk for lenders, resulting in lower interest rates than those available for conventional mortgages. Approximately 80% of Killam's apartment debt is CMHC-insured. As mortgages are renewed and new properties are financed, Killam expects to increase the percentage of mortgages with CMHC-insured debt. CMHC insurance is not available for the owners of MHCs; however, the financing is available to manufactured home owners, increasing the affordability of these homes.

Focused on Service
Killam takes pride in offering tenants well-maintained properties, responding to service requests in a timely manner and providing an attractive housing value proposition. In-house educational programs enhance employees' skills to service current and prospective tenants. Annually, Management engages an independent market research firm to measure tenants' satisfaction through an on-line survey (approximately 2,900 respondents in 2017). Killam's 2017 survey results support Killam's focus on service with a 90% tenant satisfaction rating, the same rating received in 2016 and 2015.

Geographic Diversification
Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario and Alberta. Killam's current apartment portfolio consists of 2,312 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London and Cambridge. Killam has also assembled a portfolio of 669 units in Calgary and Edmonton, of which 362 units were acquired in 2017. In addition to apartments, 42% of Killam's MHC sites are located in Ontario.

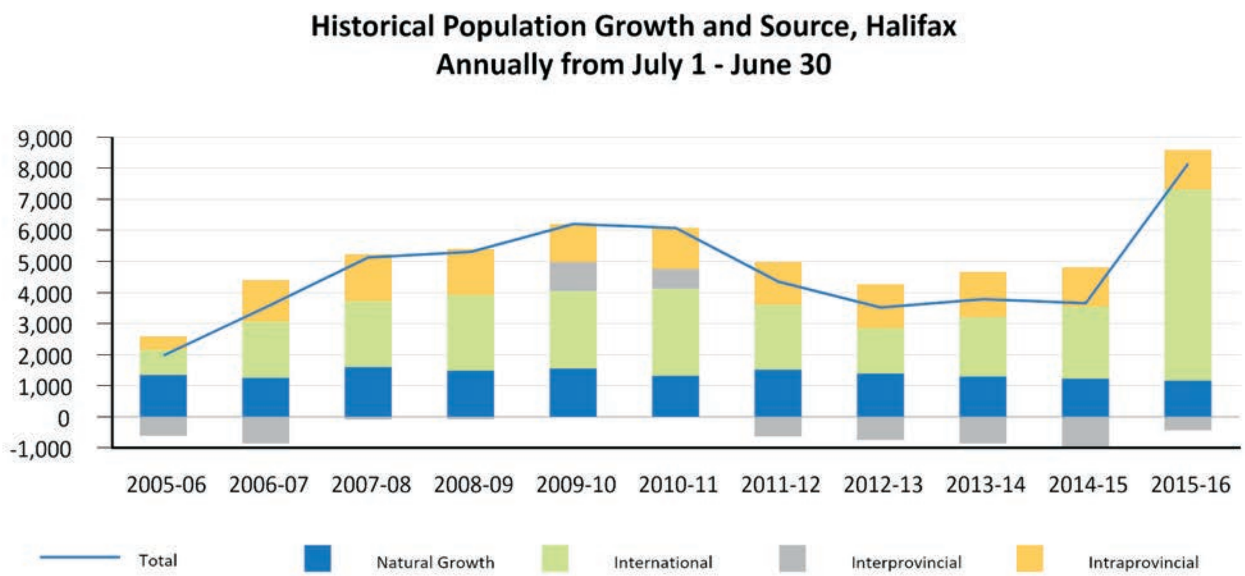
Core Market Update

Halifax
36% of Killam's NOI is generated by its Halifax properties. Halifax is the largest city in Eastern Canada and is home to 18% of Atlantic Canadians. The city's rental market totals 47,303 units, representing 47% of Atlantic Canada's rental universe, as measured by CMHC.

Halifax's diverse economy generates 56% of Nova Scotia's GDP with 45% of the province's population. Employment is concentrated in the public service, health care, higher education, manufacturing and retail and wholesale trade. Halifax is home to Canada's largest Armed Forces Base, by personnel, and the Department of National Defence is the city's single largest employer. With six degree-granting universities and three large community college campuses, Halifax has approximately 36,000 students, including 6,000 international students.

The Conference Board of Canada's 2017 Autumn Metropolitan Outlook forecasts that Halifax's GDP will expand by 1.4% in 2017, and 2.2% in each of 2018 and 2019, fuelled by growth in the manufacturing and retail sectors. Over the mid-term, construction projects in the city, including Irving Shipyard's $25 billion shipbuilding contract, and expansion in the service sector, will contribute to economic growth. The $220 million Ocean Frontier Institute, led by Dalhousie University, with funding from the Canadian government and local philanthropists, will build on Halifax's standing as a world leader in oceanic research. Halifax is also anchoring Atlantic Canada's bid for the Federal Government's Ocean Supercluster program, an initiative that could see $1 billion invested in innovation projects across the region.

Halifax has experienced improved occupancy and growing rental rates due to economic and population growth and demographic trends as baby boomers shift to apartment living from home ownership. International and intraprovincial migration have also contributed to demand for apartments in the city, with Halifax experiencing its largest population increase since the Second World War during the 12-month period ended June 2016, due primarily to immigration. The following chart summarizes population growth by source from 2005 to 2016, the most recent year for which detailed population growth data is available:

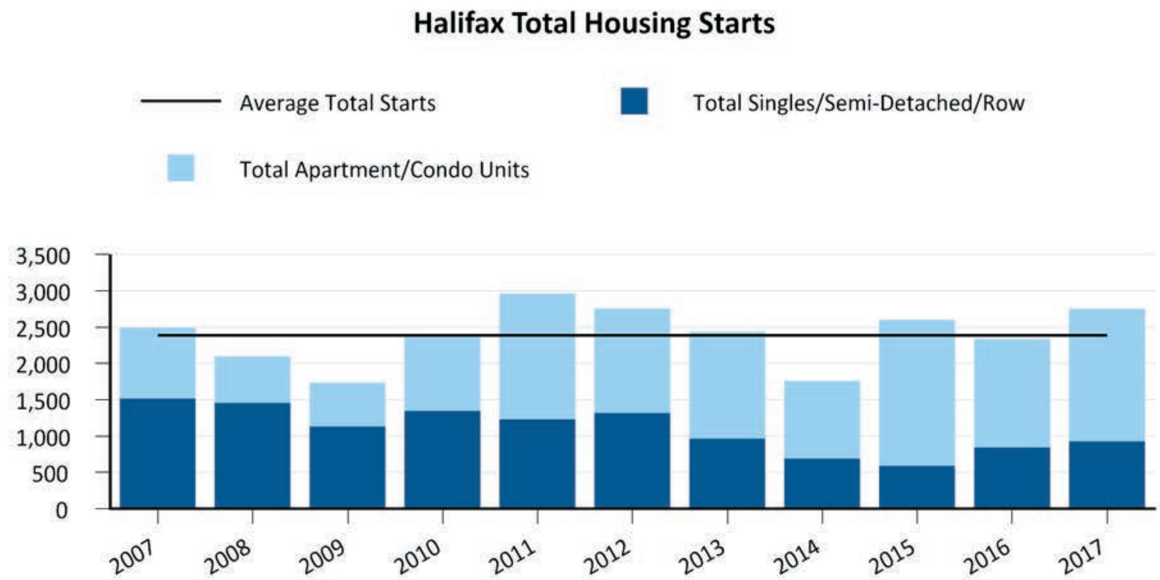


Source: Statistics Canada

CMHC, in its Fall 2017 Housing Market Outlook ("CMHC 2017 Outlook"), projects Halifax's population to grow from 426,000 in 2016 to 445,000 by 2019, a 4% increase. Immigration will be a significant source of new residents, through the Provincial Nominee Program and the Atlantic Immigration Pilot Program, as well as migration from rural Nova Scotia. CMHC expects the employment level to rise by 2.5% over the same period to 232,000.

While overall housing starts have remained relatively flat over the past decade, there has been a shift in the mix of new dwellings. Historically, single-detached starts have exceeded multi-units; however, multi-unit construction has outpaced single family for each of the past five years, a trend that is expected to continue. CMHC reported 1,826 multi-family starts in 2017 and in its 2017 Outlook forecasts 2,305 and 2,050 starts in 2018 and 2019. Single family starts of 926 were reported in 2017, and 740 and 700 single family starts are forecasted in 2018 and 2019. With expected economic and population growth and the introduction of new rental product, CMHC expects the average monthly rental rate for a two-bedroom unit to increase to $1,225 by 2019 from $1,125 today, a 9% increase; however, vacancy rates are expected to rise modestly to 3.3%. Halifax ended 2017 on a high note, with CMHC reporting average apartment vacancy of 2.3%, compared to 2.6% in 2016, in its Fall 2017 Rental Market Report.

The following chart summarizes Halifax's housing start activity from 2007 to 2017:



Source: CMHC

New Brunswick
21% of Killam's NOI is generated by apartments in New Brunswick's three major urban centres - Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university and a significant public sector workforce. Moncton is the province's 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.

Stronger occupancy in the province over the past year is due primarily to intraprovincial and international migration and demand from downsizing boomers. Additionally, emigration has slowed with an improved provincial economy. These factors, combined with limited new construction, have resulted in improved occupancy. CMHC's 2017 Outlook forecasts the population of these three centres to grow by almost 7,300 people, or 5%, between 2017 and 2019. Actual vacancy reported in CMHC's 2017 Rental Market Report in late 2017 in Fredericton, Moncton and Saint John was 2.2%, 4.5% and 4.7%, respectively.

Newfoundland and Labrador
7% of Killam's apartment NOI is generated in Newfoundland. Following a decade of strong economic growth from investment in the offshore oil sector, this region has adjusted to the impact of lower oil prices. In its Fall 2017 Rental Market Report, CMHC reported an improvement to St. John's apartment occupancy, following eight years of rising vacancy. CMHC reported 7.1% vacancy in St. John's in October 2017. Following a decline in new rental product in St. John's, the city's rental market has stabilized.

Prince Edward Island
Killam has an 18% share of the Charlottetown market, the provincial capital and economic center of Prince Edward Island. The Charlottetown market accounted for 5% of Killam's total NOI in 2017. As a proportion of its population, Prince Edward Island had amongst the highest rates of international immigration in Canada over the past year, leading to significant reduction in the region's vacancy. CMHC's 2017 Outlook expects this trend to continue through 2019, with Charlottetown's population increasing by 7% to 77,500, from the 2016 base of 72,344. CMHC reported Charlottetown vacancy of 0.9% in October 2017 and is forecasting vacancy to remain below 1% in 2018 and 2019. Killam's occupancy in PEI is near 100% and rental rate growth has been in-line with legislated increases.

Ontario
Killam's Ontario apartment portfolio generated 17% of NOI in 2017. The Ontario rental market is strong as the province continues to experience economic and population growth attributable to high levels of international immigration. Additionally, a widening gap between the cost of home ownership and renting is increasing the demand for rental stock. CMHC reported a 2.7% increase in average rents for the overall Ontario rental market and a 10 bps reduction in vacancy compared to 2016 in its 2017 Rental Market Report. CMHC projects that vacancy rates will remain near 2.0% through 2019 driven by higher housing prices, international migration and an aging population, and rental rates will increase by 4.7% over this period.

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

On May 18, 2017, the Government of Ontario passed the *Rental Fairness Act*, extending rent control to properties built after 1991. For 2017, rental increases on existing leases were limited to 1.5%. On June 23, 2017, the rental increase ceiling was set at 1.8% for 2018. Future increases will be pegged to inflation. Landlords have the ability to increase rents to market on unit turns.

Alberta

Two percent of Killam's 2017 NOI was earned in Alberta through its 50% interest in a Calgary high-rise apartment building, 66-unit low-rise complex acquired in January 2017, and 296-unit property located in Sherwood Park, Edmonton that closed in two stages during August and December 2017. The Alberta rental market appears to be stabilizing following a downturn due to lower oil prices. In its 2017 Rental Market Report, CMHC reported 6.3% vacancy for Calgary, improved from 7.0% in 2016, and an average monthly rental rate of $1,247 for a two-bedroom apartment, down 1.3% from the previous year. In Edmonton, CMHC reported 7.0% vacancy, versus 7.1% in 2016, and an average monthly rental rate of $1,215 for a two-bedroom apartment, down 1.6% from a year earlier. In its Fall Market Outlook, CMHC forecasts vacancy in Calgary to fall to 5.0% by 2019 as migration due to economic growth drives rental demand. In Edmonton, CMHC is expecting vacancy to fall to 5.2% by 2019, as stronger employment leads to population growth.

PART IV

2017 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$187,377**	$175,269	6.9%	**$170,485**	$166,205	2.6%	**$16,892**	$9,064	86.4%
Property operating expenses									
General operating expenses	**30,444**	29,097	4.6%	**27,608**	26,868	2.8%	**2,836**	2,229	27.2%
Utility and fuel expenses	**19,668**	20,462	(3.9)%	**18,370**	19,486	(5.7)%	**1,298**	976	33.0%
Property taxes	**22,045**	20,286	8.7%	**19,912**	18,879	5.5%	**2,133**	1,407	51.6%
Total operating expenses	**$72,157**	$69,845	3.3%	**$65,890**	$65,233	1.0%	**$6,267**	$4,612	35.9%
NOI	**$115,220**	$105,424	9.3%	**$104,595**	$100,972	3.6%	**$10,625**	$4,452	138.7%
Operating margin %	**61.5%**	60.1%	140 bps	**61.4%**	60.8%	60 bps	**62.9%**	49.1%	1380 bps

Same property results include 93.7% of Killam's portfolio owned during comparable 2017 and 2016 periods. Non-same property results include properties acquired and developments completed in 2016 and 2017, properties sold and adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 2.6% for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to higher rental rates and improved occupancy as a result of strong market fundamentals, particularly in New Brunswick, Nova Scotia and Prince Edward Island. Total property operating expenses for the year ended December 31, 2017 were 1.0% higher than the prior year as utility and fuel expense savings from lower consumption, due to the energy efficiency program, and lower natural gas prices in NS were more than offset by higher property taxes and inflationary operating cost pressures. Overall, same property NOI grew by 3.6% for the year ended December 31, 2017, as compared to 2016, and the operating margin increased by 60 bps.

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

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$167,718**	$155,839	7.6%	**$155,351**	$151,523	2.5%	**$12,367**	$4,316	186.5%
Property operating expenses									
General operating expenses	**25,470**	24,196	5.3%	**23,895**	23,270	2.7%	**1,575**	926	70.1%
Utility and fuel expenses	**17,772**	18,431	(3.6)%	**16,961**	18,004	(5.8)%	**811**	427	89.9%
Property taxes	**20,525**	18,823	9.0%	**19,297**	18,283	5.5%	**1,228**	540	127.4%
Total operating expenses	**$63,767**	$61,450	3.8%	**$60,153**	$59,557	1.0%	**$3,614**	$1,893	90.9%
NOI	**$103,951**	$94,389	10.1%	**$95,198**	$91,966	3.5%	**$8,753**	$2,423	261.2%
Operating margin %	**62.0%**	60.6%	140 bps	**61.3%**	60.7%	60 bps	**70.8%**	56.1%	1470 bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2017 was $167.7 million, an increase of 7.6% over the year ended December 31, 2016. Revenue growth was due to the contribution from recently acquired properties in Calgary, Edmonton, Halifax, London and Ottawa, improved occupancy and higher rental rates.

Same property apartment revenue increased 2.5% for the year ended December 31, 2017, with strong leasing activity contributing to a 60 bps improvement in same property occupancy and a 1.8% increase in average rental rates. Rental incentives of 70 bps of revenue for the year ended December 31, 2017 were modestly lower than 2016, as fewer incentives were offered given strong market conditions.

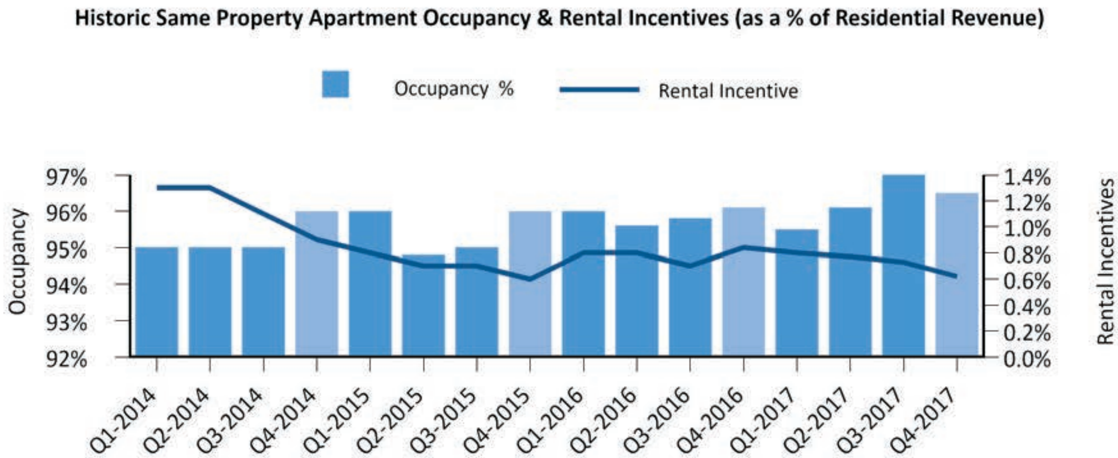
Apartment Occupancy Analysis by Core Market (% of Residential Rent)(1)

		Total Occupancy			Same Property Occupancy		
For the years ended December 31,	# of Units	**2017**	2016	Change (bps)	**2017**	2016	Change (bps)
Halifax, NS	5,459	**97.0%**	96.1%	90	**97.0%**	96.2%	80
Moncton, NB	1,629	**95.9%**	94.9%	100	**95.9%**	94.9%	100
Fredericton, NB	1,422	**96.4%**	94.8%	160	**96.5%**	94.8%	170
Saint John, NB	1,202	**95.1%**	92.5%	260	**95.1%**	92.5%	260
St. John's, NL	915	**94.2%**	95.2%	(100)	**94.2%**	95.2%	(100)
Charlottetown, PE	906	**99.3%**	98.5%	80	**99.3%**	98.5%	80
Ontario	2,312	**96.3%**	97.3%	(100)	**96.7%**	97.9%	(120)
Alberta	669	**88.5%**	86.8%	170	**93.6%**	86.8%	680
Other Atlantic locations	469	**96.4%**	97.7%	(130)	**96.4%**	97.7%	(130)
Total Apartments (weighted average)	14,983	**96.3%**	95.8%	50	**96.5%**	95.9%	60

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

For discussion on changes in occupancy levels during the past year, refer to page 19 of this MD&A under section "Apartment Same Property NOI by Region".

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



Average Rent Analysis by Core Market

As at December 31,		Average Rent			Same Property Average Rent		
	# of Units	**2017**	2016	% Change	**2017**	2016	% Change
Halifax, NS	5,459	**$1,028**	$989	3.9%	**$1,005**	$983	2.2%
Moncton, NB	1,629	**$843**	$843	0.0%	**$843**	$843	0.0%
Fredericton, NB	1,422	**$936**	$915	2.3%	**$939**	$917	2.4%
Saint John, NB	1,202	**$796**	$784	1.5%	**$796**	$784	1.5%
St. John's, NL	915	**$971**	$962	0.9%	**$971**	$962	0.9%
Charlottetown, PE	906	**$925**	$905	2.2%	**$925**	$905	2.2%
Ontario	2,312	**$1,362**	$1,308	4.1%	**$1,367**	$1,331	2.7%
Alberta	669	**$1,350**	$1,188	13.6%	**$1,131**	$1,188	(4.8)%
Other Atlantic	469	**$874**	$855	2.2%	**$874**	$855	2.2%
Total Apartments (weighted average)	14,983	**$1,018**	$973	4.6%	**$985**	$968	1.8%

Same Property Rental Increases - Tenant Renewal versus Unit Turn

Killam turns approximately 35% of its units each year. Upon turn, Killam will typically generate rental increases by raising rates to market and by investing capital to upgrade units. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

	Same Property Rental Increases		
For the years ended December 31,	**2017**	2016	Change (bps)
Upon lease renewal	**1.0%**	1.2%	(20)
Upon unit turn	**3.4%**	2.2%	120
Weighted average rental increase	**1.8%**	1.6%	20

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

Apartment Expenses

Total operating expenses for the year ended December 31, 2017 were $63.8 million, a 3.8% increase over 2016, due primarily to incremental costs associated with recent acquisitions, as well property tax increases and inflationary operating cost pressures, partially offset by utility savings from efficiency initiatives and lower gas pricing in Nova Scotia. Killam increased its apartment operating margin by 140 bps over the past year as revenues associated with additions to the portfolio and higher occupancy more than offset the incremental costs of operating the buildings.

Total same property operating expenses for the year ended December 31, 2017 were 1.0% higher than the year ended December 31, 2016, as savings in utilities from lower consumption due to the energy efficiency program and lower gas prices in Nova Scotia were more than offset by higher property taxes due to increased assessments and inflationary cost increases in salaries, contract services, and repairs and maintenance. In total, the same property margin improved by 60 bps during the year ended December 31, 2017.

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,	**2017**	2016	% Change
Natural gas	**$4,620**	$5,313	(13.0)%
Electricity	**6,797**	6,892	(1.4)%
Water	**4,411**	4,724	(6.6)%
Oil	**1,101**	1,040	5.9%
Other	**32**	35	(8.6)%
Total utility and fuel expenses	**$16,961**	$18,004	(5.8)%

Killam's apartments are heated with natural gas (57%), electricity (33%), oil (7%), steam (2%) and propane (1%). Electricity costs relate primarily to common areas as unit electricity costs are typically paid by tenants, reducing Killam's exposure to the majority of the 4,900 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 28% of Killam's total apartment same property operating expenses for the year ended December 31, 2017. Total same property utility and fuel expenses were 5.8% less than the year ended December 31, 2016.

Same property natural gas expenses for 2017 were 13.0% lower than 2016. Savings compared to the prior year were primarily attributable to Nova Scotia, where gas expense was down 25% from 2016 due to a 19% reduction in gas costs and reduced consumption levels in Q4 following a warmer fall than 2016. This was partially offset by modestly higher natural gas prices in New Brunswick and Ontario, and increased consumption following the conversion of a large property in New Brunswick to natural gas from heating oil.

Electricity costs for the year ended December 31, 2017 were 1.4% lower than 2016 primarily due to lower rates in Ontario and consumption savings from LED lighting retrofits at several properties over the past twelve months.

Despite higher rates, water expense for same properties decreased by 6.6% for the year ended December 31, 2017, compared to 2016. Killam has installed 8,300 low-flow toilets over the past two years, saving an estimated 400 million litres of water annually across the portfolio, generating approximately $1.0 million of water cost savings.

Heating oil costs increased by 5.9% in 2017 compared to 2016 due to a 19% increase in commodity prices due to global oil prices, partially offset by lower consumption due to conversion of a large property in New Brunswick to natural gas heating.

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

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Halifax	**$60,960**	$59,393	2.6%	**($21,842)**	($22,124)	(1.3)%	**$39,118**	$37,269	5.0%
Ontario	**23,025**	22,783	1.1%	**(8,454)**	(8,150)	3.7%	**14,571**	14,633	(0.4)%
Moncton	**16,869**	16,197	4.1%	**(8,096)**	(7,922)	2.2%	**8,773**	8,275	6.0%
Fredericton	**15,512**	14,863	4.4%	**(6,514)**	(6,343)	2.7%	**8,998**	8,520	5.6%
Saint John	**11,014**	10,648	3.4%	**(5,532)**	(5,522)	0.2%	**5,482**	5,126	6.9%
St. John's	**10,202**	10,217	(0.1)%	**(3,041)**	(3,052)	(0.4)%	**7,161**	7,165	(0.1)%
Charlottetown	**9,993**	9,713	2.9%	**(3,970)**	(3,763)	5.5%	**6,023**	5,950	1.2%
Alberta	**2,638**	2,668	(1.1)%	**(797)**	(750)	6.3%	**1,841**	1,918	(4.0)%
Other Atlantic locations	**5,138**	5,041	1.9%	**(1,907)**	(1,931)	(1.2)%	**3,231**	3,110	3.9%
	$155,351	$151,523	2.5%	**($60,153)**	($59,557)	1.0%	**$95,198**	$91,966	3.5%

Halifax
Halifax is Killam's largest rental market, contributing 41% of apartment same property NOI for the year ended December 31, 2017. Same property apartment revenue increased by 2.6% for the year ended December 31, 2017, compared to the prior year, due to an 80 bps increase in average occupancy and a 2.2% increase in average rent.

Total operating expenses for the year ended December 31, 2017 were 1.3% lower than 2016. These savings were driven by lower natural gas prices during the winter heating season, and lower consumption from warmer fall weather and energy efficiency initiatives. These savings more than offset property tax increases, higher snow removal and garbage collection costs and general operating cost inflation. The net impact was a 5.0% increase in NOI for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Ontario
Killam's Ontario portfolio generated 15% of Killam's apartment same property NOI for the year ended December 31, 2017. Revenue increased by 1.1% over the year ended December 31, 2016, as a 2.7% increase in average rental rates more than offset a 120 bps reduction in occupancy. During 2017, Killam assumed responsibility for leasing the 739-unit Kanata Lakes portfolio following the expiry of rental guarantees in place at two of the properties. The expiry of the guarantees and subsequent lease up resulted in a 300 bps decrease in occupancy in these properties in 2017 compared to 2016. Even better, at December 31, 2017, these properties were stabilized with vacancy of less than 2%.

Total operating expenses for the year ended December 31, 2017 were 3.7% higher than the same period in 2016 due primarily to a 5.9% increase in property tax expenses from rising assessments, and operating cost inflation, partially offset by utility savings as a result of lower electricity rates and reduced consumption following a large LED lighting retrofit project. In aggregate, same property NOI was 0.4% lower than the year ended December 31, 2016.

New Brunswick
Killam's apartments in Moncton, Fredericton and Saint John accounted for 24% of apartment same property NOI for the year ended December 31, 2017. Same property revenues increased by 4.0% for the year ended December 31, 2017, due to occupancy growth of 175 bps in these markets and rental rate growth in Fredericton and Saint John. Total operating expenses for the year ended December 31, 2017 were 1.8% higher than the same period in 2016 primarily due to property tax assessment increases. In total, the NB portfolio achieved an impressive 6.1% NOI growth over 2016.

Newfoundland and Labrador
Killam's Newfoundland properties accounted for 8% of Killam's apartment same property NOI in 2017. Same property revenue decreased 0.1% for the year ended December 31, 2017, as compared to 2016. While rental rates have increased by 0.9%, current year occupancy is 100 bps lower due to softness in the economy as a result of reduced activity in the offshore oil sector. As at December 31, 2017, occupancy had improved 190 bps to 96.1% as a result of successful leasing efforts. Total operating expenses for the year ended December 31, 2017, were 0.4% lower than 2016 primarily due to net savings from internalizing property management effective April 1, 2017. Newfoundland was the only region where Killam engaged a third party to manage its properties.

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

Prince Edward Island
Killam's Charlottetown portfolio contributed 6% of apartment same property NOI. Charlottetown achieved 2.9% revenue growth for the year ended December 31, 2017, as compared to the same period in 2016 due to strong rental rate growth and close to maximum occupancy. Total operating expenses for the year ended December 31, 2017 were 5.5% higher than the same period in 2016 due primarily to higher heating oil expenses and additional spend on snow removal.

Alberta
Killam has a 50% interest in a 307-unit building in downtown Calgary that accounted for 2% of apartment same property NOI. Killam's Calgary high-rise recorded a 1.1% reduction in revenue compared to 2016. Despite lower rents, Killam has seen a marked improvement in occupancy, increasing by 680 bps to 93.6% versus 86.8% in 2016. In addition, Killam secured a tenant for approximately 75% of the ancillary commercial space in this building that started contributing rental income in July 2017. Same property operating expenses for the year ended December 31, 2017 were 6.3% higher than the same period in 2016 due primarily to higher natural gas costs during the heating season.

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$15,139**	$14,715	2.9%	**$15,134**	$14,681	3.1%	**$5**	$34	(85.3)%
Property operating expenses									
General operating expenses	**3,738**	3,673	1.8%	**3,713**	3,598	3.2%	**25**	75	(66.7)%
Utility and fuel expenses	**1,409**	1,447	(2.6)%	**1,409**	1,481	(4.9)%	**—**	(34)	(100.0)%
Property taxes	**615**	608	1.2%	**615**	596	3.2%	**—**	12	(100.0)%
Total operating expenses	**$5,762**	$5,728	0.6%	**$5,737**	$5,675	1.1%	**$25**	$53	(52.8)%
NOI	**$9,377**	$8,987	4.3%	**$9,397**	$9,006	4.3%	**($20)**	($19)	5.3%
Operating margin %	**61.9%**	61.1%	80 bps	**62.1%**	61.3%	80 bps	**—%**	—%	—

The MHC business generated 8.1% of Killam's NOI for the year ended December 31, 2017. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its seven seasonal communities that generate approximately 60% of their NOI between July and September.

MHC same property revenue increased 3.1% for the year ended December 31, 2017, compared to 2016, as rents rose by 2.5%, to $248 per site from $242 per site in 2016 due to rental rate increases in permanent parks and increased seasonal and transient revenue in Killam's seasonal communities. Occupancy of 97.7% for the year ended December 31, 2017 was consistent with the prior year level of 97.8% in 2016.

Total same property expenses increased by 1.1% for the year ended December 31, 2017, as compared to 2016, primarily due to operating cost inflation, expense timing and property tax increases, partially offset by lower electricity costs at the Ontario seasonal parks due to rate reductions. Overall, the MHC portfolio generated same property NOI growth of 4.3% for the year ended December 31, 2017, as compared to 2016.

Commercial Results

Killam's commercial property portfolio consists of five properties located in Halifax, Nova Scotia, totaling 254,000 SF of leaseable space. The largest commercial property is The Brewery Market (158,000 SF), centrally located beside The Alexander development. Other commercial assets include an 18,000 SF office building, which is slated for redevelopment in the future, two commercial buildings in north-end Halifax, one of which is Killam's head office. Killam also has another 118,000 SF of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

Killam's commercial property portfolio contributed $1.9 million, or 1.7%, of Killam's total NOI for the year ended December 31, 2017. Occupancy was 95.7% for the year ended December 31, 2017, compared to 98.9% for the year ended December 31, 2016, due to the loss of a tenant at the Medical Arts building that is slated for redevelopment.

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

PART V

Other Income and Expenses

Other Income

For the years ended December 31,

	2017	2016	% Change
	$847	$1,227	(31.0)%

Other income includes property management fees, interest on bank balances and loans receivable and net revenue associated with the sale of homes in Killam's MHC segment. The 31.0% reduction year over year is primarily due to lower interest income as the average cash balance was higher in 2016 and a $4.0 million mezzanine loan that was repaid to Killam in Q3-2016.

Financing Costs

For the years ended December 31,

	2017	2016	% Change
Mortgage, loan and construction loan interest	**$32,526**	$30,919	5.2%
Interest on exchangeable units	**2,383**	2,659	(10.4)%
Amortization of fair value adjustments on assumed debt	**(214)**	(415)	48.4%
Amortization of loss on interest rate hedge	**60**	59	1.7%
Unrealized gain on derivative liability	**(362)**	(297)	(21.9)%
Convertible debenture interest	**715**	4,178	(82.9)%
Capitalized interest	**(1,982)**	(910)	(117.8)%
	$33,126	$36,193	(8.5)%

Total financing costs were $3.1 million, or 8.5%, lower for the year ended December 31, 2017, as compared to 2016.

Mortgage and loan interest expense was $32.5 million for the year ended December 31, 2017, an increase of $1.6 million, or 5.2%, compared to 2016. Killam's total debt balance increased by $113.5 million over the past twelve months as the REIT secured financing for acquisitions and developments. The average interest rate on refinancings in 2017 was 2.61%, 106 bps lower than the average interest rate on expiring debt.

Interest expense associated with the convertible debentures decreased by $3.5 million for the year ended December 31, 2017, compared to 2016, following the redemption of $57.5 million and $46 million of convertible debentures in July 2016 and April 2017.

Capitalized interest increased $1.1 million for the year ended December 31, 2017, as compared to 2016. Capitalized interest will vary depending on the number of development projects underway and their stages 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 maturity dates. Additionally, Killam may enter into forward interest rate hedges. $90 million (or 8.2%) of Killam's fixed mortgage and vendor debt mature in the next twelve months. If maturing mortgages are refinanced on similar terms, with the exception of a 100 bps increase/(decrease) in interest rates, financing costs would increase/(decrease) by $0.9 million per year.

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

Depreciation Expense

For the years ended December 31,

	2017	2016	% Change
	$787	$884	(11.0)%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer software and equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The reduction in depreciation expense for the year ended December 31, 2017, compared to the same period in 2016, was primarily due to costs associated with upgrades to Killam's accounting and property management software in 2016.

Amortization of Deferred Financing Costs

For the years ended December 31,

	2017	2016	% Change
	$1,720	$1,505	14.3%

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 costs increased 14.3% for the year ended December 31, 2017, following $101.7 million of mortgage refinancings as well as $83.4 million of new mortgage placements associated with property acquisitions and a completed development project over the past year.

Administration Expenses

For the years ended December 31,

	2017	2016	% Change
Administration (including REIT conversion costs)	**$12,958**	$12,733	1.8%
REIT conversion costs	**(236)**	(1,548)	(84.8)%
Administration (excluding REIT conversion costs)	**$12,722**	$11,185	13.7%
As a percentage of total revenues	**6.8%**	6.3%	50 bps

Administration expenses include expenses that are not specific to individual properties, including 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 expenses for the years ended December 31, 2017 and 2016 include one-time costs associated with the REIT conversion.

During the year ended December 31, 2017, total administration expenses increased by $1.5 million, or 13.7%, compared to the year ended December 31, 2016, due to the timing of recognition of Killam's compensation and benefits program.

Management is targeting annualized administrative costs of approximately 6.5% of total revenues for 2018.

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

Fair Value Adjustments

For the years ended December 31,

	2017	2016	% Change
Investment properties	**$64,857**	($3,749)	1,830.0%
Convertible debentures	**690**	1,118	(38.3)%
Deferred unit-based compensation	**(534)**	(826)	35.4%
Exchangeable units	**(8,811)**	(7,774)	(13.3)%
	$56,202	($11,231)	600.4%

Killam recognized $64.9 million in fair value gains on investment properties for the year ended December 31, 2017, compared to $3.7 million in fair value losses on investment properties for the year ended December 31, 2016. The fair value gains recognized during 2017 were primarily due to NOI growth in Killam's investment properties as a result of the strong operating performance in Killam's core markets.

For the year ended December 31, 2017, there was an unrealized gain of $0.7 million on the outstanding convertible debentures, compared to a $1.1 million gain in 2016, due to the change in the market price of the instruments. Killam redeemed its remaining outstanding convertible debentures on April 13, 2017.

Restricted trust units ("RTUs") governed by Killam's RTU Plan are awarded to certain members of management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the year ended December 31, 2017, there was an unrealized loss of $0.5 million, versus a $0.8 million loss in 2016, due to appreciation in the market price of Killam's trust units.

Killam also recorded a fair value loss associated with its exchangeable units in 2017. Distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the year ended December 31, 2017, there was an unrealized loss on remeasurement of $8.8 million, compared to a $7.8 million loss in 2016, due to appreciation in the market price of Killam's trust units.

Deferred Tax Expense

Killam converted to a real estate investment trust effective January 1, 2016, and as such qualifies as a REIT pursuant to the *Income Tax (Canada)* (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. Killam is classified as 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 Killam to continually qualify as a REIT and expects to distribute all of its taxable income to unitholders, and therefore is entitled to deduct such distributions for income tax purposes.

PART VI

Per Unit Calculations

As an open-ended mutual fund trust, Killam unitholders may redeem their trust units, subject to certain restrictions. As a result, Killam's trust units are classified as financial liabilities under IFRS. Consequently, all per unit calculations are considered non-IFRS measures. The following table reconciles 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 (000s)			Outstanding Number of Units (000s)
	2017	2016	% Change	**2017**
Trust units	**73,711**	63,467	16.1%	**80,565**
Exchangeable units	**3,864**	4,445	(13.1)%	**3,863**
Basic number of units	**77,575**	67,912	14.2%	**84,428**
Plus:				
Units under RTU plan	**202**	138	46.4%	—
Convertible debentures	**881**	5,331	(83.5)%	—
Diluted number of units	**78,658**	73,381	7.2%	**84,428**

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. 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. 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. Notwithstanding the foregoing, 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. FFO for the years ended December 31, 2017 and 2016 are calculated as follows:

For the years ended December 31,

	2017	2016	% Change
Net income	**$104,760**	$71,439	46.6%
Fair value adjustments	**(56,202)**	11,231	(600.4)%
Loss on disposition	**259**	264	(1.9)%
Non-controlling interest	**(28)**	(531)	94.7%
Deferred tax expense (recovery)	**18,659**	(27,598)	(167.6)%
Interest expense related to exchangeable units	**2,383**	2,659	(10.4)%
Unrealized gain on derivative liability	**(362)**	(297)	21.9%
Depreciation on owner-occupied building	**168**	171	(1.8)%
REIT conversion costs	**236**	1,548	(84.8)%
FFO	**$69,873**	$58,886	18.7%
FFO unit - basic	**$0.90**	$0.87	3.4%
FFO unit - diluted	**$0.90**	$0.86	4.7%
Weighted average number of units - basic (000s)	**77,575**	67,912	14.2%
Weighted average number of units - diluted (000s)[1]	**78,658**	73,381	7.2%

(1) The calculation of weighted average number of units outstanding for diluted FFO includes the convertible debentures for the years ended December 31, 2017 and 2016, as they are dilutive.

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

Killam earned FFO of $69.9 million, or $0.90 per unit (diluted), for the year ended December 31, 2017, compared to $58.9 million, or $0.86 per unit (diluted), for the year ended December 31, 2016. The 4.7% increase in FFO per unit is attributable to contributions from acquisitions and completed developments ($4.8 million), same property NOI growth ($3.6 million), interest expense savings on the redemption of the convertible debentures ($3.5 million), interest expense savings on refinancings ($1.2 million) and increased net capitalized interest ($0.2 million). These increases were partially offset by higher administration costs (excluding REIT conversion costs) ($1.5 million), 2017 property dispositions ($0.4 million), a reduction in other income ($0.4 million) and a 14.2% increase in the weighted average number of units outstanding from equity raises in March and November 2017.

FFO have been adjusted for costs incurred for the years ended December 31, 2017 and 2016 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. The REIT costs incurred during 2017 relate to professional services to support tax requirements following the conversion to a REIT.

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to assess FFO after taking into consideration capital spent to maintain 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 31, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 38 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO
In February 2017, REALpac issued "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS", updating their guidance on maintenance capital expenditures ("maintenance capex") to be used in the calculation of AFFO and ACFO. Killam has elected to adopt a maintenance reserve based on a three-year historical average of the capital spent to maintain and sustain Killam's properties, an approach endorsed by REALPac. The following table details Killam's capital investments attributable to value-enhancing and maintenance projects for each of the past three years:

Maintenance Capex Reserve - Apartments

	2017	**2016**	**2015**
Total Capital Investments	$26,959	$30,139	$28,511
Value-enhancing Capital Spend			
Building	(5,365)	(6,571)	(6,036)
Suite upgrades	(9,753)	(9,597)	(9,162)
Equipment & other	(749)	(919)	(1,133)
	(15,867)	(17,087)	(16,331)
Maintenance Capex	**$11,092**	**$13,052**	**$12,180**
Maintenance Capex - % of Total Capital	41%	43%	43%
Number of units [1]	13,712	13,617	13,279
Maintenance Capex per unit	$809	$959	$917
Maintenance Capex - Three-year average		**$895**	

(1) Weighted average number of units outstanding during the year, adjusted for Killam's 50% ownership in jointly held properties.

Value-enhancing capital spend includes building enhancements, suite upgrades and equipment purchases supporting NOI growth. Value-enhancing capital classified as building improvements includes energy efficiency projects and an allocation to represent building upgrades, including window replacements, and common area and amenity space upgrades. Suite upgrades represent a capital investment on suite turns with an expected minimum 10% return on investment.

Maintenance capex includes all structural work and suite renovation spend required to maintain current revenues. For the first three quarters of 2017, Management used a maintenance cap ex reserve of $970 per unit based on the historical three-year average spend (2014 - 2016) in the calculation of AFFO. For the twelve months ended December 31, 2017, Killam updated its maintenance cap ex reserve to reflect the actual capital spend for the most recent three years (2015 - 2017) which is equivalent to $895 per unit. Based on this calculation Management has selected $900 per unit for its maintenance capex reserve for 2017, which is 7.2% lower than the 2016 reserve of $970 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2018 until the three-year average is updated at year-end with actual results.

The allocations above were the result of a detailed review of Killam's historical capital spend. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program, with approximately 42% of annual capital spend attributable to maintaining and sustaining properties.

Maintenance Capex Reserve - MHCs

The capital investment specific to the MHC portfolio was also reviewed for the three years ending December 31, 2017, and categorized into value-enhancing and maintenance capex spend. Value-enhancing capital spend includes site expansions, land improvements and NOI-enhancing water and sewer upgrades. Maintenance capex includes capital spend related to roads and paving, as well as the majority of water and sewer capital spent to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from $221 to $377 over the past three years. Management selected $300 per MHC site for its maintenance capex reserve for 2017, a 33% increase from the 2016 reserve of $225 per site.

The weighted average number of rental units owned during the quarter was used to determine the capital adjustment applied to FFO to calculate AFFO:

For the years ended December 31,

	2017	2016(2)	% Change
FFO	**$69,873**	$58,886	18.7%
Maintenance Capital Expenditures			
Apartments	**(12,341)**	(12,979)	(4.9)%
MHCs	**(1,550)**	(1,161)	33.5%
AFFO	**$55,982**	$44,746	25.1%
AFFO per unit - basic	**$0.72**	$0.66	9.1%
AFFO per unit - diluted	**$0.72**	$0.66	9.1%
AFFO payout ratio - diluted(1)	**86%**	91%	(500) bps
Weighted average number of units - basic (000s)	**77,575**	67,912	14.2%
Weighted average number of units - diluted (000s)(3)	**77,777**	68,050	14.3%

(1) Based on Killam's annual distribution of $0.6167 for the year ended December 31, 2017, and $0.60 for the year ended December 31, 2016.

(2) AFFO, AFFO per unit and AFFO payout ratio for the year ended December 31, 2016 have been adjusted to reflect the change in the calculation of maintenance capex in accordance with the REALpac AFFO white paper (2016 - $970 per Apartment unit; $225 per MHC site).

(3) The calculation of the weighted average units outstanding for diluted AFFO excludes the convertible debentures for the years ended December 31, 2017 and 2016, as they are anti-dilutive.

The AFFO payout ratio of 86% for the year ended December 31, 2017, has improved 500 bps from the payout ratio of 91% for the year ended December 31, 2016. The improvement is attributable to a 25.1% increase in AFFO driven by contributions from acquisitions and developments, same property NOI growth and interest expense savings partially offset by the impact of the increase in the weighted average number of units outstanding.

Killam's Board of Trustees (the "Board") evaluates the Trust's payout ratio quarterly. The Board has not established an AFFO payout target.

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

Adjusted Cash Flow from Operations

ACFO was introduced in February 2017 in REALpac's "White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS" as a sustainable, economic cash flow metric. Upon review of REALpac's white paper, Management has incorporated ACFO as a useful measure to evaluate Killam's ability to fund distributions to unitholders. ACFO should not be construed as an alternative to cash flows provided by or used in operating activities determined in accordance with IFRS.

Killam calculates ACFO in accordance with the REALpac definition but may differ from other REIT's methods and accordingly, may not be comparable to ACFO reported by other issuers. A reconciliation from cash generated from operating activities (refer to the consolidated statements of cash flows for the years ended December 31, 2017, and 2016) to ACFO is as follows:

For the years ended December 31,

	2017	2016	% Change
Cash generated from operating activities	**$82,916**	$64,011	29.5%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**(7,776)**	(1,237)	528.6%
Maintenance capital expenditures	**(13,891)**	(14,140)	(1.8)%
Amortization of deferred financing costs	**(1,720)**	(1,505)	14.3%
Non-controlling interest	**(28)**	(531)	(94.7)%
ACFO	**$59,501**	$46,598	27.7%
Distributions declared[(1)]	**48,832**	41,141	18.7%
Excess of ACFO over cash distributions	**$10,669**	$5,457	95.5%
ACFO Payout Ratio[(2)]	**82%**	88%	(600) bps

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 37.

(2) Based on Killam's monthly distribution of $0.05167 per unit from March 2017 to December 2017 and $0.05 per unit from January 2016 to February 2017.

Killam's ACFO payout ratio improved to 82% for the year ended December 31, 2017, compared to 88% in 2016. For the year ended December 31, 2017, Killam retained $10.7 million of adjusted cash flow from operations to fund future growth, including investments in NOI-enhancing capital upgrades, acquisitions and developments.

Cash Flows from Operating Activities and Distributions Declared

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between cash flows generated from operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

For the years ended December 31,

	2017	2016
Net income	**$104,760**	$71,439
Cash flow from operating activities	**$82,916**	$64,011
Total distributions declared	**$48,832**	$41,141
Excess of net income over total distributions declared	**$55,928**	$30,298
Excess of net income over net distributions paid	**$67,245**	$37,301
Excess of cash flow from operating activities over total distributions declared	**$34,084**	$22,870

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

PART VII

Investment Properties

As at December 31,

	2017	2016	% Change
Investment properties	**$2,172,222**	$1,887,302	15.1%
Investment properties under construction ("IPUC")	**107,541**	55,507	93.7%
	$2,279,763	$1,942,809	17.3%

Continuity of Investment Properties

For the years ended December 31,

	2017	2016	% Change
Balance, beginning of year	**$1,887,302**	$1,794,580	5.2%
Acquisition of properties	**191,206**	48,214	296.6%
Disposition of properties	**(16,616)**	(8)	N/A
Transfer from IPUC	**15,485**	15,490	—%
Capital expenditures	**30,995**	32,775	(5.4)%
Other	**(965)**	—	—%
Fair value adjustment - Apartments	**62,380**	(9,188)	(778.9)%
Fair value adjustment - MHCs	**2,922**	5,896	50.4%
Fair value adjustment - Other	**(487)**	(457)	(6.6)%
Balance, end of year	**$2,172,222**	$1,887,302	15.1%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2017 and December 31, 2016, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2017			December 31, 2016		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.75%**	**8.00%**	**5.37%**	4.12%	8.00%	5.49%
MHCs	**5.75%**	**8.00%**	**6.84%**	5.75%	8.00%	6.81%

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

2017 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Ownership interest (%)	Year Built	Units	Purchase Price[1]
Apartments						
Spruce Grove	Calgary	16-Jan-17	100%	1978	66	$12,800
Southport condominium units	Halifax	16-Feb-17	100%	2016	5	1,070
Kanata Lakes IV & V[2]	Ottawa	01-Mar-17	50%	2016	134	49,240
246 / 300 Innovation Drive	Halifax	04-Jul-17	100%	2015 / 2016	134	31,600
Waybury Park	Edmonton	18-Aug-17	100%	2016	124	28,277
Tisbury Crossing	Edmonton	1-Dec-17	100%	2017	172	39,200
Stoneybrook Apartments	Halifax	15-Dec-17	100%	2000	106	13,000
Fairview Terrace	London	15-Dec-17	100%	1950s	106	8,500
					847	$183,687
Other						
Vacant Land	Edmonton	13-Apr-17 / 23-Jun-17	100%			4,050
1459 Hollis Street[3]	Halifax	19-Apr-17	100%			4,600
Gloucester - Land[4]	Ottawa	21-Apr-17	50%			8,000
Total Acquisitions						$200,337

(1) Purchase price does not include transaction costs.
(2) Purchase price represents 50% ownership in two buildings with a cumulative total of 268 units; in addition, it includes 35% interest in a shared clubhouse. This building is part of a five-building complex; with this acquisition Killam and its 50/50 partner now own the entire complex.
(3) Included in the acquisition is $0.85 million in land value relating to adjacent development projects.
(4) Purchase price represents 50% interest in a multi-phase development project.

Investment Properties Under Construction

For the years ended December 31,

	2017	2016	% Change
Balance, beginning of year	**$55,507**	$45,676	21.5%
Capital expenditures	**51,331**	24,411	110.3%
Interest capitalized	**1,982**	910	117.8%
Acquisitions	**14,206**	—	N/A
Transfer to investment properties	**(15,485)**	(15,490)	—%
Balance, end of year	**$107,541**	$55,507	93.7%

The Alexander
This 240-unit project located in downtown Halifax is scheduled to be completed in mid-2018. The estimated cost of development is approximately $77.0 million, resulting in an expected all-cash yield of approximately 5.0%. Management's estimated total cost of completion has increased by approximately $6.8 million from the original budget of $70.2 million due primarily to construction delays and increased window and exterior cladding costs.

On October 1, 2017, Killam completed the podium level of the development, and has rented all 55 available units. Killam transferred $9.4 million from IPUC to investment properties, representing the fair value attributable to this portion of the project.

As at December 31, 2017, the project is approximately 70% complete with $54.1 million in development costs incurred to date. As Killam has control over the development for accounting purposes, 100% of the development costs are included in IPUC. Following completion of construction and the achievement of certain leasing conditions, Killam has a commitment in place to purchase the remaining 50% interest in the development.

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

Saginaw Park
During 2016, Killam commenced construction on the 93-unit, seven-story Saginaw Park development in Cambridge, ON. The development is adjacent Killam's 122-unit building, Saginaw Gardens, which was completed in June 2015. The project budget is $25.5 million ($274,000 per unit), resulting in an all-cash yield of approximately 5.4%, approximately a 140 bps premium over the market cap-rate of a similar quality asset. As at December 31, 2017, the project is approximately 80% complete with $20.8 million in development costs incurred to date. The project is scheduled to be completed in early April 2018.

Gloucester City Centre
On April 24, 2017, Killam and RioCan REIT ("RioCan") formed a joint venture to develop a residential rental community at Gloucester City Centre in Ottawa, with Killam acquiring a 50% interest in a 7.1 acre development site for $8.0 million ($16.0 million at 100%). Killam and RioCan each own a 50% interest in the land and participate on the same basis in this development. RioCan acts as the development manager, and upon completion, Killam will act as the residential property manager. The site has zoning approval for four residential towers with an aggregate total of 840 units.

The first phase of the development, The Frontier, a 217,000 SF, 23-storey tower containing approximately 227 units, is currently in progress. The total cost to develop Phase I is approximately $73 million ($36.5 million for Killam's 50% interest). As at December 31, 2017, Killam has invested approximately $14.0 million in the first phase of the project, with remaining project costs to be funded with construction financing. The first phase is scheduled to be completed in the first half of 2019.

With the three developments underway, Killam forecasts adding approximately $135 million of new developments to its portfolio during the next two years.

Killam has a robust development pipeline. As at February 13, 2018, Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Silver Spear[1]	Mississauga, ON	64	Approval expected in 2018
Carlton Terrace	Halifax, NS	104	In design and approval process
The Governor	Halifax, NS	48	In design and approval process
Gloucester Phase 2 - 4[1]	Ottawa, ON	309	In design
Grid 5 vacant land[1]	Calgary, AB	199	In design
Cameron Heights	Edmonton, AB	190	In design and approval process
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
Carlton Houses	Halifax, NS	70	Future development
Topsail Road	St. John's, NL	225	Future development
Block 4	St. John's, NL	80	Future development
Total Development Opportunities		**1,489**	

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

Killam is awaiting final approval to proceed with its Silver Spear II development on land adjacent its existing 199-unit building in Mississauga, and expects to break ground in 2018. Killam will have a 50% ownership in this 12-storey, 128-unit development.

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

Capital Improvements

Capital improvements are a combination of maintenance capex and value-enhancing upgrades. Maintenance capex investments are not expected to increase the NOI or efficiency of a building; however, these expenditures will extend the life of the asset. Examples of maintenance capex include roof, window and building envelope repairs, and are in addition to repairs and maintenance costs that are expensed to NOI. Value-enhancing capital investments are expected to result in higher rents or lower operating costs. These investments include unit and common area upgrades and energy efficiency projects. Killam's AFFO discussion on page 25 provides further disclosure on the allocation between maintenance capex and value-enhancing capex investments.

During the year ended December 31, 2017, Killam invested $31.0 million, compared to $32.8 million for the year ended December 31, 2016. Killam expects to invest between $35 and $40 million during 2018 in capital improvements.

For the years ended December 31,

	2017	2016	% Change
Apartments	**$26,959**	$30,139	(10.6)%
MHCs	**3,227**	2,098	53.8%
Commercial	**809**	538	50.4%
	$30,995	$32,775	(5.4)%

Apartments - Capital Spend

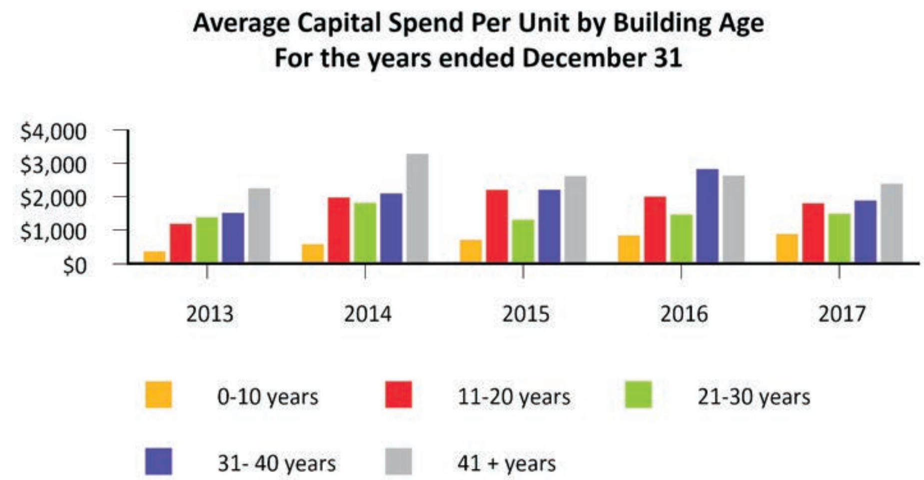
A summary of the capital spend on the apartment segment is included below:

For the years ended December 31,

	2017	2016	% Change
Building improvements	**$12,493**	$17,103	(27.0)%
Suite renovations	**9,972**	10,335	(3.5)%
Appliances	**1,355**	1,219	11.2%
Boilers and heating equipment	**2,501**	821	204.6%
Other	**405**	367	10.4%
Equipment	**201**	227	(11.5)%
Parking lots	**30**	33	(9.1)%
Land improvements	**2**	34	(94.1)%
Total capital spend	**$26,959**	$30,139	(10.6)%
Average number of units outstanding	**13,712**	13,371	2.6%
Capital spend - $ per unit	**$1,966**	$2,254	(12.8)%

Killam invested $1,966 per unit for the year ended December 31, 2017, compared to $2,254 per unit for year ended December 31, 2016.

As the chart below highlights, the capital spend per unit is less for newer properties (built in the past 10 years), averaging $879 per unit in 2017, compared to $2,385 per unit for buildings over 40 years old. Killam's focus on development and acquisition of newer properties results in a lower capital spend per unit. Twenty-nine percent of Killam's apartments, as a percentage of anticipated 2018 NOI, have been built in the past ten years.



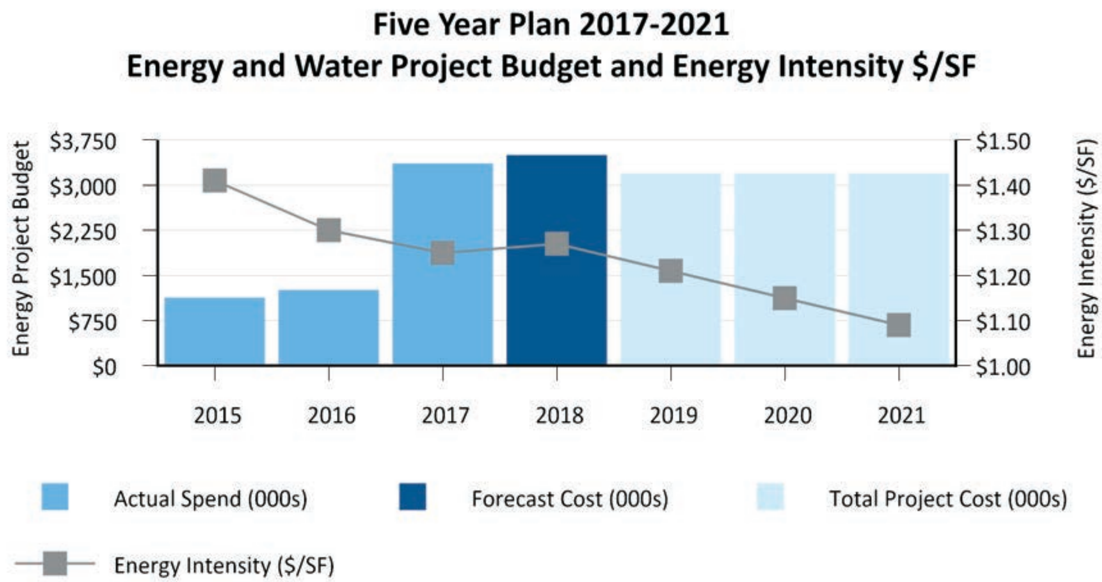
Building Improvements
Of the $27.0 million total capital investment in the apartment segment, approximately 46% was invested in building improvements, compared to 57% of the total capital spend for the year ended December 31, 2016. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, common area renovations and energy efficiency investments to increase the quality of Killam's portfolio. The year-over-year variance relates primarily to the timing of building envelope projects. Management expects 2018 building improvement costs to be more in line with 2016 levels.

Suite Renovations
Killam invested $10.0 million in suite renovations during the year ended December 31, 2017, consistent with the total spend of $10.3 million for the year ended December 31, 2016. Killam continues to focus on unit upgrades to maximize occupancy and rental increases; Killam targets a minimum return on investment of 10% for its suite renovations. The timing of suite renovation spend 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 impact capital requirements.

Energy Efficiencies
Through a comprehensive review in 2016, Killam identified approximately 700 projects to reduce water, heating fuel and electricity consumption. The total budget for these projects is $25 million, and and once complete, aggregate annual savings of $7 million are expected. At a 5% average cap-rate, execution of these initiatives could increase the net asset value of Killam's portfolio by $140 million.

These projects are expected to reduce Killam's energy intensity from $1.41 per square foot at the time of the review in 2016, to $1.10 per square foot by the end of 2021, a 23% reduction. Energy intensity measures all energy sources (including water) used within a property, converted to a single common measurement of dollars per SF. This $0.30 decline represents an estimated $4.3 million in annual energy costs, which should more than offset rising energy rates and other operating pressures.

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



In 2017, Killam invested $3.4 million in these initiatives. Projects were focused on the installation of ultra-low flow toilets ($0.8 million), lighting ($0.8 million), and heating efficiency projects ($1.8 million), including condensing gas boilers, system recommissionings and thermostat replacements. These projects are estimated to generate $0.8 million in annualized savings, with an average payback of 4.3 years.

Killam will continue to execute on its energy efficiency plan in 2018, with a budget of $3.5 million and projected annualized savings of $0.8 million. Projects will target the installation of ultra-low flow toilets ($1.2 million), lighting ($0.8 million), and heating efficiency ($1.1 million). By the end of 2018, Killam expects to have upgraded all the water fixtures in its portfolio with low-flow devices. In total, these changes are expected to reduce water consumption by 100 million litres of water annually.

MHCs - Capital Spend

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

For the years ended December 31,

	2017	2016	% Change
Water and sewer upgrades	**$1,764**	$993	77.6%
Site expansion and land improvements	**276**	512	(46.1)%
Other	**855**	438	95.2%
Roads and paving	**310**	127	144.1%
Equipment	**22**	28	(21.4)%
Total capital spend - MHCs	**$3,227**	$2,098	53.8%
Average number of units outstanding	**5,165**	5,165	—%
Capital spend - $ per site	**$625**	$406	53.9%

Management expects to invest between $400 and $600 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and community enhancements, such as the addition of playgrounds. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital spend during the year ended December 31, 2017 was $3.2 million, up from $2.1 million in the year ended December 31, 2016. The increase in capital spend is due to extensive water and sewer upgrades at two communities in Ontario.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

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

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

As at December 31,	**2017**	2016	Change
Weighted average years to debt maturity	**4.0**	4.3	(0.3) years
Gross mortgage, loan, credit facilities and vendor debt to total assets	**48.7%**	51.2%	(250) bps
Total debt to total assets	**48.7%**	53.5%	(480) bps
Interest coverage	**3.13x**	2.70x	15.9%
Debt service coverage	**1.51x**	1.41x	7.1%
Debt to EBITDA (1)	**10.70x**	11.00x	(2.7)%
Weighted average mortgage interest rate	**2.91%**	3.01%	(10) bps
Weighted average interest rate of total debt	**2.96%**	3.11%	(15) bps

(1) Ratio calculated net of cash

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 vendor financing is secured by a general corporate guarantee. Killam's weighted average interest rate on mortgages as at December 31, 2017 improved to 2.91% from 3.01% as at December 31, 2016, as a result of refinancing at lower interest rates over the past twelve months.

Total debt as a percentage of total assets has decreased 480 bps to 48.7% from December 31, 2016, largely due to the redemption of the $46.0 million of convertible debentures on April 13, 2017 and the acquisition of three properties in December 2017 without mortgage debt. KIllam expects this percentage to increase above 50% by the end of Q1-2018 once mortgages have been placed on the properties acquired with cash at the end of 2017.

This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps change in the weighted average cap-rate as at December 31, 2017 would have impacted the ratio of debt as a percentage of total assets by 90 bps.

Refinancings

For the year ended December 31, 2017, Killam refinanced the following mortgages:

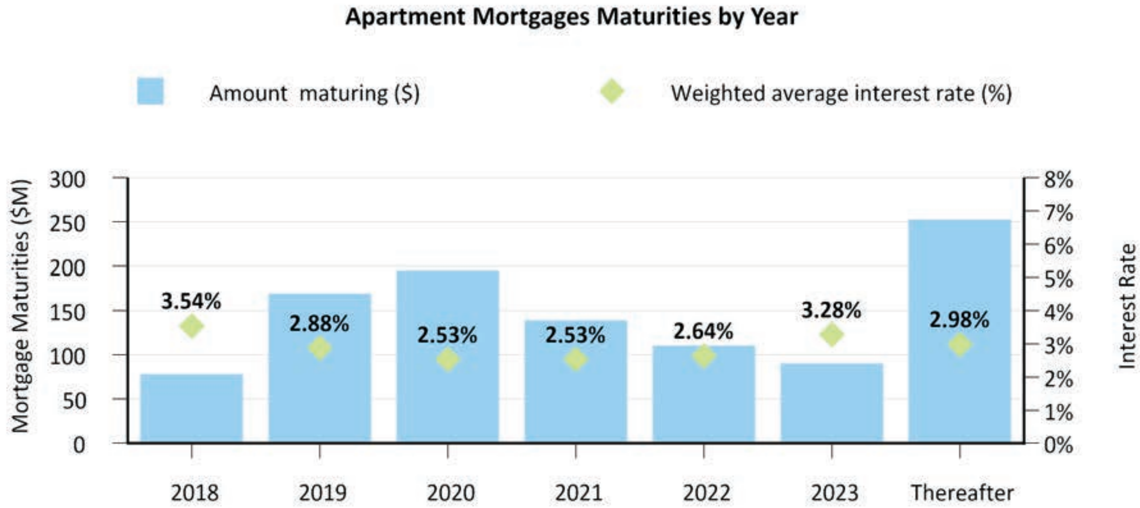
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$56,325	3.42%	$77,201	2.27%	5.9 years	$20,876
MHCs	13,355	4.72%	24,458	3.67%	5.0 years	11,103
	$69,680	3.67%	$101,659	2.61%	5.7 years	$31,979

The following table details 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:

	Apartments			MHC		Total	
Year of Maturity	Balance December 31, 2017	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2017	Weighted Avg Int. Rate %	Balance December 31, 2017 (1)	Weighted Avg Int. Rate %
2018	$78,106	3.54%	32.6%	$12,219	4.32%	$90,325	3.65%
2019	169,158	2.88%	93.8%	18,162	3.85%	187,320	2.97%
2020	194,947	2.53%	59.5%	6,690	3.52%	201,637	2.56%
2021	139,038	2.53%	85.5%	6,901	3.29%	145,939	2.56%
2022	110,307	2.64%	70.9%	24,632	3.67%	134,939	2.83%
2023	90,330	3.28%	84.4%	—	0.00%	90,330	3.28%
Thereafter	252,300	2.98%	100.0%	—	0.00%	252,300	2.98%
	$1,034,186	2.85%	79.9%	$68,604	3.78%	$1,102,790	2.91%

(1) Excludes $12.1 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at December 31, 2017.

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



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at December 31, 2017, approximately 80% of Killam's apartment mortgages were CMHC-insured (75% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2016 - 77% and 73%). The weighted average interest rate on the CMHC-insured mortgages was 2.71% as at December 31, 2017 (December 31, 2016 - 2.80%).

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2018 and 2019:

2018 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	19	$8,769	$77,188
MHCs with debt maturing	9	1,906	10,604
	28	$10,675	$87,792

2019 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	39	$20,414	$154,321
MHCs with debt maturing	7	2,426	16,887
	46	$22,840	$171,208

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

Future Contractual Debt Obligations

As at December 31, 2017, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Total
2018	$136,862	$28,809	$165,671
2019	208,110	12,237	220,347
2020	210,401	—	210,401
2021	147,286	—	147,286
2022	127,689	—	127,689
Thereafter	284,558	—	284,558
	$1,114,906	$41,046	$1,155,952

Convertible Debentures

On April 13, 2017, Killam completed the redemption of the $46.0 million, 5.45%, convertible unsecured debentures. There are currently no convertible debentures outstanding.

Construction Loans

As at December 31, 2017, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects, including a $51.8 million construction loan commitment related to The Alexander, where Killam has a 50% ownership interest, and a $18.8 million construction loan commitment related to the Saginaw Park development. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625%. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at December 31, 2017, $28.8 million and $12.2 million, respectively, was drawn on The Alexander and Saginaw Park loans. The loans both have an interest rate of 3.83%.

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $1.5 million (December 31, 2016 - $30.0 million and $1.5 million) that can be used for acquisition and general business purposes. Killam holds an accordion option to increase the $70.0 million facility to $90.0 million.

The $70.0 million facility bears interest at prime plus 75 bps on prime rate advances or 170 bps over bankers acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2017, Killam has assets with a carrying value of $51.8 million pledged as first mortgage ranking and $302.1 million pledged as second mortgage ranking to the line and a balance outstanding of $nil (December 31, 2016 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2017.

The $1.5 million facility bears interest at 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, 2017, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2016 - $1.6 million) and letters of credit totaling $1.1 million outstanding against the facility (December 31, 2016 - $1.2 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2017.

As at December 31, 2017	**Maximum Loan Amount**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million demand facility	$70,000	—	—	$70,000
$1.5 million demand facility	1,500	—	1,100	400
Total	**$71,500**	**—**	**$1,100**	**$70,400**

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

As at December 31, 2016	Maximum Loan Amount	Amount Drawn	Letters of Credit	Amount Available
$30 million demand facility	$30,000	—	—	$30,000
$1.5 million demand facility	1,500	—	1,200	300
Total	$31,500	—	$1,200	$30,300

Unitholders' Equity

As 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. Consequently, 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, 2017, no unitholders redeemed units.

Killam pays a distribution of $0.05167 per unit per month ($0.62 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution that was reinvested. The price per unit is calculated by reference to the ten day volume weighted average price of Killam's units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration. The following chart highlights Killam's distributions paid and trust units reinvested for the years ended December 31, 2017 and 2016:

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

	2017	2016	% Change
Distributions declared on trust units	**$46,216**	$38,328	20.6%
Distributions declared on exchangeable units	**2,383**	2,659	(10.4)%
Distributions declared on awards outstanding under RTU plan	**233**	154	51.3%
Total distributions declared	**$48,832**	$41,141	18.7%
Less:			
Distributions on trust units reinvested	**(11,084)**	(6,849)	61.8%
Distributions on RTUs reinvested	**(233)**	(154)	51.3%
Net distributions paid	**$37,515**	$34,138	9.9%
Percentage of distributions reinvested	**23.2%**	17.0%	

Liquidity and Capital Resources

Management ensures there is adequate liquidity to fund major property maintenance and improvements, 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 mortgage refinancings; (iii) mortgage debt secured by investment properties; (iv) 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:

(i) Cash flows from operating activities are expected to be sufficient to fund the current level of distributions.

(ii) Killam's $70.0 million revolving credit facility supports acquisitions of approximately $150 million. The revolving facility has an accordion feature to increase the facility up to $90.0 million. Including this feature, Killam has over $200 million of acquisition capacity through its credit facilities.

(iii) The retained portion of annual ACFO, mortgage refinancings and construction loans is expected to be sufficient to fund ongoing property capital investments, principal repayments and developments.

(iv) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program.

Killam is in compliance with all financial covenants contained in the DOT and through its 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, 2017 was 48.7%.

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2017				2016			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	**$48,579**	**$48,595**	**$45,898**	**$44,305**	$44,137	$45,078	$43,847	$42,207
NOI	**$29,747**	**$31,746**	**$28,785**	**$24,942**	$26,372	$28,350	$27,270	$23,430
Net income	**$37,850**	**$14,651**	**$34,610**	**$17,649**	$4,638	$17,966	$3,666	$45,169
FFO	**$18,066**	**$19,964**	**$18,174**	**$13,668**	$15,223	$17,021	$15,133	$11,509
FFO per unit - diluted	**$0.22**	**$0.25**	**$0.23**	**$0.19**	$0.21	$0.24	$0.23	$0.18
AFFO per unit - diluted	**$0.18**	**$0.21**	**$0.18**	**$0.14**	$0.16	$0.19	$0.18	$0.13
Weighted average units - diluted (000s)	**80,837**	**78,620**	**78,755**	**73,219**	75,022	75,045	73,361	63,184

Killam's total property revenue for the three months ended December 31, 2017 was $48.6 million, a 10.1% increase over the same period in 2016, due to the incremental contribution from recent acquisitions, as well as increased same property revenue. NOI increased 12.8% in Q4-2017 compared to Q4-2016. Net income was up $33.3 million in the quarter due primarily to a net $26.5 million of fair value gains in Q4-2017 compared to a net fair value loss of $1.7 million in Q4-2016.

Q4 Same Property NOI

For the three months ended December 31,

	Total Portfolio			**Apartments**			**MHCs**		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$43,165**	$41,536	3.9%	**$39,731**	$38,232	3.9%	**$3,434**	$3,304	3.9%
Property operating expenses									
General operating expenses	**7,139**	6,829	4.5%	**6,184**	5,923	4.4%	**955**	906	5.4%
Utility and fuel expenses	**4,834**	5,043	(4.1)%	**4,472**	4,706	(5.0)%	**362**	337	7.4%
Property taxes	**5,043**	4,735	6.5%	**4,869**	4,586	6.2%	**174**	149	16.8%
Total property expenses	**17,016**	16,607	2.5%	**15,525**	15,215	2.0%	**1,491**	1,392	7.1%
NOI	**$26,149**	$24,929	4.9%	**$24,206**	$23,017	5.2%	**$1,943**	$1,912	1.6%
Operating margin	**60.6%**	60.0%	60 bps	**60.9%**	60.2%	70 bps	**56.6%**	57.9%	(130) bps

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 5.2% for the three months ended December 31, 2017, as compared to the three months ended December 31, 2016, due to a 3.9% increase in revenues, partially offset by a 2.0% increase in total property operating expenses. The revenue growth was generated from a 1.8% increase in the average rental rate and a 140 bps increase in occupancy. Total occupancy for the quarter ended December 31, 2017 was 97.5%.

General operating expenses increased 4.4% in the fourth quarter of 2017, as compared to the same period in 2016, due to increased rates for snow removal contracts, increased garbage removal costs due to higher tipping fees and an increase in repairs & maintenance costs due to timing of work performed. General operating expense increases were partially offset by savings on Killam's insurance renewal and lower advertising costs, given strong occupancy in the majority of Killam's core markets.

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

Utility and fuel expenses were 5.0% less for the quarter ended December 31, 2017, as compared to the quarter ended December 31, 2016. Natural gas savings were realized due to reduced consumption from warmer weather and boiler upgrades, more than offsetting the higher natural gas costs in New Brunswick and Ontario. Heating oil pricing also increased by 17%, as compared to the three months ended December 31, 2016; however, only 8% of Killam's properties are heated with oil. Water expenses were 4.1% lower than Q4-2016 as water consumption savings from low-flow toilet installations across the portfolio more than offset increases in water rates. Property taxes increased 6.2% quarter over quarter due to higher property tax assessments and rate increases.

Q4-2017 Occupancy by Region

For the three months ended December 31,

	Total Occupancy			Same Property Occupancy		
	2017	2016	Change (bps)	**2017**	2016	Change (bps)
Halifax, NS	**98.0%**	96.4%	160	**98.3%**	96.4%	190
Moncton, NB	**96.5%**	95.4%	110	**96.5%**	95.4%	110
Fredericton, NB	**98.2%**	95.2%	300	**98.1%**	95.2%	290
Saint John, NB	**96.9%**	92.5%	440	**96.9%**	92.5%	440
St. John's, NL	**94.9%**	94.6%	30	**94.9%**	94.6%	30
Charlottetown, PE	**99.4%**	99.4%	—	**99.4%**	99.4%	—
Ontario	**97.5%**	96.9%	60	**97.4%**	97.6%	(20)
Alberta	**87.3%**	90.1%	(280)	**92.1%**	90.1%	200
Other Atlantic	**95.6%**	98.2%	(260)	**95.6%**	98.2%	(260)
Total Apartment (Weighted Average)	**97.2%**	96.0%	120	**97.5%**	96.1%	140

Overall apartment occupancy increased 120 bps to 97.2% in the fourth quarter of 2017, compared to 96.0% for the fourth quarter of 2016. Large occupancy gains were recorded in the major Atlantic Canadian markets, consistent with performance in this region during the first nine months of the year. Overall occupancy for Alberta was lower in Q4-2017, as compared to Q4-2016, due to the purchase of two recently constructed properties in Edmonton during 2017 that are still in the initial lease-up phase. However, same property occupancy in Alberta improved by 200 bps as compared to the fourth quarter of 2016 due to higher occupancy at the 307-unit high rise tower in Calgary.

Q4-2017 Same Property Apartment NOI by Region

For the three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Halifax	**$15,621**	$15,022	4.0%	**($5,660)**	($5,613)	0.8%	**$9,961**	$9,409	5.9%
Moncton	**4,332**	4,097	5.7%	**(2,053)**	(2,038)	0.7%	**2,279**	2,059	10.7%
Fredericton	**4,002**	3,763	6.4%	**(1,653)**	(1,620)	2.0%	**2,349**	2,143	9.6%
Saint John	**2,857**	2,658	7.5%	**(1,415)**	(1,416)	(0.1)%	**1,442**	1,242	16.1%
Ontario	**5,887**	5,743	2.5%	**(2,208)**	(2,062)	7.1%	**3,679**	3,681	(0.1)%
St. John's	**2,580**	2,558	0.9%	**(765)**	(801)	(4.5)%	**1,815**	1,757	3.3%
Charlottetown	**2,518**	2,456	2.5%	**(1,042)**	(980)	6.3%	**1,476**	1,476	0.0%
Alberta	**657**	657	0.0%	**(204)**	(194)	5.2%	**453**	463	(2.2)%
Other	**1,277**	1,278	(0.1)%	**(525)**	(491)	6.9%	**752**	787	(4.4)%
	$39,731	$38,232	3.9%	**($15,525)**	($15,215)	2.0%	**$24,206**	$23,017	5.2%

Performance in New Brunswick was strong in the fourth quarter, with Saint John, Moncton and Fredericton recording year-over-year NOI gains of 16.1%, 10.7% and 9.6%, respectively, as compared to the same period in 2016. Rental rates grew by an average of 1.9% across the province, and the average occupancy improved by 250 bps for the quarter, as population growth and a lack of new supply led to a tighter rental market. Property expenses increased only slightly compared Q4-2016 as utility savings from energy initiatives and lower insurance premiums offset property tax increases and inflationary cost pressures. In total, NOI for Q4-2017 increased 11.5% as compared to Q4-2016 in the province.

Revenues in Halifax grew by 4.0% during the fourth quarter of 2017 due to a 190 bps improvement in occupancy and a 2.2% increase in average rental rates. Property operating expense growth was a modest 0.8%, compared to Q4-2016, as increases in property tax expense, salaries and contract services were almost fully offset by utility savings and reduced insurance premiums. Halifax's Q4-2017 same property NOI increased 5.9%, or $0.6 million, from Q4-2016.

The Charlottetown market remains strong, with revenue increases of 2.5% in Q4-2017 compared to Q4-2016. The market is extremely tight, with occupancy of 99.4% in Q4-2017. Property expenses were 6.3% higher than the same period in 2016, primarily due to higher heating oil prices, inflationary salary increases, and the timing of repairs and maintenance work.

Fourth quarter results for Ontario were largely in line with Q4-2016. A 2.7% increase in rental rates and increased parking revenues were tempered by higher operating costs driven primarily by a 15% increase in property tax expense. Overall, Ontario's NOI declined by 0.1% compared to Q4-2016.

Killam's St. John's market showed signs of improvement with a 0.9% increase in rental rates and a 30 bps occupancy improvement over Q4-2016, increasing net revenue by 0.9%. Combined with lower operating expenses, in particular, savings from internalizing property management in the second quarter of 2017 and lower insurance premiums, NOI for St. John's increased 3.3% in Q4-2017.

Revenues in Alberta were flat quarter over quarter, as a 200 bps improvement in occupancy was offset by the 4.8% decline in rental rates. Operating costs increased 5.2% compared to the quarter ended December 31, 2017 due to inflationary increases in salaries and contract services costs and increased advertising to improve occupancy. In total, NOI was 2.2% lower in Q4-2017 than Q4-2016.

MHC Same Property

The MHC same property portfolio generated a 1.6% increase in NOI in Q4-2017, compared to Q4-2016. Revenues grew by 3.9% quarter over quarter due to a 2.5% rental rate increase at the permanent MHC communities. Total same property expenses increased 7.1%, or $99 thousand, due to higher salaries and benefits, increased property tax assessments and the timing of repairs and maintenance work.

Q4 FFO and AFFO

For the three months ended December 31,	**2017**	2016	% Change
Net income	**$37,850**	$4,638	716.1%
Fair value adjustments	**(28,046)**	1,657	(1,792.6)%
Loss on disposition	**20**	—	N/A
Non-controlling interest	**(4)**	7	(157.1)%
Deferred tax expense	**7,637**	8,467	(9.8)%
Interest expense related to exchangeable units	**599**	580	3.3%
Unrealized gain on derivative	**(35)**	(412)	(91.5)%
Depreciation on owner-occupied building	**45**	46	(2.2)%
REIT conversion costs	**—**	240	(100.0)%
FFO	**$18,066**	$15,223	18.7%
FFO per unit - diluted	**$0.22**	$0.21	4.8%
AFFO per unit - diluted	**$0.18**	$0.16	12.5%
AFFO payout ratio - diluted	**86%**	92%	(600) bps
Weighted average number of units - basic (000s)	**80,609**	71,582	12.6%
Weighted average number of units - diluted (000s)(1)	**80,837**	74,877	8.0%

(1) The calculation of weighted average units outstanding for diluted FFO includes the convertible debentures for the three months ended December 31, 2017 and 2016, as they are dilutive. The calculation of weighted average units outstanding for diluted AFFO includes the convertible debentures for the three months ended December 31, 2017, as they are dilutive and excludes the convertible debentures for the three months ended December 31, 2016, as they are anti-dilutive.

FFO was $18.1 million in the fourth quarter, up 18.7% from $15.2 million in the fourth quarter of 2016. FFO per unit was $0.22 in Q4-2017, a 4.8% increase over the same period in 2016. The growth in FFO was generated by increased earnings from the same property portfolio ($1.2 million), contributions from recent acquisitions and developments ($1.6 million), interest expense savings on the redemption of the convertible debentures ($0.6 million), increased capitalized interest attributable to developments ($0.1 million), and lower interest expense on refinancings ($0.2 million). This growth was partially offset by higher administrative costs ($0.7 million), the impact of property dispositions during the year ($0.1 million) and a 12.6% increase in the weighted average units outstanding, following equity issuances in 2017 to reduce leverage and fund growth.

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

Selected Consolidated Financial Information

For the years ended December 31,	**2017**	2016	2015
Property revenue	**$187,377**	$175,269	$166,614
Net income	**$104,760**	$71,439	$35,800
FFO	**$69,873**	$58,886	$49,016
FFO per unit/share - diluted	**$0.90**	$0.86	$0.79
Investment properties	**$2,279,763**	$1,942,809	$1,840,256
Total assets	**$2,311,210**	$1,987,929	$1,876,276
Total liabilities	**$1,343,488**	$1,237,463	$1,190,948
Distribution/dividend per unit/share	**$0.62**	$0.60	$0.60

PART IX
Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. 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 an 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 by its geographic and sector diversification due to investments in 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, 2017, $53.1 million of Killam's debt had variable interest rates, including two construction loans for $41.0 million and six demand loans totaling $12.1 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% (December 31, 2016 - prime plus 0.63% - 2.0%).

Liquidity Risk

Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program or refinance its debt obligations as they mature. Killam manages 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 staggers the maturities of its debt, minimizing exposure to liquidity risk in any year. In addition, Killam's apartments qualify for CMHC-insured debt, reducing the refinancing risk on maturity. 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 competition from new rental units in Killam's core markets. Numerous 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 additional 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 the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted for to all new leases, 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, and none of Killam's tenants account for more than 2% of tenant receivables.

Cyber Security Risk

A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of Killam's information technology 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 relationships with its vendors and tenants and disclosure of confidential vendor or tenant information. Killam has implemented processes, procedures and controls to 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 manages its exposure to development risk by limiting the amount of development underway at any one time to approximately 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 customary for the industry. 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 in which 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. 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 or regulation. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility and carbon tax on natural gas and heating oil. Killam has the ability to fix rates through the use of swap contracts for a portion of its oil and fixed contracts through suppliers for natural gas consumption to reduce the impact of fluctuations in commodity prices. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Potential Volatility of Unit Prices

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

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

As holders of units, unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against the Trust. The units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* 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 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* ("the Tax Act"). The payment of Part XII.2 tax by Killam may have adverse income tax consequences for certain of Killam's unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in Killam directly or indirectly from another Killam unitholder. If Killam ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and Killam units cease to be listed on a designated stock exchange, Killam units will cease to be qualified investments for trusts governed by designated savings plans. Killam will endeavour to ensure trust units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether Killam units are "prohibited investments" for registered retirement savings plans, registered retirement income funds or tax-free savings accounts.

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

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

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

- At each time in the taxation year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
- Not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";
- Not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, from dispositions of real or immovable properties that are capital properties;
- At no time in the taxation year can the total fair market value of properties 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.

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 is income and what portion is 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.

Co-ownership

Killam has co-ownership of four properties (eight buildings) that are subject to joint control and are joint operations. 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.

Critical Accounting Policies and Significant 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) to the consolidated financial statements. 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(L) to the consolidated financial statements. 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 5 to the consolidated financial statements. 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 5 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 22 to the consolidated financial statements.

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 15, Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

To assess the impact of this new standard, Killam has completed its assessment of IFRS 15 on the consolidated financial statements and related note disclosure. Killam's assessment is that the key areas in scope of IFRS 15 include, but are not limited to, common area maintenance recoveries and MHC home sales. These revenues are not material to Killam's consolidated financial statements. Killam intends to adopt the new standard on the required effective date.

IFRS 9, Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9, which introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Killam has completed an assessment of the impact of IFRS 9 on its consolidated financial statements and identified that the following key areas are in scope of IFRS 9: mortgages and loans payable, exchangeable units and accumulated other comprehensive income as a component of equity. Killam does not expect a material impact on its consolidated financial statements upon adoption. Killam intends to adopt the new standard on the required effective date.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. 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 early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on its consolidated financial statements. Killam does not expect a significant impact to its consolidated financial statements on adoption of this IFRS standard.

IFRS 2, Share-based Payment ("IFRS 2")
In June 2016, the IASB issued final amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Killam intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning on or after January 1, 2018, however, since the current policy and practice is in line with the amendments, Killam does not expect any impact to its consolidated financial statements.

IAS 40, Investment Property ("IAS 40")
In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment required that an asset be transferred to or from investment property 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 intention 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 early adoption permitted. Killam will apply the amendment when it becomes effective prospectively, however, since the current policy and practice is in line with the clarification issues, Killam does not expect any impact to its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

As of December 31, 2017, 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, with the assistance of Management.

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 President ad 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 at December 31, 2017, Killam's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the internal controls over financial reporting using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively as at December 31, 2017. Killam did not make any changes to the design of internal controls over financial reporting in 2017 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Related Party Transactions

For the year ended December 31, 2017, Killam paid $33 thousand in commercial leasing fees to a property management company controlled by an executive and Trustee of Killam (December 31, 2016 - $nil).

During the year ended December 31, 2017, Killam paid a sales commission totaling $0.3 million to a property management company that is 50% owned by an executive and Trustee of Killam (December 31, 2016 - $nil).

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. During 2016 and 2017, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner.

Subsequent Events

On January 16, 2018, Killam announced a distribution of $0.05167 per unit, payable on February 15, 2018, to unitholders of record on January 31, 2018.

On February 9, 2018 KIllam agreed to acquire a 1.8 acre development site located in Kitchener, Ontario, which includes a small commercial building and a heritage residence for $6.0 million. This property is zoned for a 141-unit development and is scheduled to close in mid-March.

On February 12, 2018, Killam agreed to acquire a recently completed, twelve-storey, 110-unit apartment building located in Dartmouth, Nova Scotia for $33.0 million, which is expected to close by the end of February.

On February 13, 2018, the Board of Trustees approved a 3.2% increase to Killam's annual distribution, to $0.64 per unit from $0.62 per unit. The monthly distribution will be $0.05333 per unit, up from $0.05167 per unit. The increase will become effective for the March 2018 distribution, to be paid in April 2018.

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, 2017, 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 13, 2018

Philip Fraser	Dale Noseworthy
President and Chief Executive Officer	*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, 2017 and 2016 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, 2017 and 2016 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Halifax, Canada
February 13, 2018

Consolidated Statements of Financial Position

In thousands of Canadian dollars

As at December 31,

	Note	2017	2016
ASSETS			
Non-current assets			
Investment properties	[5]	**$2,279,763**	$1,942,809
Property and equipment	[7]	**5,192**	4,787
Other non-current assets	[8]	**659**	1,246
		$2,285,614	$1,948,842
Current assets			
Cash		**$12,000**	$24,652
Rent and other receivables	[10]	**2,355**	2,895
Other current assets	[9]	**11,241**	11,540
		25,596	39,087
TOTAL ASSETS		**$2,311,210**	$1,987,929
EQUITY AND LIABILITIES			
Unitholders' equity	[17]	**$967,618**	$750,450
Accumulated other comprehensive loss ("AOCL")		**(37)**	(97)
Non-controlling interest		**141**	113
Total Equity		**$967,722**	$750,466
Non-current liabilities			
Mortgages and loans payable	[11]	**$951,645**	$885,652
Convertible debentures	[15]	**—**	46,690
Other liabilities		**12,161**	12,859
Exchangeable units	[16]	**54,937**	46,158
Deferred income tax	[21]	**103,206**	84,547
Deferred unit-based compensation	[19]	**4,501**	2,988
		$1,126,450	$1,078,894
Current liabilities			
Mortgages and loans payable	[11]	**$136,862**	$111,862
Construction loans	[13]	**41,046**	18,509
Accounts payable and accrued liabilities	[14]	**39,130**	28,198
		217,038	158,569
Total Liabilities		**$1,343,488**	$1,237,463
TOTAL EQUITY AND LIABILITIES		**$2,311,210**	$1,987,929
Commitments and contingencies	[25]		
Financial guarantees	[26]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

G.W. Watson

Trustee

Philip Fraser

Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars

For the years ended December 31,

	Note	2017	2016
Property revenue		**$187,377**	$175,269
Property operating expenses			
Operating expenses		**(30,444)**	(29,097)
Utility and fuel expenses		**(19,668)**	(20,462)
Property taxes		**(22,045)**	(20,286)
		(72,157)	(69,845)
Net operating income		**$115,220**	$105,424
Other income		**847**	1,227
Financing costs	[20]	**(33,126)**	(36,193)
Depreciation		**(787)**	(884)
Amortization of deferred financing costs		**(1,720)**	(1,505)
Administration		**(12,958)**	(12,733)
Fair value adjustment on convertible debentures		**690**	1,118
Fair value adjustment on unit-based compensation		**(534)**	(826)
Fair value adjustment on exchangeable units	[16]	**(8,811)**	(7,774)
Fair value adjustment on investment properties	[5]	**64,857**	(3,749)
Loss on disposition		**(259)**	(264)
Income before income taxes		**123,419**	43,841
Deferred tax (expense) recovery	[21]	**(18,659)**	27,598
Net income		**$104,760**	$71,439
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to financing costs		**60**	59
Comprehensive income		**$104,820**	$71,498
Net income attributable to:			
Unitholders		**104,732**	67,982
Non-controlling interest		**28**	3,457
		$104,760	$71,439
Comprehensive income attributable to:			
Unitholders		**104,792**	68,041
Non-controlling interest		**28**	3,457
		$104,820	$71,498

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

Year ended December 31, 2017	**Trust Units**	**Contributed Surplus**	**Retained Earnings**	**AOCL**	**Non-controlling Interest**	**Total Equity**
As at January 1, 2017	**$560,197**	**$795**	**$189,458**	**($97)**	**$113**	**$750,466**
Exchange of exchangeable units	**32**	—	—	—	—	**32**
Distribution reinvestment plan	**11,104**	—	—	—	—	**11,104**
Deferred unit-based compensation	**349**	—	—	—	—	**349**
Issued for cash	**147,176**	—	—	—	—	**147,176**
Net income	—	—	**104,732**	—	**28**	**104,760**
Amortization of loss on forward interest rate hedge	—	—	—	**60**	—	**60**
Distributions declared and paid	—	—	**(42,028)**	—	—	**(42,028)**
Distributions payable	—	—	**(4,197)**	—	—	**(4,197)**
At December 31, 2017	**$718,858**	**$795**	**$247,965**	**($37)**	**$141**	**$967,722**

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	447,566	(484,132)	(1,355)	(5,681)	(12,463)	—	—	(56,065)
Exchange of exchangeable units	11,043	—	—	—	—	—	—	11,043
Distribution reinvestment plan	6,482	—	—	—	—	—	—	6,482
Deferred unit-based compensation	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 declared and paid	—	—	—	—	(34,908)	—	—	(34,908)
Distributions payable	—	—	—	—	(3,417)	—	—	(3,417)
At December 31, 2016	$560,197	$—	$795	$—	$189,458	($97)	$113	$750,466

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	2017	2016
OPERATING ACTIVITIES			
Net income		**$104,760**	$71,439
Add (deduct) items not affecting cash			
Fair value adjustments		**(56,203)**	11,231
Depreciation and amortization		**2,507**	2,389
Non-cash compensation expense		**1,021**	1,323
Deferred income taxes		**18,659**	(27,598)
Loss on disposition		**259**	264
Interest expense on exchangeable units		**2,383**	2,659
Net change in non-cash operating activities	[23]	**9,530**	2,304
Cash provided by operating activities		**$82,916**	$64,011
FINANCING ACTIVITIES			
Deferred financing costs paid		**(4,426)**	(4,685)
Net proceeds on issuance of units		**147,285**	93,491
Cash paid on vesting of restricted units		**(520)**	(427)
Redemption of convertible debentures		**(46,000)**	(57,500)
Proceeds of repayment of mezzanine loan		**—**	4,000
Mortgage financing		**183,835**	200,537
Mortgages repaid on maturity		**(76,073)**	(105,831)
Mortgage principal repayments		**(35,467)**	(31,662)
Proceeds from construction loans		**32,254**	10,558
Construction loans repaid on maturity		**(9,717)**	—
Distributions paid to non-controlling interest		**—**	(24,610)
Distributions to unitholders		**(36,711)**	(31,515)
Cash provided by financing activities		**$154,460**	$52,356
INVESTING ACTIVITIES			
Increase in restricted cash		**(700)**	(340)
Acquisition of investment properties, net of debt assumed		**(181,459)**	(46,897)
Disposition of investment properties		**16,616**	8
Development of investment properties		**(53,313)**	(25,324)
Capital expenditures		**(31,172)**	(33,460)
Cash used in investing activities		**($250,028)**	($106,013)
Net (decrease) increase in cash		**(12,652)**	10,354
Cash, beginning of year		**24,652**	14,298
Cash, end of year		**$12,000**	$24,652

See accompanying notes to the consolidated financial statements.

1. Organization of the Trust

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

The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2017. 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, 2017 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 13, 2018.

(B) Basis of Presentation

The consolidated financial statements of Killam have been prepared on a historical cost basis, except for investment properties, deferred unit-based compensation, 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 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 interest represents 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' 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.

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 liabilities.

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

2. Significant Accounting Policies (continued)

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%
Riotrin Properties (Gloucester 3) Inc.	50%

(ii) Joint arrangements
Killam has joint arrangements in and joint control of four properties (eight buildings). Killam has assessed the nature of its joint arrangements as at December 31, 2017 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.

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.

2. Significant Accounting Policies (continued)

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from investment properties is recognized on a straight-line basis over the lease term. Killam has not transferred substantially all of the benefits and risks of ownership of its rental properties, and therefore accounts for leases with its tenants as operating leases.

(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.

Transfers are made to and from Investment properties under construction ("IPUC") when, and only when, there is a change in use, evidenced by the commencement of operating leases or commencement of redevelopment.

2. Significant Accounting Policies (continued)

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 of these costs continues until such improvements are completed. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

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

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

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

(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.

Category	Useful Life / Depreciation Rate	Depreciation method used
Building	40 years	Straight-line
Heavy equipment	7.5%	Declining balance
Vehicles	10%	Declining balance
Furnitures, fixtures and office equipment	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.

(J) Consolidated Statements of Cash Flows
Cash consists of cash on hand and bank account balances excluding cash on hand held for security deposits. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated financial statements.

(K) Unit-based Compensation
Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, Financial Instruments: Presentation ("IAS 32"), the restricted trust units ("RTUs") are presented as a liability on the consolidated statements of financial position as the Trust is obliged to provide the holder with Trust Units once the RTUs vest. The fair value of performance based RTUs is estimated using a Monte Carlo pricing model. The fair value estimate requires determination of the most appropriate inputs to the pricing model including the expected life, volatility, and dividend yield. The grant date fair value of the deferred unit-based compensation is determined based on the market value of the Trust's units on the date of grant and compensation expense is recognized over the vesting period and included in administration costs.

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

2. Significant Accounting Policies (continued)

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.

(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 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
Other liabilities	FVTPL	Fair value

Financial liabilities at fair value through profit and loss
Convertible debentures issued by the Trust were convertible into Trust Units at the option of the holder and the number of Trust Units to be issued did not vary with changes in their fair value. As the Trust's Units were redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the convertible debentures were 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 were recognized in the consolidated statements of income and comprehensive income.

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.

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. The liability associated with the 50% unowned portion of these shares is considered a puttable instrument in accordance with IAS 32, and Killam has designated this as a financial liability at FVTPL. The carrying amount of this liability is accounted for as other liabilities on the consolidated statement of financial position. Changes in the fair value of the liability and an allocation of a 50% proportionate share of operating results are accounted for as a fair value adjustment on investment properties.

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

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

2. Significant Accounting Policies (continued)

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

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

Restricted Trust Units
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 on each reporting date using Killam's unit price, the fair value of RTUs with performance conditions are estimated using a Monte Carlo pricing model, changes in fair value are 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 statement of financial position date are classified as non-current.

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

Prepaid insurance premiums
Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are netted against mortgages and loans payable. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial period is typically 25 years) and are included in amortization of deferred financing costs in the consolidated statements of income and comprehensive income.

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

2. Significant Accounting Policies (continued)

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

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

Cash flow hedges

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

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

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

(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.

2. Significant Accounting Policies (continued)

(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.

(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. 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(L). 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 5. 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 5 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

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

(iii) Deferred taxes

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 21.

4. Future Accounting Policy Changes

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

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted and Killam has concluded there will be no change to the pattern of recognition or the measurement of revenue, however, additional disclosure will be included. Killam intends to adopt the new standard on the required effective date.

IFRS 9, Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9, which introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Killam has completed an assessment of the impact of IFRS 9 on its consolidated financial statements and does not expect a material impact on its consolidated financial statement upon adoption. Killam intends to adopt the new standard on the required effective date.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. This standard is effective for Killam's annual periods beginning after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on its consolidated financial statements. Killam does not expect a significant impact to its consolidated financial statements on adoption of this IFRS standard. Killam intends to adopt the new standard on the required effective date.

IFRS 2, Share-based Payment ("IFRS 2")
In June 2016, the IASB issued final amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Killam intends to adopt the amendments to IFRS 2 in the consolidated financial statements for the annual period beginning on or after January 1, 2018, however, since the current policy and practice is in line with the amendments, Killam does not expect any impact to its consolidated financial statements.

IAS 40, Investment Property (IAS 40)
In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment required that an asset be transferred to or from investment property 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 intention 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 early adoption permitted. Killam will apply the amendment when it becomes effective prospectively, however, since the current policy and practice is in line with the clarification issues, Killam does not expect any impact to its consolidated financial statements.

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

5. Investment Properties

As at December 31, 2017

Segment	Apartments	MHCs	Other	IPUC	Total
Balance, beginning of year	**$1,721,399**	**$133,634**	**$32,269**	**$55,507**	**$1,942,809**
Fair value adjustment on investment properties	**62,380**	**2,922**	**(487)**	**—**	**64,815**
Acquisitions	**186,502**	**—**	**4,704**	**14,206**	**205,412**
Dispositions	**(16,616)**	**—**	**—**	**—**	**(16,616)**
Transfer from IPUC	**15,485**	**—**	**—**	**(15,485)**	**—**
Capital expenditure on investment properties	**26,959**	**3,227**	**809**	**—**	**30,995**
Other	**(965)**	**—**	**—**	**—**	**(965)**
Capital expenditure on IPUC	**—**	**—**	**—**	**51,331**	**51,331**
Interest capitalized on IPUC	**—**	**—**	**—**	**1,982**	**1,982**
Balance, end of year	**$1,995,144**	**$139,783**	**$37,295**	**$107,541**	**$2,279,763**

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

During the year ended December 31, 2017, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership interest (%)	Year Built	Units	Purchase Price[(1)]
Apartments						
Spruce Grove	Calgary	16-Jan-17	100%	1978	66	$12,800
Southport condominium units	Halifax	16-Feb-17	100%	2016	5	1,070
Kanata Lakes IV & V[(2)]	Ottawa	01-Mar-17	50%	2016	134	49,240
246 / 300 Innovation Drive	Halifax	04-Jul-17	100%	2015 / 2016	134	31,600
Waybury Park	Edmonton	18-Aug-17	100%	2016	124	28,277
Tisbury Crossing	Edmonton	1-Dec-17	100%	2017	172	39,200
Stoneybrook Apartments	Halifax	15-Dec-17	100%	2000	106	13,000
Fairview Terrace	London	15-Dec-17	100%	1950s	106	8,500
					847	$183,687
Other						
Vacant Land	Edmonton	13-Apr-17 / 23-Jun-17	100%			4,050
1459 Hollis Street[(3)]	Halifax	19-Apr-17	100%			4,600
Gloucester - Land[(4)]	Ottawa	21-Apr-17	50%			8,000
Total Acquisitions						$200,337

(1) Purchase price does not include transaction costs.
(2) Purchase price represents 50% ownership in two buildings with a cumulative total of 268 units; in addition, it includes 35% interest in a shared clubhouse. This building is part of a five-building complex; with this acquisition Killam and its 50/50 partner now own the entire complex.
(3) Included in the acquisition is $0.85 million in land value relating to adjacent development projects.
(4) Purchase price represents 50% interest in a multi-phase development project.

5. Investment Properties (continued)

During the year ended ended December 31, 2017, Killam capitalized salaries of $3.1 million (December 31, 2016 - $3.0 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2017, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.91% (December 31, 2016 - 3.11%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $2.2 billion as at December 31, 2017 (December 31, 2016 - $1.9 billion), have been pledged as collateral against Killam's mortgages, construction loan 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 Chief Financial Officer ("CFO") 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 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 determined in consultation with independent valuation firms.

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 appraisers.

Changes in fair values are analyzed at each reporting date during the quarterly valuation discussions between the EVP and CFO 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.

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

5. Investment Properties (continued)

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.75% to 8.00%, applied to a stabilized NOI of $107.8 million (December 31, 2016 - 4.12% to 8.00% and $96.1 million), resulting in an overall weighted average cap-rate of 5.37% (December 31, 2016 - 5.49%). The stabilized occupancy rates used in the calculation of NOI were in the range of 93.1% to 98.3% (December 31, 2016 - 93.0% to 98.1%).

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 $9.6 million (December 31, 2016 - 5.75% to 8.00% and $9.0 million), resulting in an overall weighted average cap-rate of 6.84% (December 31, 2016 - 6.81%). The stabilized occupancy rate used in the calculation of NOI was 97.8% (December 31, 2016 - 97.9%).

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, 2017			December 31, 2016		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.75%**	**8.00%**	**5.37%**	4.12%	8.00%	5.49%
Halifax	4.85%	6.00%	5.34%	4.85%	7.33%	5.51%
Moncton	5.15%	7.00%	5.88%	5.15%	8.00%	6.00%
Fredericton	5.15%	6.50%	5.98%	5.15%	6.50%	5.98%
Saint John	6.00%	6.75%	6.40%	6.00%	6.75%	6.41%
St. John's	5.00%	6.00%	5.63%	5.00%	6.00%	5.68%
Charlottetown	5.50%	6.25%	5.94%	5.50%	6.25%	5.94%
Ontario	3.75%	5.08%	4.55%	4.12%	5.02%	4.63%
Alberta	4.52%	5.75%	5.30%	4.75%	4.75%	4.75%
Other Atlantic	5.75%	8.00%	6.83%	5.75%	8.00%	6.83%
MHCs	**5.75%**	**8.00%**	**6.84%**	5.75%	8.00%	6.81%
Ontario	7.00%	8.00%	7.48%	7.00%	8.00%	7.49%
Nova Scotia	5.75%	7.00%	6.26%	5.75%	7.00%	6.17%
New Brunswick	7.50%	7.50%	7.50%	8.00%	8.00%	8.00%
Newfoundland	7.00%	7.00%	7.00%	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, 2017 and 2016, as provided by Killam's external valuator, is included in the above table.

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

Class of property	**Capitalization rate**	
	10 basis points increase	*10 basis points decrease*
Apartments	($36,658)	$38,049
MHCs	($2,028)	$2,088

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

6. Joint Operations and Investments in Joint Venture

Killam has interests in four properties (eight buildings) 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.

7. Property and Equipment

As At	**December 31, 2017** Cost	**December 31, 2017** Accumulated Depreciation	December 31, 2016 Cost	December 31, 2016 Accumulated Depreciation
Land	**$270**	**$—**	$270	$—
Building	**1,913**	**325**	1,913	271
Heavy equipment	**257**	**113**	255	102
Vehicles	**1,827**	**657**	1,547	550
Furniture, fixtures and office equipment	**6,001**	**4,654**	5,225	4,153
Leasehold improvements	**963**	**290**	879	226
	11,231	**6,039**	10,089	5,302
Less: accumulated depreciation	**(6,039)**		(5,302)	
	$5,192		$4,787	

Land and building represent 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, representing Killam's 50% ownership interest (December 31, 2016 - $1.9 million), is pledged as collateral against Killam's mortgage payable.

For the years ended December 31,	**2017**	2016
Balance, beginning of the year	**$4,787**	$4,973
Capital expenditures	**1,142**	698
Depreciation	**(737)**	(884)
Balance, end of year	**$5,192**	$4,787

8. Other Non-Current Assets

As at	**December 31, 2017**	December 31, 2016
Vendor-take-back loan	**$—**	$950
Interest rate derivative	**659**	296
	$659	$1,246

The vendor-take-back loan for $0.95 million, bearing interest at a rate of 6.5%, was settled on November 16, 2017 through repossession of land with a fair value of $1.0 million that was held as collateral.

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

9. Other Current Assets

As at	**December 31, 2017**	December 31, 2016
Restricted cash	**$7,979**	$7,279
Prepaid expenses	**3,163**	4,162
Inventory	**99**	99
	$11,241	$11,540

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.

10. Rent and Other Receivables

As at	**December 31, 2017**	December 31, 2016
Rent receivable	**$748**	$1,014
Other receivables	**1,607**	1,881
	$2,355	$2,895

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.

11. Mortgages and Loans Payable

As at	**December 31, 2017**		December 31, 2016	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.89%**	**$1,070,387**	3.01%	$989,638
Variable rate	**4.56%**	**12,116**	4.28%	7,863
Vendor financing	**5.00%**	**6,004**	4.43%	13
Total		**$1,088,507**		$997,514
Current		**136,862**		111,862
Non-current		**951,645**		885,652
		$1,088,507		$997,514

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, 2017, unamortized deferred financing costs of $26.0 million (December 31, 2016 - $22.9 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.4 million (December 31, 2016 - $0.3 million) are netted against mortgages and loans payable.

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

11. Mortgages and Loans Payable (continued)

Estimated future principal payments and maturities required to meet mortgage obligations for the years ending December 31, are as follows:

	Principal Amount	% of Total Principal
2018	$136,862	12.3%
2019	208,110	18.7%
2020	210,401	18.9%
2021	147,286	13.2%
2022	127,689	11.4%
Subsequent to 2022	284,558	25.5%
	$1,114,906	100.0%
Unamortized deferred financing costs	(26,003)	
Unamortized mark-to-market adjustments	(396)	
	$1,088,507	

12. Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $1.5 million (December 31, 2016 - $30.0 million and $1.5 million) that can be used for acquisition and general business purposes. Killam holds an accordion option to increase the $70.0 million facility by an amount not less than $10 million and up to an aggregate amount of not more than $20 million.

The $70.0 million facility bears interest at prime plus 75 bps on prime rate advances or 170 bps over bankers acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2017, Killam has assets with a carrying value of $51.8 million pledged as first mortgage ranking and $302.1 million pledged as second mortgage ranking to the line and a balance outstanding of $nil (December 31, 2016 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2017.

The $1.5 million facility bears interest at 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, 2017, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2016 - $1.6 million) and letters of credit totaling $1.1 million outstanding against the facility (December 31, 2016 - $1.2 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2017.

As at December 31, 2017	**Maximum Loan Amount**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million demand facility	$70,000	—	—	$70,000
$1.5 million demand facility	1,500	—	1,100	400
Total	**$71,500**	**—**	**$1,100**	**$70,400**

As at December 31, 2016	Maximum Loan Amount	Amount Drawn	Letters of Credit	Amount Available
$30.0 million demand facility	$30,000	—	—	$30,000
$1.5 million demand facility	1,500	—	1,200	300
Total	$31,500	—	$1,200	$30,300

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

13. Construction Loans

As at December 31, 2017, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects, including a $51.8 million construction loan commitment related to The Alexander, where Killam has a 50% ownership interest, and a $18.8 million construction loan commitment related to the Saginaw Park development. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625%. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at December 31, 2017, $28.8 million and $12.2 million, respectively, were drawn on The Alexander and Saginaw Park loans (December 31, 2016 - The Alexander $8.8 million, Southport $9.7 million and Saginaw Gardens II $nil). The loans both have an interest rate of 3.83% (December 31, 2016 - The Alexander 3.33% and Southport 3.45%).

14. Accounts Payable and Accrued Liabilities

As at	**December 31, 2017**	December 31, 2016
Accounts payable and other accrued liabilities	**$25,431**	$16,356
Distributions payable	**4,388**	3,613
Mortgage interest payable	**2,343**	2,240
Security deposits	**6,968**	5,989
	$39,130	$28,198

15. Convertible Debentures

Face Interest Rate %	**Conversion Price**	**Face Amount**	**Maturity Date**	**December 31, 2017**	December 31, 2016[1]
5.45%	$14.60	$46,000	June 30, 2018	—	$46,690

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

Killam redeemed its $46.0 million, 5.45% convertible debentures on April 13, 2017.

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

16. Exchangeable Units

For the years ended December 31,	2017		2016	
	Number of Exchangeable Units	**Value**	**Number of Exchangeable Units**	**Value**
Balance, beginning of year	3,865,836	$46,158	—	—
Trust units exchanged for exchangeable units on conversion	—	—	4,748,061	$36,567
Fair value adjustment on conversion	—	—	—	12,860
Exchangeable units exchanged	(2,500)	(32)	(882,225)	(11,043)
Fair value adjustment	—	8,811	—	7,774
Balance, end of year	**3,863,336**	**$54,937**	3,865,836	$46,158

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

17. Unitholders' Equity

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

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

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, 2017, no unitholders redeemed units.

The units issued and outstanding are as follows:

	Number of Trust Units	Number of Common Shares	Value
January 1, 2016	—	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
December 31, 2016	67,869,802	—	$560,197
Distribution reinvestment plan	865,143	—	11,104
Restricted trust units redeemed	52,334	—	349
Units issued on exchange of exchangeable units	2,500	—	32
Units issued for cash	11,775,500	—	147,176
December 31, 2017	**80,565,279**	**—**	**$718,858**

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

17. Unitholders' Equity (continued)

New Units Issued

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (March 13, 2017)	$12.65	$70,018	$3,160	$66,858	5,535,000
Over-allotment (March 13, 2017)	$12.65	7,002	280	6,722	553,500
Bought-deal (November 29, 2017)	$13.55	70,054	3,183	66,871	5,170,000
Over-allotment (November 29, 2017)	$13.55	7,005	280	6,725	517,000
Total		$154,079	$6,903	$147,176	11,775,500

Distribution Reinvestment Plan ("DRIP")

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

18. Distributions

Killam paid distributions to its unitholders during 2017 in accordance with its DOT. Distributions declared by the Board of Trustees were paid monthly, on or about the 15th day of each month.

For the year ended December 31, 2017, the distributions declared related to the trust units were $46.2 million (year ended December 31, 2016 - $38.3 million), respectively. For the year ended December 31, 2017, distributions declared related to the exchangeable units were $2.4 million (December 31, 2016 - $2.7 million). The distributions on the exchangeable units are recorded in financing costs.

19. Deferred Unit-based Compensation

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

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

The RTUs subject to performance conditions will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period. Killam accounts for the RTUs subject to performance conditions under the fair value method of accounting, and uses the Monte-Carlo simulation pricing model to determine the fair value which allows for the incorporation of the market based performance hurdles that must be met before the RTUs subject to performance conditions vest. Pursuant to IFRS, compensation costs related to awards with a market-based condition are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided and all performance conditions have been satisfied.

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

19. Deferred Unit-based Compensation (continued)

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver trust units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs for the year ended December 31, 2017, is $4.5 million, which includes $0.2 million related to RTUs subject to performance conditions (December 31, 2016 - $3.0 million). For the year ended December 31, 2017, compensation expense of $1.0 million (December 31, 2016 - $1.3 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

For the year ended December 31,	**2017**		2016	
	Number of RTUs	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of year	**263,736**	**$10.78**	184,106	$10.40
Granted	**242,101**	**12.79**	155,918	10.93
Redeemed	**(91,202)**	**10.73**	(89,656)	10.44
Forfeited	**—**	**—**	(530)	10.88
Additional restricted trust unit distributions	**18,053**	**12.91**	13,898	11.89
Outstanding, end of year	**432,688**	**$12.09**	263,736	$10.78

20. Financing Costs

	2017	2016
Mortgage, loan and construction loan interest	**$32,526**	$30,919
Interest on exchangeable units	**2,383**	2,659
Amortization of fair value adjustments on assumed debt	**(214)**	(415)
Amortization of loss on interest rate hedge	**60**	59
Unrealized gain on derivative liability	**(362)**	(297)
Convertible debenture interest	**715**	4,178
Capitalized interest	**(1,982)**	(910)
	$33,126	$36,193

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

21. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2016, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at December 31, 2017, 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, 2017, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

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

As at December 31,	2016	Recognized in statement of income and comprehensive income	**2017**
Deferred tax liabilities (assets) related to:			
Real estate properties	$83,962	$17,774	**$101,736**
Loss carryforwards	(3,860)	673	**(3,187)**
Unrealized capital gains	2,777	(358)	**2,419**
Other	1,668	570	**2,238**
Net deferred tax liabilities	$84,547	$18,659	**$103,206**

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 liabilities (assets) 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

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

For the years ended December 31,	**2017**	2016
Net income before taxes	**$123,419**	$43,841
Statutory tax rate	**29.6%**	29.7%
Income tax expense at statutory rates	**36,557**	13,008
Amounts not subject to tax	**(35,809)**	(12,113)
Effect of provincial tax rate changes	**148**	1,186
Initial derecognition of deferred tax liability on REIT conversion	**—**	(39,997)
Other	**(664)**	—
Change to tax basis in excess of book basis	**18,427**	10,318
Total tax expense (recovery)	**$18,659**	($27,598)

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

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

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

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies described in note 2 of the consolidated financial statements for the year ended December 31, 2017. Reportable segment performance is analyzed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

For the year ended December 31, 2017	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$167,718**	**$15,139**	**$4,520**	**$187,377**
Property operating expenses	**(63,767)**	**(5,762)**	**(2,628)**	**(72,157)**
Net operating income	**$103,951**	**$9,377**	**$1,892**	**$115,220**

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

As at December 31, 2017	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	**$2,108,686**	**$154,549**	**$47,975**	**$2,311,210**
Total liabilities	**$1,165,017**	**$89,510**	**$88,961**	**$1,343,488**

As at December 31, 2016	Apartments	MHCs	Other	Total
Total assets	$1,701,080	$142,071	$144,778	$1,987,929
Total liabilities	$966,870	$61,367	$209,226	$1,237,463

23. Supplemental Cash Flow Information

For the years ended December 31,	**2017**	2016
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$32,475**	$30,357
Interest paid on convertible debentures	**715**	4,178
	$33,190	$34,535
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**$540**	($815)
Other current assets	**999**	(1,495)
Accounts payable and other liabilities	**7,991**	4,614
	$9,530	$2,304

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

24. Financial Instruments and Financial Risk Management Objectives and Policies

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

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

(i) Interest Rate Risk

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

As at December 31, 2017, $53.1 million of Killam's debt had variable interest rates, including two construction loans for $41.0 million and six demand loans totaling $12.1 million. These loans and facilities have interest rates of prime plus 0.63%-2.0% (December 31, 2016 - prime plus 0.63%-2.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage and vendor debt, which matures in the next 12 months, totals $90.3 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $0.9 million per year.

(i) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant.

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 1% of the tenant receivables as at December 31, 2017, or 2016. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(ii) 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, reducing the refinancing risk upon mortgage maturities.

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

During the year ended December 31, 2017, Killam refinanced $56.3 million of maturing apartment mortgages with new mortgages totaling $77.2 million generating net proceeds of $20.9 million. As well, Killam refinanced $13.4 million of maturing MHC mortgages with new mortgages totaling $24.5 million for net proceeds of $11.1 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and loans payable	Construction loans	Total
2018	$136,862	$28,809	$165,671
2019	208,110	12,237	220,347
2020	210,401	—	210,401
2021	147,285	—	147,285
2022	127,690	—	127,690
Thereafter	284,558	—	284,558
	$1,114,906	$41,046	$1,155,952

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)

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

Killam's primary measure of capital management is the total debt to total assets ratio. Killam's strategy, as outlined in the operating policies of its DOT, is for its overall indebtedness not to exceed 70% of total assets. However Killam's long-term target is to manage overall indebtedness to be below 50%. The calculation of the total debt to total assets is summarized as follows

As at	December 31, 2017	December 31, 2016
Mortgages, loans payables, credit facilities and construction loans(1)	**$1,115,149**	$1,011,623
Convertible debentures	**—**	$46,000
Total debt	**$1,115,149**	$1,057,623
Total assets(1)	**$2,288,445**	$1,976,133
Total debt as a percentage of assets	**48.7%**	53.5%

(1) Total assets adjusted for Killam's 50% interest in The Alexander development- $22.8 million (December 31, 2016 - $11.5 million). Total mortgages, loans payables and construction loans adjusted for Killam's non-controlling interest related to The Alexander - $14.4 million (December 31, 2016 - $4.4 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, 2017, would increase the debt as a percentage of assets by 90 bps.

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

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

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

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

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

The significant financial instruments and their carrying values as at December 31, 2017, and December 31, 2016, are as follows:

As at	**December 31, 2017**		December 31, 2016	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at amortized cost:				
Loans[1]	**$—**	**$—**	$950	$955
Financial assets carried at FVTPL:				
Derivative asset [2]	**$659**	**$659**	$296	$296
Financial liabilities carried at amortized cost:				
Mortgages payable	**$1,088,507**	**$1,119,922**	$997,514	$1,036,288
Credit facilities	**$—**	**$—**	$—	$—
Financial liabilities carried at FVTPL:				
Exchangeable units	**$54,937**	**$54,937**	$46,158	$46,158
Convertible debentures	**$—**	**$—**	$46,690	$46,690
Deferred unit-based compensation	**$4,501**	**$4,501**	$2,988	$2,988

(1) The $1.0 million loan receivable is included in the other non-current assets within the consolidated financial statement of financial position as at December 31, 2016.

(2) The $0.7 million derivative asset is included in other non-current assets within the consolidated statements of financial position.

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

As at	**December 31, 2017**	December 31, 2016
Mortgages - Apartments	**2.82%**	2.34%
Mortgages - MHCs	**4.52%**	3.76%

Assets and Liabilities Measured at Fair Value

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

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

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

As at	**December 31, 2017**			December 31, 2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	**—**	**—**	**$2,279,763**	—	—	$1,942,809
Derivative asset	**—**	**$659**	**—**	—	$296	—
Liabilities						
Exchangeable units	**—**	**$54,937**	**—**	—	$46,158	—
Convertible debentures	**—**	**—**	**—**	$46,690	—	—
Deferred unit-based compensation	**—**	**$4,351**	**$150**	—	$2,988	—

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)

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the year ended December 31, 2017.

25. Commitments and Contingencies

Killam has entered into commitments for development costs of $25.8 million as at December 31, 2017 (December 31, 2016 - $26.9 million).

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

Killam and its 50% partner began construction in downtown Halifax on a 240-unit building, The Alexander, in late 2015. This project is scheduled to be completed in mid-2018. The cost to develop is approximately $77 million. At the completion of construction and following the achievement of certain leasing conditions, Killam has a commitment in place to purchase the other 50% interest in this development.

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	41%	November 1, 2017 - October 31, 2018	$0.1059/m3
Ontario	14%	December 1, 2017 - November 30, 2018	$0.1059/m3
Ontario	45%	December 1, 2017 - November 30, 2018	$0.1439/m3

26. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at December 31, 2017, the maximum potential obligation resulting from these guarantees is $119.9 million, related to long-term mortgage financing (December 31, 2016 - $87.9 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 of financial position. Killam is also the guarantor on a joint and several basis for the construction loan related to The Alexander development project. As at December 31, 2017, the maximum potential obligation resulting from this guarantee is $14.4 million (December 31, 2016 - $4.4 million).

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at December 31, 2017, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2016 - $nil).

27. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. Killam reclassified, on the consolidated statement of financial position, a derivative asset from "other liabilities" to "other non-current assets" as this derivative is in an asset position as at December 31, 2017 and 2016. Killam reclassified, on the consolidated statements of cash flows, a portion of cash related to interest expense on exchangeable units from "net change in non-cash operating activities" to "interest expense on exchangeable units" as this interest is not related to net working capital.

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

28. Related Party Transactions

For the year ended December 31, 2017, Killam paid $33 thousand in commercial leasing fees to a property management company controlled by an executive and Trustee of Killam (December 31, 2016 - $nil).

During the year ended December 31, 2017, Killam paid a sales commission, totaling $0.3 million to a property management company that is 50% owned by an executive and Trustee of Killam (December 31, 2016 - $nil).

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. During 2016 and 2017, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner.

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

For the years ended December 31,	**2017**	2016
Salaries, board compensation and incentives	**$4,519**	$3,318
Deferred unit-based compensation	**959**	2,070
Total	**$5,478**	$5,388

29. Subsequent Events

On January 16, 2018, Killam announced a distribution of $0.05167 per unit, payable on February 15, 2018, to unitholders of record on January 31, 2018.

On February 9, 2018 KIllam agreed to acquire a 1.8 acre development site located in Kitchener, Ontario, which includes a small commercial building and a heritage residence for $6.0 million. This property is zoned for a 141-unit development and is scheduled to close in mid-March.

On February 12, 2018, Killam agreed to acquire a recently completed, twelve-storey, 110-unit apartment building located in Dartmouth, Nova Scotia for $33.0 million, which is expected to close by the end of February.

On February 13, 2018, the Board of Trustees approved a 3.2% increase to Killam's annual distribution, to $0.64 per unit from $0.62 per unit. The monthly distribution will be $0.05333 per unit, up from $0.05167 per unit. The increase will become effective for the March 2018 distribution, to be paid in April 2018.

Five Year Summary

In thousands (except per unit and share data)

Statement of Income Information	**2017**	2016	2015	2014	2013
Net operating income	**$115,220**	$105,424	$98,390	$84,601	$83,040
Other income	**$847**	$1,227	$1,495	$2,065	$2,365
Financing costs	**($33,126)**	($36,193)	($37,044)	($34,609)	($35,231)
Administration	**($12,958)**	($12,733)	($11,898)	($8,525)	($7,878)
Depreciation and amortization	**($2,507)**	($2,389)	($2,715)	($2,355)	($2,232)
Fair value adjustments	**$56,202**	($11,231)	($6,103)	$4,768	$13,070
Loss on disposition	**($259)**	($264)	($109)	($1,257)	($1,401)
Current tax recovery (expense)	**$ -**	$ -	$ -	$1,451	($1,451)
Deferred tax recovery (expense)	**($18,659)**	$27,598	($6,216)	($13,472)	($9,350)
Net income	**$104,760**	$71,439	$35,800	$32,667	$40,932
Net income attributable to unitholders/common shareholders	**$104,732**	$67,982	$34,557	$29,772	$39,779
Funds From Operations (FFO)					
FFO	**$69,873**	$58,886	$49,016	$40,162	$38,770
FFO per unit/share (diluted)	**$0.90**	$0.86	$0.79	$0.72	$0.71
Statement of Financial Position Information					
Total assets	**$2,311,210**	$1,987,929	$1,876,826	$1,775,234	$1,532,431
Total liabilities	**$1,343,488**	$1,237,463	$1,190,948	$1,112,551	$928,371
Total equity	**$967,722**	$750,466	$685,328	$662,683	$604,060
Statement of Cash Flow Information					
Cash provided by operating activities	**$82,916**	$64,011	$50,947	$51,524	$39,080
Cash provided by financing activities	**$154,460**	$52,356	$21,954	$142,603	$49,238
Cash used in investing activities	**($250,028)**	($106,013)	($79,378)	($202,958)	($117,366)
Unit/Share Information					
Weighted average number of units/shares (1)	**77,575**	67,912	62,097	55,394	54,143
Units/shares outstanding at December 31 (1)	**84,428**	71,736	62,863	60,476	54,459
Unit/share price at December 31	**$14.22**	$11.94	$10.51	$10.26	$10.48

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

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCPA, FCA
Executive Vice President

Dale Noseworthy, CPA, CA, CFA
Chief Financial Officer

Ruth Buckle
Vice President, Property Management

Erin Cleveland, CPA, CA
Vice President, Finance

Pamela Crowell
Vice President, Tenant Experience & MHC Management

Jeremy Jackson
Vice President, Marketing

Colleen McCarville
Vice President, Human Resources

Michael McLean
Vice President, Development

Board of Trustees

Trust Information

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

$0.05333 per unit

Head Office

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866.453.8900

Investor Inquiries

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902.442.0388

Annual Meeting

The Annual Meeting of Unitholders will be held on Thursday, May 10, 2018, at 9:00 am Atlantic Time at the Halifax Marriott Harbourfront Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

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