Q2-2018 Management's Discussion and Analysis

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

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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 $2.5 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 nine projects to date, with a further two projects currently under construction.

Killam's strategy to drive 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 six months ended June 30, 2018. As at June 30, 2018, Killam's apartment portfolio consisted of 15,186 units, including 1,245 units jointly owned with institutional partners. Killam's 191 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 sites in 35 MHCs, 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 sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 7.0% of Killam's NOI for the six months ended June 30, 2018. Killam also owns six commercial properties that accounted for 2.8% of Killam's NOI for the six months ended June 30, 2018.

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the condensed consolidated interim 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 2017 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at August 8, 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 August 8, 2018, 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 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 provided by 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 entities.

- 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 an allowance 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. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO 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 provided by operating activities to ACFO is included on page 26. 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, gains (losses) 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.
- Debt to EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA. Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2018 and 2017. Same property results represent 83% of the fair value of Killam's investment property portfolio as at June 30, 2018. Excluded from same property results in 2018 are acquisitions, dispositions and developments completed in 2017 and 2018, as well as non-stabilized commercial properties linked to development projects.

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 sustain and grow distributions, the amount of distributions will depend on debt repayments and refinancings, capital investments, and other factors, which 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 rental 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 its same property NOI, removing the impact of recent acquisitions and 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 EBITDA – 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:

	Three months ended June 30,			Six months ended June 30,		
Operating Performance	**2018**	2017	Change (2)	**2018**	2017	Change (2)
Property revenue	**$52,937**	$45,898	15.3%	**$102,386**	$90,203	13.5%
Net operating income	**$33,916**	$28,785	17.8%	**$62,340**	$53,727	16.0%
Net income	**$34,864**	$34,611	0.7%	**$103,778**	$52,260	98.6%
FFO (1)	**$21,035**	$18,173	15.7%	**$37,842**	$31,841	18.8%
FFO per unit - diluted (1)	**$0.25**	$0.23	8.7%	**$0.45**	$0.42	7.1%
AFFO (1)	**$17,231**	$14,558	18.4%	**$30,431**	$24,622	23.6%
AFFO per unit - diluted (1)	**$0.20**	$0.19	5.3%	**$0.36**	$0.32	12.5%
ACFO (1)	**16,918**	13,997	20.9%	**31,813**	26,183	21.5%
Weighted average number of units outstanding - diluted (000s)	**85,236**	78,340	8.8%	**85,026**	75,793	12.2%
Distributions paid per unit	**$0.16**	$0.15	6.7%	**$0.32**	$0.31	3.2%
AFFO payout ratio - diluted(1)	**79%**	84%	(500) bps	**88%**	95%	(700) bps
AFFO payout ratio - rolling 12 months(1)	**84%**	92%	(800) bps			
Portfolio Performance						
Same property NOI(1)	**$29,048**	$27,410	6.0%	**$54,014**	$51,183	5.5%
Same property NOI margin	**64.2%**	63.1%	110 bps	**60.6%**	59.8%	80 bps
Same property apartment weighted average rental increase (3)	**2.4%**	1.6%	80 bps			
Same property apartment occupancy	**96.9%**	96.0%	90 bps			

As at	June 30, 2018	December 31, 2017	Change(2)
Leverage Ratios and Metrics			
Debt to total assets	**48.0%**	48.7%	(70) bps
Weighted average mortgage interest rate	**2.92%**	2.91%	1 bps
Weighted average years to debt maturity	**4.3**	4.0	0.3 years
Debt to EBITDA (1)	**10.85x**	10.70x	1.4%
Debt service coverage (1)	**1.53x**	1.51x	1.3%
Interest coverage (1)	**3.18x**	3.13x	1.6%

(1) FFO, AFFO, ACFO, 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 entities (see "Non-IFRS Financial Measures").

(2) Change expressed as a percentage or basis point ("bps").

(3) Year-over-year, as at June 30.

Summary of Q2-2018 Results and Operations

FFO Growth per Unit of 8.7%
Killam generated FFO per unit of $0.25 in Q2-2018, 8.7% higher than $0.23 generated in Q2-2017, due primarily to strong 6.0% NOI growth from the existing portfolio and the impact of $227.7 million of accretive acquisitions completed in the last 12 months. This growth was partially offset by an 8.8% increase in the weighted average number of units outstanding from an aggregate $134.6 million of equity issued in November 2017 and June 2018, along with higher administration costs.

Higher Rental Rates and Occupancy Gains Drive Same Property Revenue Growth
Same property revenue increased 4.1% compared to Q2-2017 as a result of a 2.4% increase in the average rental rate for the apartment portfolio, a 90 bps increase in average apartment occupancy, a 30 bps decrease in rental incentives and 4.3% top-line growth within the MHC portfolio. With continued high occupancy levels, there is opportunity to move rental rates to meet market demand. Rental rate increases on unit turns and lease renewals averaged 4.9% and 1.6%, during the first half of 2018, compared to 3.3% and 0.6% during the first half of 2017.

Continued Strong Rental Demand in Atlantic Canada
Same property occupancy increased in all Killam's core markets in Atlantic Canada in Q2-2018. Occupancy in the Atlantic region was 97.1%, the highest occupancy in the second quarter in Killam's history. Same property revenue growth in Q2-2018 in Atlantic Canada included 4.1% in Halifax and an average of 5.3% in New Brunswick ("NB").

Focused Expense Management Results in Modest Same Property Expense Growth
Killam's same property total operating expenses increased only 0.9% for Q2-2018, compared to Q2-2017. A 4.3% increase in utility and heating costs due to higher gas prices in NS and NB, and higher fuel consumption due to a colder spring season, were offset by savings in general operating expenses, including lower insurance premiums and savings in contract services. Property tax expense decreased slightly quarter-over-quarter as rising property assessments were offset by successful tax assessment appeals.

Higher NOI Drives Fair Value Gains
Killam recorded $24.4 million of fair value gains related to its investment property portfolio during the quarter. These fair value gains were attributable primarily to higher rental rates across Killam's core markets. Killam's weighted average cap-rate for its apartment portfolio is 5.22% and 6.82% for MHCs.

Repositioning Program Contributing to NOI and NAV Growth
Killam's expanded unit repositioning program is on track to meet its budgeted investment of $3.0 million in 2018. Year-to-date, repositionings have generated monthly rental lifts averaging $245 per unit resulting in an average return on investment ("ROI") of approximately 15%, based on an average cost of $20,000 per unit. Killam targets completing 200 repositionings during the year and estimates 2018 repositionings could generate an additional $0.6 million in NOI on an annualized basis and $11 million in net asset value ("NAV") growth.

Strengthened Balance Sheet with $250 million of Acquisition Capacity
Killam completed a $57.5 million equity raise in June at a price of $14.95 per unit. Proceeds were used to repay $30.5 million outstanding on its credit facility and to fund acquisitions. The equity raise and subsequent repayment of the credit facility, contributed to a reduction in Killam's debt levels, ending the quarter at a historic low of 48.0% to total assets. With the credit facility balance repaid during the quarter and $36.3 million of cash on hand, Killam has an estimated acquisition capacity of $250 million.

Saginaw Park Development Complete
Killam's development, Saginaw Park, located in Cambridge, ON, reached substantial completion in April 2018 and is currently 79% leased and is expected to be fully leased by the end of the year. It was completed at a yield of 5.2%, a 95 bps premium over the market cap-rate, leading Killam to recognize $4.9 million in fair value gains on this property.

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

Strategic Targets

Growth in Same Property NOI	
2018 Target	Original Target: Same property NOI growth of 1% to 2%. Revised Target: Same property NOI growth of 3% to 5%.
2018 Performance to-date	Killam achieved same property NOI growth of 5.5% during the first six months of 2018. Based on strong top line results in the first half of the year and projections for the balance of the year, Killam increased its NOI growth target for the year to between 3% and 5%.

Expanded Portfolio through Accretive Acquisitions	
2018 Target	Original Target: A minimum of $125 million of acquisitions. Revised Target: A minimum of $225 million of acquisitions.
2018 Performance to-date	Killam completed $124 million of acquisitions during the first six months of 2018. Also, Killam has completed or committed to acquire an additional $51.0 million of acquisitions during the third quarter, bringing year-to-date total acquisitions completed or committed to $175.0 million.

Geographic Diversification	
2018 Target	At least 75% of acquisitions made outside Atlantic Canada and to earn at least 26% of 2018 NOI outside Atlantic Canada.
2018 Performance to-date	Year-to-date, 81.1% of completed and committed acquisitions are located outside Atlantic Canada. Following these acquisitions, Killam is on track to meet its 2018 target, forecasting approximately 27% of NOI to be generated outside Atlantic Canada in 2018 compared to 23% in 2017.

Development of High-Quality Properties	
2018 Target	To complete The Alexander and Saginaw developments, and break ground on one additional development project.
2018 Performance to-date	The Saginaw Park development was completed on schedule and opened in April 2018. The Alexander development is expected to be completed in September 2018. As well, Killam remains on schedule with the Frontier development in Ottawa. Killam received final approval from the City of Mississauga for its Silver Spear II joint development project, and expects to break ground in late 2018/early 2019.

Strengthened Balance Sheet	
2018 Target	Maintain debt as a percentage of total assets ratio below 52%.
2018 Performance to-date	Debt as a percentage of total assets was at a historic low of 48.0% as at June 30, 2018.

Outlook

Expecting Strong Operating Fundamentals to Drive Above Average Rental Growth
Population growth from immigration, a wave of baby boomers and seniors transitioning from home ownership to apartment living, a growing number of people living alone and a trend for young Canadians to delay homeownership is expected to support strong rental demand for the foreseeable future. High 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 and equity required to obtain financing, further supporting demand for apartments.

With one of the newest and highest-quality apartment portfolios in Canada, Killam is well positioned to respond to this strong demand. Management expects to grow revenue by maximizing rental rates while 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 lease renewal on an annual basis. In rent controlled Ontario, 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. Beyond 2018, Killam expects to continue to see strong revenue growth, with expectations to sustain or exceed the current revenue growth rate.

Expanded Suite Repositioning Program
Killam is accelerating its suite repositioning program, tripling its investment in 2017 to a minimum of $3.0 million in 2018. Suite repositionings represent unit upgrades above $10,000. Killam targets a return on investment of at least 10% and monthly rental rate increases of 10% - 30% upon completion of the renovation. A review of Killam's portfolio has identified approximately 3,000 units with repositioning opportunities. Management is committed to investing further in repositioning suites to enhance revenue growth and the net asset value of the portfolio for the foreseeable future.

2018 Expected to be Killam's Most Active Year of Acquisitions
Year-to-date, Killam has completed or has under contract an aggregate of $175.0 million in acquisitions. With an active acquisition pipeline and acquisition capacity of over $250 million, Killam expects a minimum of $225 million of acquisitions in 2018, potentially making this year its most active from an acquisition standpoint.

Acquisitions completed or committed subsequent to quarter-end include:

- A new 178-unit property located in Edmonton, AB, for $47.0 million, expected to close in mid-August.
- A 137-site, 22 acre seasonal property located in Carleton Place, ON for $2.0 million. This seasonal property is adjacent to Killam's Lakewood Estates MHC.
- A 10% interest in a 13.57-acre development site in Calgary, Alberta for $2.0 million. The site is zoned for 829 units and Killam has agreed to purchase the first phase (233 units) at a purchase price of $55.0 million ($236,000 per unit) when completed in 2020. This agreement also provides Killam with first right to purchase the remaining three phases of the project.

Continuing to Increase Portfolio in Ontario and Alberta
Management is focused on increasing its presence in Ontario and Alberta. Based on its current portfolio, and acquisitions under contract in Ontario and Alberta, approximately 27% of Killam's 2018 NOI is forecasted to be generated outside Atlantic Canada, up from 23% in 2017. Killam has a strong pipeline of acquisitions and developments planned in both Ontario and Alberta and expects to meet its goal of 30% of NOI generated outside Atlantic Canada by 2020.

Investing in 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 improve operating margins. Killam is in its second full year of a five-year, $25 million program to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature and lighting systems. Killam has expanded its operations team to bring energy specialists in-house to optimize this capital investment. Management is forecasting investments of $5.0 million in 2018 on projects with an average payback of approximately four years. A similar investment is expected in 2019. These projects are expected to improve same property NOI by lowering consumption, reducing Killam's exposure to fluctuating energy costs and unpredictable winter weather.

Enhancing Efficiencies through Technology
Management will continue to invest in technology to improve efficiencies, enhance communication with staff and tenants, use increased data analytics to maximize returns and implement rent maximization software. Management is in the process of implementing enhancements to its online marketing and leasing platform to make the prospect online experience seamless from initial contact to lease signing. Technology enhancements in the coming months also include upgrading tenant mobile and online communication experience.

Driving NAV Growth with Developments

Killam is an experienced developer with $77 million of projects underway in Halifax and Ottawa. The tower of the The Alexander development, which includes 185 units, is expected to be completed by September 2018, and Frontier, the first building (227 units) of a four-phase project in Ottawa, is planned to open in mid-2019. Once stabilized, these projects, along with the recently completed 94-unit Saginaw Park in Cambridge, are expected to contribute approximately $0.03 per unit of FFO growth, and approximately $12 million of NAV growth.

Additionally, Killam has land supporting a development pipeline of approximately 2,400 units, representing a potential investment of $700 million. One of these projects, Silver Spear II, in Mississauga, ON, received final municipal approval in April and construction is expected to commence in late 2018/early 2019. The second phase of the Ottawa project is scheduled to commence in mid-2019. Killam is moving forward with development planning for recently acquired development land in Waterloo and Kitchener, and targets beginning construction in 2020.

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.

Expecting Rising Interest Rates to Lead to Higher Interest Expense Beyond 2018

Management expects to refinance near-term maturities at lower interest rates. Killam has $46.2 million of apartment mortgages maturing through to the end of 2018 having a weighted average interest rate of 3.76%, approximately 50 bps and 25 bps higher than prevailing 5-year and 10-year CMHC-insured rates. MHC mortgages of $3.6 million 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 mortgages maturing between 2019 and 2022 are approximately 50 bps below current market rates. Management has laddered its debt maturities and reduced its overall leverage to lessen its exposure to likely rising interest rates. Management plans to maintain its conservative debt metrics and continues to flatten out its debt maturity schedule as mortgages mature.

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

PART III

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at June 30, 2018:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,569	64	$23,120	37.1 %
Sydney	139	2	631	1.0 %
	5,708	66	$23,751	38.1 %
New Brunswick				
Fredericton	1,422	21	$4,591	7.4 %
Moncton	1,629	31	$4,580	7.3 %
Saint John	1,202	14	$2,697	4.3 %
Miramichi	96	1	$298	0.5 %
	4,349	67	$12,166	19.5 %
Ontario				
Ottawa	1,064	9	$4,013	6.4 %
London	523	5	$2,459	3.9 %
Toronto	378	2	$1,872	3.0 %
Cambridge	440	4	$2,119	3.4 %
	2,405	20	$10,463	16.7 %
Newfoundland & Labrador				
St. John's	915	12	$3,662	5.9 %
Grand Falls	148	2	$364	0.6 %
	1,063	14	$4,026	6.5 %
Prince Edward Island				
Charlottetown	906	18	$2,972	4.8 %
Summerside	86	2	$247	0.4 %
	992	20	$3,219	5.2 %
Alberta				
Edmonton	296	2	$1,513	2.4 %
Calgary	373	2	$1,132	1.8 %
	669	4	$2,645	4.2 %
Total Apartments	**15,186**	**191**	**$56,270**	**90.2 %**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,626	16	$2,159	3.5 %
Ontario	2,145	16	$2,008	3.2 %
New Brunswick (4)	224	1	($11)	— %
Newfoundland & Labrador	170	2	$168	0.3 %
Total MHCs	**5,165**	**35**	**$4,324**	**7.0 %**
Commercial Portfolio (3)				
	Square Footage	Number of Properties	NOI ($)	NOI (% of Total)
Halifax, NS	254,000	5	$645	1.1 %
Waterloo, ON	297,000	1	$1,101	1.7 %
Total Commercial	**551,000**	**6**	**$1,746**	**2.8 %**
Total Portfolio		**232**	**$62,340**	**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 six months ended June 30, 2018.

(3) Killam also has 118,000 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

(4) This property is a seasonal resort which is operational only during Q2 and Q3.

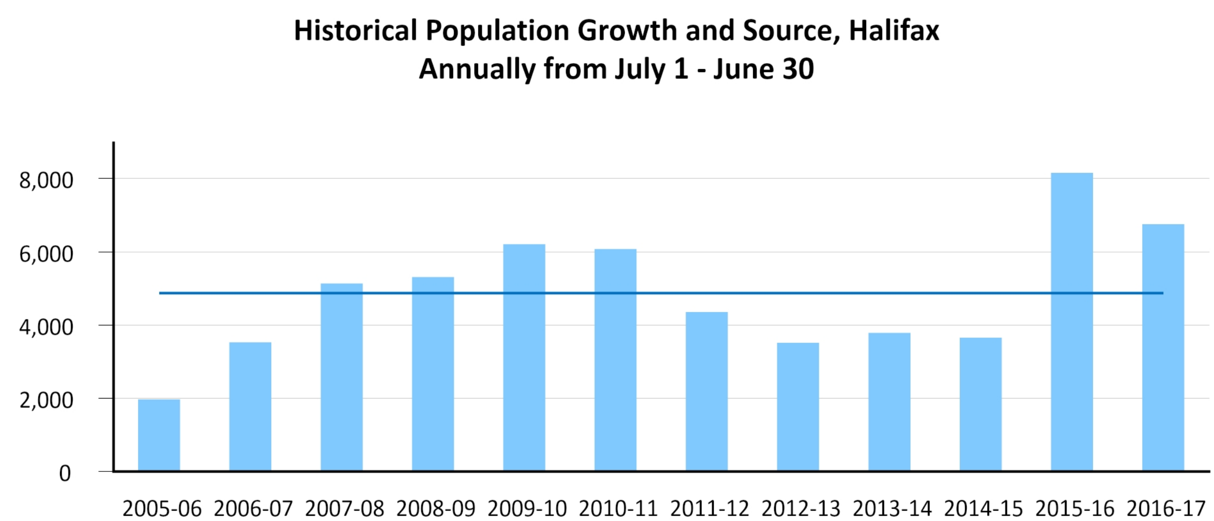
Core Market Update

Halifax
37% of Killam's NOI is generated by its Halifax properties. Halifax is the largest city in Atlantic 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 Gross Domestic Product ("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 2.2% in each of 2018 and 2019, fueled 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 also anchored Atlantic Canada's successful 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 from 2005 to 2017. Population growth for the 12-month period ended June 30, 2017 was also well above average growth.

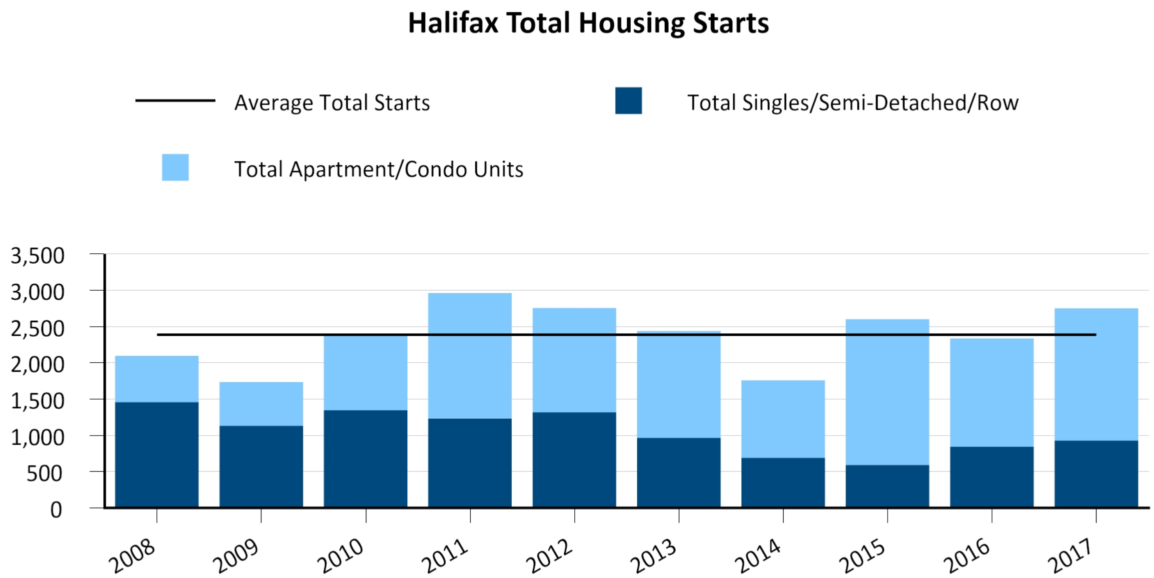


Source: Statistics Canada

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. Annual total housing starts for the last 10 years are included in the following graph. During the first six months of 2018, CMHC reports 639 apartment starts, compared to 917 during the same period in 2017. Halifax ended 2017 with CMHC reporting average apartment vacancy of 2.3%, compared to 2.6% in 2016, in its Fall 2017 Rental Market Report. With expected economic and population growth, CMHC forecasts vacancy rates to increase to 3.3% in 2018.

The following chart summarizes Halifax's housing start activity from 2008 to 2017:



Source: CMHC

Ontario
Killam's Ontario apartment portfolio generated 17% of NOI year-to-date 2018. 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 that rental rates will increase by 4.7% over the same period.

On May 18, 2017, the Government of Ontario passed the *Rental Fairness Act*, extending rent control to properties built after 1991. On June 23, 2017, the rental increase ceiling was set at 1.8% for 2018 and recently set at 1.8% for 2019. Future increases will be pegged to inflation; however, landlords have the ability to increase rents to market on unit turns.

Ottawa
Ottawa's overall primary rental market has been strengthening, as the most recent CMHC vacancy rate for the city has decreased from 3.1% in October 2016 to 1.7% in October 2017. In the western Ottawa neighborhood where Killam's 741-unit Williams Court property is located, vacancy has decreased from 4.4% to 0.9% over the same time frame. Rental rates are also growing, with the average rent in Ottawa increasing by 3.6% to $1,136 as of October 2017 and 8.7% to $1,708 for western Ottawa.

Kitchener-Cambridge-Waterloo
Known as Canada's Silicon Valley since the 1980's, the region has seen vacancy rates decrease over the past four years from 3.0% to an October 2017 low of 1.9%. According to CBRE's Q2-2018 cap-rate report, interest in multifamily assets has surged recently. The high volume of interested buyers and strong market fundamentals has kept cap-rates compressed, as buyers rely on rental increases to drive yield.

London
The London primary rental market continues to see a steady decrease in vacancy, from 5.1% in 2009 to just 1.8% in 2017. Over the same period, average rents have increased by 17% from $821 to $964. The Conference Board of Canada believes employment in London will grow 2.6% in 2018 and forecasts economic stability for the city due to its diversity of workplaces and sectors.

Greater Toronto Area
According to CBRE's Q2-2018 cap rate report, core product, regardless of asset class, continues to be priced aggressively as property fundamentals remain exceedingly strong across the GTA. Cap rates for Class A assets, both high and low-rise, are now trading at as low as a 3% cap-rate. CMHC vacancy remains low at 1.1% as of October 2017, down slightly from 1.4% in October 2016. Average rent rates increased from $1,240 to $1,308 over the same time frame, an increase of 5.5%.

New Brunswick

20% 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, while the Saint John market is focused on industry and energy.

Stronger occupancy in the province during 2017 and the first half of 2018 was primarily due to intraprovincial and international migration, demand from downsizing boomers, and slowing emigration as a result of an improved provincial economy. A limited amount of new apartment construction has further contributed to occupancy gains. CMHC reports only 214 new apartments were completed in the province in 2017, compared to 1,014 in 2013. The CMHC 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 NOI is generated in Newfoundland and Labrador. 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 in 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 and oil prices are rising.

Prince Edward Island

The Charlottetown market accounted for 5% of Killam's total NOI year-to-date 2018. Killam has an 18% share of the Charlottetown market, the provincial capital and economic centre of Prince Edward Island. As a proportion of its population, Prince Edward Island had amongst the highest rates of international immigration in Canada during 2017, creating a significant reduction in the region's vacancy. The CMHC 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.

Alberta

Killam generated 4% of its year-to-date 2018 NOI in Alberta. In its 2017 Rental Market Report, CMHC reported 6.3% vacancy for Calgary, an improvement 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 in 2017, 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 2017 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 demand leads to population growth.

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

PART IV

Q2-2018 Financial Overview
Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$52,937**	$45,898	15.3%	**$45,223**	$43,441	4.1%	**$7,714**	$2,457	214.0%
Property operating expenses									
General operating expenses	**7,661**	7,106	7.8%	**6,511**	6,551	(0.6)%	**1,150**	555	107.2%
Utility and fuel expenses	**5,009**	4,505	11.2%	**4,507**	4,320	4.3%	**502**	185	171.4%
Property taxes	**6,351**	5,502	15.4%	**5,157**	5,160	(0.1)%	**1,194**	342	249.1%
Total operating expenses	**$19,021**	$17,113	11.1%	**$16,175**	$16,031	0.9%	**$2,846**	$1,082	163.0%
NOI	**$33,916**	$28,785	17.8%	**$29,048**	$27,410	6.0%	**$4,868**	$1,375	254.0%
Operating margin %	**64.1%**	62.7%	140 bps	**64.2%**	63.1%	110 bps	**63.1%**	56.0%	710 bps

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$102,386**	$90,203	13.5%	**$89,108**	$85,633	4.1%	**$13,278**	$4,570	190.5%
Property operating expenses									
General operating expenses	**15,653**	14,783	5.9%	**13,609**	13,737	(0.9)%	**2,044**	1,046	95.4%
Utility and fuel expenses	**12,229**	10,785	13.4%	**11,141**	10,429	6.8%	**1,088**	356	205.6%
Property taxes	**12,164**	10,908	11.5%	**10,344**	10,284	0.6%	**1,820**	624	191.7%
Total operating expenses	**$40,046**	$36,476	9.8%	**$35,094**	$34,450	1.9%	**$4,952**	$2,026	144.4%
NOI	**$62,340**	$53,727	16.0%	**$54,014**	$51,183	5.5%	**$8,326**	$2,544	227.3%
Operating margin %	**60.9%**	59.6%	130 bps	**60.6%**	59.8%	80 bps	**62.7%**	55.7%	700 bps

Same property results included properties owned during comparable 2018 and 2017 periods. Same property results represent 83% of the fair value of Killam's investment property portfolio as at June 30, 2018. Non-same property results include acquisitions, dispositions and developments completed in 2017 and 2018, commercial assets acquired for future residential development, as well as adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 4.1% for the three and six months ended June 30, 2018, as compared to the same periods of 2017. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings as a result of strong market fundamentals. Total property operating expenses increased a modest 0.9% and 1.9% for the three and six months ended June 30, 2018. This increase was driven by a 4.3% and 6.8% increase in utility and fuel expenses resulting from higher variable pricing and increased consumption, a slight decrease in general operating expenses and relatively flat property taxes expense. Overall, same property NOI grew by 6.0% and 5.5% for the three and six months ended June 30, 2018, as compared to 2017 and Killam's operating margin improved by 110 bps and 80 bps.

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

Apartment Results

For the three months ended June 30,

	Total			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$46,091**	$40,864	12.8%	**$41,167**	$39,551	4.1%	**$4,924**	$1,313	275.0%
Property operating expenses									
General operating expenses	**6,263**	5,898	6.2%	**5,657**	5,705	(0.8)%	**606**	193	214.0%
Utility and fuel expenses	**4,518**	4,078	10.8%	**4,197**	4,011	4.6%	**321**	67	379.1%
Property taxes	**5,554**	5,132	8.2%	**5,000**	5,013	(0.3)%	**554**	119	365.5%
Total operating expenses	**$16,335**	$15,108	8.1%	**$14,854**	$14,729	0.8%	**$1,481**	$379	290.8%
NOI	**$29,756**	$25,756	15.5%	**$26,313**	$24,822	6.0%	**$3,443**	$934	268.6%
Operating margin %	**64.6%**	63.0%	160 bps	**63.9%**	62.8%	110 bps	**69.9%**	71.1%	(120) bps

For the six months ended June 30,

	Total			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$91,560**	$81,135	12.8%	**$82,072**	$78,825	4.1%	**$9,488**	$2,310	310.7%
Property operating expenses									
General operating expenses	**13,085**	12,415	5.4%	**11,918**	12,083	(1.4)%	**1,167**	332	251.5%
Utility and fuel expenses	**11,226**	9,834	14.2%	**10,481**	9,743	7.6%	**745**	91	718.7%
Property taxes	**10,979**	10,160	8.1%	**10,027**	9,980	0.5%	**952**	180	428.9%
Total operating expenses	**$35,290**	$32,409	8.9%	**$32,426**	$31,806	1.9%	**$2,864**	$603	375.0%
NOI	**$56,270**	$48,726	15.5%	**$49,646**	$47,019	5.6%	**$6,624**	$1,707	288.0%
Operating margin %	**61.5%**	60.1%	140 bps	**60.5%**	59.6%	90 bps	**69.8%**	73.9%	(410) bps

Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2018, was $46.1 million and $91.6 million, an increase of 12.8% over the same periods in 2017. Revenue growth was augmented by contributions from recently acquired properties, improved occupancy and higher rental rates.

Non-same property revenue consists of properties acquired in 2017 and 2018, a development project that was partially completed in late 2017, and other adjustments to normalize for non-operational revenue or expense items.

Same property apartment revenue increased 4.1% for the three and six months ended June 30, 2018, with strong fundamentals and leasing activity contributing to a 90 bps improvement in same property occupancy and a 2.4% increase in average rental rates. As well, rental incentives for the three and six months ended June 30, 2018, were considerably lower than the same periods of 2017, as fewer incentives were offered given strong market conditions.

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

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

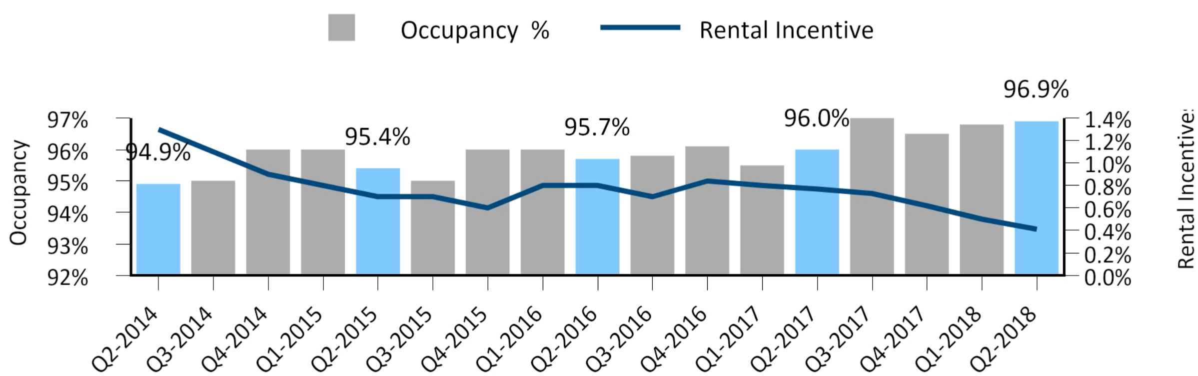
For the three months ended June 30,	# of Units	Total Occupancy 2018	Total Occupancy 2017	Total Occupancy Change (bps)	Same Property Occupancy 2018	Same Property Occupancy 2017	Same Property Occupancy Change (bps)
Halifax, NS	5,569	**97.3%**	96.4%	90	**97.3%**	96.4%	90
Ontario[2]	2,405	**93.1%**	95.2%	(210)	**96.4%**	95.3%	110
Moncton, NB	1,629	**97.5%**	96.2%	130	**97.5%**	96.2%	130
Fredericton, NB	1,422	**96.7%**	95.7%	100	**96.7%**	95.7%	100
Saint John, NB	1,202	**96.6%**	94.5%	210	**96.6%**	94.5%	210
St. John's, NL	915	**94.3%**	94.0%	30	**94.3%**	94.0%	30
Charlottetown, PE	906	**99.5%**	99.1%	40	**99.5%**	99.1%	40
Alberta	669	**89.2%**	89.4%	(20)	**94.8%**	96.2%	(140)
Other Atlantic locations	469	**93.9%**	96.7%	(280)	**93.9%**	96.7%	(280)
Total Apartments (weighted average)	15,186	**96.0%**	95.9%	10	**96.9%**	96.0%	90

(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.

(2) Total occupancy for Ontario in Q2-2018 was 210 bps lower than Q2-2017 to due to the addition of a new development Saginaw Park, which opened in April 2018. Excluding Saginaw Park, total Ontario occupancy for the quarter would be 96.6%, a 140 bps improvement over Q2-2017.

For discussion on changes in occupancy levels during the quarter, refer to page 18 of this MD&A under section "Apartment Same Property NOI by Region".

Historic Same Property Apartment Occupancy & Rental Incentives (as a % of Residential Revenue)



Average Rent Analysis by Core Market

As at June 30,

	# of Units	Average Rent 2018	Average Rent 2017	Average Rent % Change	Same Property Average Rent 2018	Same Property Average Rent 2017	Same Property Average Rent % Change
Halifax, NS	5,569	**$1,055**	$998	5.7%	**$1,023**	$998	2.5%
Ontario	2,405	**1,390**	1,386	0.3%	**1,176**	1,148	2.4%
Moncton, NB	1,629	**853**	831	2.6%	**853**	831	2.6%
Fredericton, NB	1,422	**946**	923	2.5%	**946**	923	2.5%
Saint John, NB	1,202	**789**	764	3.3%	**789**	764	3.3%
St. John's, NL	915	**978**	969	0.9%	**978**	969	0.9%
Charlottetown, PE	906	**940**	917	2.5%	**940**	917	2.5%
Alberta	669	**1,338**	1,140	17.4%	**1,133**	1,141	(0.7)%
Other Atlantic	469	**883**	867	1.8%	**883**	867	1.8%
Total Apartments (weighted average)	15,186	**$1,037**	$997	4.0%	**$979**	$956	2.4%

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

Same Property Rental Increases - Tenant Renewal versus Unit Turn

Killam turns approximately 32-35% 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 six months ended June 30,	**2018**	2017	Change (bps)
Upon lease renewal	**1.6%**	0.6%	100
Upon unit turn	**4.9%**	3.3%	160
Weighted average rental increase	**2.4%**	1.6%	80

Apartment Expenses

Total operating expenses for the three and six months ended June 30, 2018, were $16.3 million and $35.3 million, 8.1% and 8.9% increases over the same periods of 2017, due primarily to incremental costs associated with recent acquisitions. Killam increased its apartment operating margin by 160 bps and 140 bps for the three and six months ended June 30, 2018, as revenues associated with additions to the portfolio and higher occupancy more than offset the incremental costs of operating the portfolio.

Total same property operating expenses for the three and six months ended June 30, 2018, were 0.8% and 1.9% higher than the same periods of 2017. The increases were driven by higher utility and fuel costs resulting from increases in both consumption and variable pricing during the heating season. Property tax expense remained relatively flat for the three and six months ended June 30, 2018 and 2017, as Killam continues to appeal tax assessment increases whenever possible. Killam realized savings of 0.8% and 1.4% in general operating expenses for the three and six months ended June 30, 2018, due to lower insurance premiums and operating cost management initiatives. In total, the same property margin improved by 110 bps and 90 bps during the three and six months ended June 30, 2018.

Apartment Utility and Fuel Expenses - Same Property

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Natural gas	**$1,161**	$1,022	13.6%	**$3,665**	$2,995	22.4%
Electricity	**1,609**	1,615	(0.4%)	**3,776**	3,802	(0.7)%
Water	**1,158**	1,138	1.8%	**2,257**	2,255	0.1 %
Oil & propane	**257**	229	12.2%	**765**	677	13.0%
Other	**12**	7	71.4%	**18**	14	28.6%
Total utility and fuel expenses	**$4,197**	$4,011	4.6%	**$10,481**	$9,743	7.6%

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 in Q2-2018 and 32% year-to-date. Total same property utility and fuel expenses were 4.6% and 7.6% higher than the three and six months ended June 30, 2017.

Same property natural gas expense increased by 13.6% compared to Q2-2017 and 22.4% in the six months ended June 30, 2018. The increased costs compared to the prior periods were primarily attributable to higher distribution and commodity prices in Nova Scotia and New Brunswick of 15.4% and 16.7%, along with higher consumption due to colder 2018 temperatures year-to-date compared to 2017 in most regions. Ontario gas pricing decreased by 14% year-to-date, partially offsetting higher consumption realized in that province.

Electricity costs for the three and six months ended June 30, 2018, were 0.4% and 0.7% lower than the same periods of 2017, primarily due to lower rates in Ontario and savings from LED lighting retrofits. Killam has retrofit over 70 properties with LED technology since 2017, saving an estimated 2.7 million kWh of electricity annually and generating approximately $0.4 million of annualized electricity cost savings.

Water expense increased by 1.8% in Q2-2018 and only 0.1% year-to-date, compared to the same periods of 2017 due to water rate increases of 2% to 7% in Killam's regions in the past year. These increases have been partially offset by the additional 1,300 low-flow toilets installed over the past year and a half. In total, over 8,400 low-flow toilets have been installed since 2015, saving an estimated 400 million litres of water annually and generating approximately $1.0 million of annualized water cost savings.

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

Heating oil and propane costs increased by 12.2% and 13.0% in the three and six months ended June 30, 2018, compared to the same periods of 2017 as a result of a rise in global oil prices.

Apartment Same Property NOI by Region

Three months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Halifax	**$15,976**	$15,344	4.1%	**($5,490)**	($5,440)	0.9%	**$10,486**	$9,904	5.9%
Ontario	**6,785**	6,493	4.5%	**(2,217)**	(2,216)	- %	**4,568**	4,277	6.8%
Moncton	**4,419**	4,205	5.1%	**(1,961)**	(1,930)	1.6%	**2,458**	2,275	8.0%
Fredericton	**4,076**	3,892	4.7%	**(1,607)**	(1,585)	1.4%	**2,469**	2,307	7.0%
Saint John	**2,896**	2,721	6.4%	**(1,323)**	(1,319)	0.3%	**1,573**	1,402	12.2%
St. John's	**2,576**	2,528	1.9%	**(687)**	(707)	(2.8)%	**1,889**	1,821	3.7%
Charlottetown	**2,558**	2,486	2.9%	**(941)**	(917)	2.6%	**1,617**	1,569	3.1%
Alberta	**620**	607	2.1%	**(184)**	(191)	(3.7)%	**436**	416	4.8%
Other Atlantic locations	**1,261**	1,275	(1.1)%	**(444)**	(424)	4.7%	**817**	851	(4.0)%
	$41,167	$39,551	4.1%	**($14,854)**	($14,729)	0.8%	**$26,313**	$24,822	6.0%

Six months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Halifax	**$31,884**	$30,622	4.1%	**($11,868)**	($11,509)	3.1%	**$20,016**	$19,113	4.7%
Ontario	**13,590**	13,039	4.2%	**(4,841)**	(4,744)	2.0%	**8,749**	8,295	5.5%
Moncton	**8,771**	8,276	6.0%	**(4,187)**	(4,173)	0.3%	**4,584**	4,103	11.7%
Fredericton	**8,095**	7,723	4.8%	**(3,514)**	(3,431)	2.4%	**4,581**	4,292	6.7%
Saint John	**5,755**	5,371	7.1%	**(3,057)**	(2,921)	4.7%	**2,698**	2,450	10.1%
St. John's	**5,140**	5,085	1.1%	**(1,480)**	(1,555)	(4.8)%	**3,660**	3,530	3.7%
Charlottetown	**5,111**	4,973	2.8%	**(2,127)**	(2,087)	1.9%	**2,984**	2,886	3.4%
Alberta	**1,210**	1,188	1.9%	**(373)**	(416)	(10.3)%	**837**	772	8.4%
Other Atlantic locations	**2,516**	2,548	(1.3)%	**(979)**	(970)	0.9%	**1,537**	1,578	(2.6)%
	$82,072	$78,825	4.1%	**($32,426)**	($31,806)	1.9%	**$49,646**	$47,019	5.6%

Halifax
Halifax is Killam's largest rental market and generated same property apartment revenue growth of 4.1% for both the three and six months ended June 30, 2018, compared to the same periods of 2017, due to an 90 bps increase in occupancy and a 2.5% increase in average rent, despite increased supply in the region.

Total operating expenses for the three and six months ended June 30, 2018, were 0.9% and 3.1% higher than the same periods of 2017. The increased expenses were driven by higher natural gas prices and heating fuel consumption, as well as higher repairs and maintenance expense. These increased costs were partially offset by lower contract service costs as less snow hauling was required in 2018, and lower insurance premiums. The net impact was 5.9% and 4.7% growth in NOI for the three and six months ended June 30, 2018.

Ontario
Revenue increased by 4.5% and 4.2% for the three and six months ended June 30, 2018, due to a 2.4% increase in average rental rates, a 110 bps increase in occupancy and increased parking revenues. The occupancy gains in this region are a result of the lease-up and stabilization of the Kanata Lakes portfolio in mid-2017 and improved occupancy in Killam's Ottawa portfolio.

Total operating expenses were flat for the quarter and 2.0% higher year-to-date than the same periods in 2017. During Q2, lower maintenance and security contracts cost offset inflationary pressures. In aggregate, same property NOI was 6.8% and 5.5% higher than the three and six months ended June 30, 2017.

New Brunswick

The NB portfolio achieved strong NOI growth of 8.6% and 9.4% over the same periods of 2017. This growth was driven by same property revenue increases of 5.3% and 5.9%, due to occupancy gains of 140 bps and 180 bps for the quarter and year-to-date, as well as rental rate growth in Saint John, Moncton, and Fredericton of 3.3%, 2.6% and 2.5%, respectively.

Total operating expenses for the quarter, were 1.2% and 2.2% higher than the same periods in 2017 primarily due to higher natural gas costs and higher consumption (see the "Apartment Utility and Fuel Expenses - Same Property" section for more details). This increase was partially offset by less snow hauling, lower tax assessments and insurance premiums.

Newfoundland and Labrador

Occupancy in Q1-2018 was lower than Q1-2017 due to softness in the economy, driven by reduced activity in the offshore oil sector, but has turned around in Q2-2018, with a 30 bps uptick over Q2-2017. Same property revenue increased 1.9% and 1.1% for the three and six months ended June 30, 2018, as compared to the same periods of 2017. Rental rates have increased by 0.9% year-to-date 2018 compared to the same periods of 2017.

Total operating expenses for the three and six months ended June 30, 2018, were 2.8% and 4.8% lower than the same periods of 2017 primarily due to net savings from internalizing property management for this portfolio effective April 1, 2017 and lower insurance premiums. In aggregate, same property NOI growth was 3.7% for both the three and six months ended June 30, 2018.

Prince Edward Island

Charlottetown achieved 2.9% and 2.8% revenue growth for the three and six months ended June 30, 2018, compared to the same periods in 2017, due to strong rental rate growth and close to maximum occupancy of 99.5%, a 40 bps increase over Q2-2017. Total operating expenses for the three and six months ended June 30, 2018 were 2.6% and 1.9% higher due primarily to increased heating oil expenses in 2018 as a result of higher pricing. Overall, Charlottetown achieved 3.1% and 3.4% NOI growth in the three and six months ended June 30, 2018, compared to the same periods of 2017.

Alberta

Killam has a 50% interest in a 307-unit building in downtown Calgary, Grid 5, that accounted for 2% of apartment same property NOI. Grid 5 achieved a 2.1% and a 1.9% increase in revenue for the three and six months ended June 30, 2018, compared to the same periods of 2017. Despite a decrease of 0.7% in rental rates from 2017 and a 140 bps decline in occupancy for Q2-2018 to 94.8%, Grid 5 realized increased commercial revenue, as approximately 75% of its ancillary commercial space is now leased.

Same property operating expenses for the three and six months ended June 30, 2018, were 3.7% and 10.3% lower than the same periods of 2017, due primarily to lower property taxes and property administrative expenses driving a 4.8% and 8.4% increase in NOI for the three and six months ended June 30, 2018.

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

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$4,058**	$3,890	4.3%	**$4,056**	$3,890	4.3%	**$2**	$—	N/A
Property operating expenses									
General operating expenses	**904**	852	6.1%	**854**	846	0.9%	**50**	6	733.3 %
Utility and fuel expenses	**310**	309	0.3%	**310**	309	0.3%	**—**	—	— %
Property taxes	**157**	147	6.8%	**157**	147	6.8%	**—**	—	— %
Total operating expenses	**$1,371**	$1,308	4.8%	**$1,321**	$1,302	1.5%	**$50**	$6	733.3 %
NOI	**$2,687**	$2,582	4.1%	**$2,735**	$2,588	5.7%	**($48)**	($6)	(700.0)%
Operating margin %	**66.2%**	66.4%	(20) bps	**67.4%**	66.5%	90 bps	**—%**	—%	—

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$7,042**	$6,808	3.4%	**$7,036**	$6,808	3.3%	**$6**	$—	N/A
Property operating expenses									
General operating expenses	**1,742**	1,665	4.6%	**1,691**	1,654	2.2%	**51**	11	363.6 %
Utility and fuel expenses	**659**	687	(4.1)%	**659**	687	(4.1)%	**—**	—	— %
Property taxes	**317**	304	4.3%	**317**	304	4.3%	**—**	—	— %
Total operating expenses	**$2,718**	$2,656	2.3%	**$2,667**	$2,645	0.8%	**$51**	$11	363.6 %
NOI	**$4,324**	$4,152	4.1%	**$4,369**	$4,163	4.9%	**($45)**	($11)	(309.1)%
Operating margin %	**61.4%**	61.0%	40 bps	**62.1%**	61.1%	100 bps	**—%**	—%	—

The MHC business generated 7.0% of Killam's NOI for the six months ended June 30, 2018. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each 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 4.3% and 3.3% for the three and six months ended June 30, 2018, compared to the same periods in 2017. Rents rose by 2.6%, to $251 per site from $245 per site in June 2017 due primarily to rental increases at permanent communities as well as strong revenue growth in the seasonal communities. Occupancy increased to 97.8% in Q2-2018, a 10 bps increase from Q2-2017.

Total same property expenses increased by 1.5% in Q2-2018 as compared to Q2-2017 primarily due to increases in property tax assessments and timing of tax recoveries in Ontario permanent parks. Total operating costs for the six months ended June 30, 2018, increased modestly by 0.8% as lower water consumption partially offset higher property tax assessments. Overall, the MHC portfolio generated same property NOI growth of 5.7% and 4.9% for the three and six months ended June 30, 2018.

Commercial Results

Killam's commercial property portfolio contributed $1.7 million, or 2.8%, of Killam's total NOI for the first six months of 2018. Occupancy was 99.4% during the quarter and 98.4% year-to-date, compared to 96.7% and 97.8% for the same periods of 2017.

Killam completed the acquisition of Westmount Place on March 29, 2018, a 297,000 office and retail complex. This property is 98% occupied and NOI generated during the second quarter was in line with Killam's expectations.

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

PART V

Other Income and Expenses

Other Income

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$216	$217	(0.5)%	**$511**	$402	27.1%

Other income includes property management fees, interest on bank balances and home sales. The 27.1% increase for the comparative six month period is primarily due to higher property management fees from an additional property under management which was acquired in March 2017 and higher interest income on bank balances. The 0.5% decrease for the comparative three month period is due to lower home sale revenue.

Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Mortgage, loan and construction loan interest	**$9,216**	$8,031	14.8%	**$17,831**	$15,934	11.9%
Interest on credit facilities	**344**	—	—%	**460**	—	—%
Interest on exchangeable units	**613**	599	2.3%	**1,218**	1,185	2.8%
Amortization of fair value adjustments on	**28**	(164)	117.1%	**11**	(231)	104.8%
Amortization of loss on interest rate hedge	**15**	15	—%	**29**	30	(3.3%)
Unrealized loss (gain) on derivative asset	**1**	(147)	n/a	**(32)**	(121)	223.1 %
Convertible debenture interest	**—**	81	(100.0%)	**—**	715	(100.0)%
Capitalized interest	**(804)**	(394)	(104.1%)	**(1,636)**	(723)	(126.3)%
	$9,413	$8,021	17.4%	**$17,881**	$16,789	6.5 %

Total financing costs increased $1.4 million, or 17.4% and $1.1 million, or 6.5% for the three and six months ended June 30, 2018, as compared to the same periods of 2017.

Mortgage and loan interest expense was $9.2 million for the three months ended June 30, 2018, an increase of $1.2 million, or 14.8% compared to the same period of 2017, while year-to-date mortgage loan and construction interest increased $1.9 million or 11.9%. Killam's mortgage, loan and construction liability balance increased by $188.4 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages and obtained financing for various acquisitions and developments. The average interest rate on refinancings in the six months ended June 30, 2018, was 3.34%, 49 bps lower than the average interest rate on expiring debt.

Interest expense on credit facilities was $0.3 million and $0.5 million for the three and six months ended June 30, 2018 compared to Nil in the comparable prior periods due to timing of acquisitions.

There was no interest expense associated with the convertible debentures in the six months ended June 30, 2018, compared to $0.7 million in the comparative period of 2017, following the redemption of $46 million of convertible debentures in April 2017.

Capitalized interest increased $0.4 million and $0.9 million for the three and six months ended June 30, 2018, compared to the same periods of 2017. 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

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

Depreciation Expense

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$228	$191	19.4%	**$455**	$356	27.8%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The increase in depreciation expense for the three and six months ended June 30, 2018, compared to the same periods in 2017, was primarily due to costs associated with website upgrades, vehicles, computer equipment and upgrades to Killam's head office building.

Amortization of Deferred Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$561	$441	27.2%	**$1,048**	$845	24.0%

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 27.2% and 24.0% for the three and six months ended June 30, 2018, following $104 million of mortgage refinancings, as well as financing costs associated with property acquisitions over the past 12 months.

Administration Expenses

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Administration (including REIT conversion costs)	**$3,545**	$2,755	28.7%	**$6,881**	$5,675	21.3%
REIT conversion costs	**—**	(82)	(100.0)%	**—**	(236)	(100.0)%
Administration (excluding REIT conversion costs)	**$3,545**	$2,673	32.6%	**$6,881**	$5,439	26.5%
As a percentage of total revenues	**6.7%**	5.8%	90 bps	**6.7%**	6.0%	70 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.

During the three and six months ended June 30, 2018, total administration expenses increased by $0.9 million, or 32.6%, and $1.4 million, or 26.5%, compared to the three and six months ended June 30, 2017, due to increased variable compensation and restricted trust unit ("RTU") related expense from stronger REIT performance and introducing a new executive compensation program that improves the ties between pay and performance. Administration expenses in 2018 also includes software costs associated with Killam's accounting and property management platform, which contributes approximately $0.2 million of the increase in the quarter and year-to-date.

Management expects administration expense in the second half of 2018 to be less than same period of 2017 and 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

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Investment properties	**$24,359**	$22,173	9.9%	**$85,073**	$32,718	160.0%
Convertible debentures	**—**	221	(100.0)%	**—**	690	(100.0)%
Deferred unit-based compensation	**(182)**	(35)	420.0%	**57**	(322)	117.7%
Exchangeable units	**(4,219)**	(232)	1,718.5%	**(2,906)**	(3,093)	6.0%
	$19,958	$22,127	(9.8)%	**$82,224**	$29,993	174.1%

Killam recognized $24.4 million in fair value gains on investment properties in Q2-2018 as a result of higher rental rates, and therefore higher annualized NOI. Cap-rate compression following stabilization of its Edmonton assets and gains realized on the recently completed Saginaw Park. Year-to-date, Killam has realized $85.1 million in fair value gains. The weighted average cap-rate for the apartment portfolio has declined 15 bps to 5.22%, compared to 5.37% as at December 31, 2017. The MHC portfolio fair value has remained relatively unchanged year-to-date 2018.

Killam redeemed its remaining outstanding convertible debentures on April 13, 2017.

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 six months ended June 30, 2018, there was an unrealized gain of $0.1 million, versus a $0.3 million loss in the six months ended June 30, 2017, due to changes in the market price of the underlying Killam trust units.

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 three and six months ended June 30, 2018, there was an unrealized loss on remeasurement of $4.2 million and $2.9 million, compared to an unrealized loss of $0.2 million and $3.1 million loss in the same period of 2017, due to an increase 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:

	Weighted Average Number of Units (000s)						Outstanding Number of Units as at June 30,
	Three months ended June 30,			Six months ended June 30,			
	2018	2017	% Change	**2018**	2017	% Change	**2018**
Trust units	**81,162**	74,284	9.3%	**80,930**	71,756	12.8%	**84,975**
Exchangeable units	**3,836**	3,863	(0.7)%	**3,862**	3,865	(0.1)%	**3,836**
Basic number of units	**84,998**	78,147	8.8%	**84,792**	75,621	12.1%	**88,811**
Plus:							
Units under RTU plan	**238**	193	23.3%	**234**	172	36.0%	**—**
Diluted number of units	**85,236**	78,340	8.8%	**85,026**	75,793	12.2%	**88,811**

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 three and six months ended June 30, 2018 and 2017 are calculated as follows:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Net income	**$34,864**	$34,611	0.7%	**$103,778**	$52,260	98.6%
Fair value adjustments	**(19,958)**	(22,127)	(9.8%)	**(82,224)**	(29,993)	174.1%
Loss on disposition	**—**	238	(100.0%)	**183**	238	(23.1)%
Non-controlling interest	**(6)**	(4)	50.0%	**(14)**	(6)	133.3%
Deferred tax expense	**5,480**	4,872	12.5%	**14,849**	7,959	86.6 %
Interest expense related to exchangeable units	**613**	599	2.3%	**1,218**	1,185	2.8%
Unrealized loss (gain) on derivative liability	**1**	(147)	(100.7%)	**(31)**	(121)	(74.4%)
Depreciation on owner-occupied building	**41**	49	(16.3%)	**83**	83	0.0%
REIT conversion costs	**—**	82	(100.0%)	**—**	236	(100.0)%
FFO	**$21,035**	$18,173	15.7%	**$37,842**	$31,841	18.8%
FFO unit - basic	**$0.25**	$0.23	8.7%	**$0.45**	$0.42	7.1%
FFO unit - diluted	**$0.25**	$0.23	8.7%	**$0.45**	$0.42	7.1%

Killam earned FFO of $21.0 million, or $0.25 per unit (diluted), for the three months ended June 30, 2018, compared to $18.2 million, or $0.23 per unit (diluted), for the three months ended June 30, 2017. The 8.7% increase in FFO per unit is primarily attributable to contributions from acquisitions ($2.3 million) and same property NOI growth ($1.6 million). These increases were partially offset by higher administration costs ($0.8 million) and an 8.8% increase in the weighted average number of units outstanding from the equity raises completed in November 2017 and June 2018.

Killam earned FFO of $37.8 million, or $0.45 per unit (diluted), for the six months ended June 30, 2018, compared to $31.8 million, or $0.42 per unit (diluted), for the six months ended June 30, 2017. The 7.1% increase in FFO per unit is primarily attributable to contributions from acquisitions ($3.7 million), same property NOI growth ($2.8 million), interest expense savings on the redemption of the convertible debentures ($0.7 million) and interest expense savings on refinancings and increased capitalized interest ($0.5 million). These increases were partially offset by higher administration costs ($1.2 million), increased interest expense related to Killam's credit facility ($0.4 million) and a 12.2% increase in the number of weighted average number of units outstanding from the equity raises completed in November 2017 and June 2018.

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

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to 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 the earning capacity of an asset compared to the capital expenditures that generate higher rents or more efficient operations.

Killam uses a rolling three-year historic average of actual maintenance capex for its apartment and MHC portfolios to calculate AFFO. This includes a maintenance capex reserve of $900 per apartment unit ($970 per unit in 2017) and $300 per MHC site (225 per site in 2017). Details regarding the maintenance capex calculation is included in Killam's 2017 MD&A.

On March 29, 2018, Killam expanded its commercial portfolio with the purchase of Westmount Place, a 297,000 square foot office and retail complex in Waterloo, Ontario. Killam's commercial portfolio now includes 6 properties totaling 551,000 square feet. Killam began taking a maintenance capex allowance in Q2-2018. Based on the expected average annual maintenance capital spend on these assets, Killam has taken an annual capex reserve of $0.70 per square foot. Killam has also included an adjustment for non-cash straight-line rent included in revenue related to this property.

The weighted average number of units, sites and square footage owned during the quarter was used to determine the capital adjustment applied to FFO to calculate AFFO:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
FFO	**$21,035**	$18,173	15.7%	**$37,842**	$31,841	18.8%
Maintenance Capital Expenditures						
Apartments	**(3,276)**	(3,325)	(1.5%)	**(6,495)**	(6,639)	(2.2)%
MHCs	**(387)**	(290)	33.4%	**(775)**	(580)	33.6%
Commercial	**(96)**	—	N/A	**(96)**	—	N/A
Straight-line rent adjustment	**(45)**		N/A	**(45)**		N/A
AFFO	**$17,231**	$14,558	18.4%	**$30,431**	$24,622	23.6%
AFFO per unit - basic	**$0.20**	$0.19	5.3%	**$0.36**	$0.33	9.1%
AFFO per unit - diluted	**$0.20**	$0.19	5.3%	**$0.36**	$0.32	12.5%
AFFO payout ratio - diluted	**79%**	84%	(500) bps	**88%**	95%	(700) bps
AFFO payout ratio - rolling 12 months(1)	**84%**	92%	(800) bps			

(1) Based on Killam's annual distribution of $0.6267 for the 12-month period ended June 30, 2018, and $0.6067 for the 12-month period ended June 30, 2017. The calculation uses a maintenance capex reserve of $900 for the rolling 12 months ending June 30, 2018 and an average of $935 for the 12 months ending June 30, 2017.

The payout ratio of 79% in Q2-2018, compared to the rolling 12-month payout ratio of 84%, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months. In addition, 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 each year.

The improvement in the AFFO payout ratio year-to-date is attributable to a 23.6% increase in AFFO driven by contributions from same property NOI growth, recent acquisitions and developments, 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. In the calculation of ACFO, Killam makes an adjustment for certain working capital items that are not considered indicative of sustainable economic cash flow available for distribution. Examples include working capital changes relating to development projects, sales and other indirect taxes payable or receivable from applicable governments, and changes in the security deposit liability. ACFO continues to include the impact of fluctuations from normal operating working capital, such as changes to rent receivable from tenants and accounts payable and accrued liabilities.

A reconciliation from cash provided by operating activities (refer to the condensed consolidated interim statements of cash flows for the three and six months ended June 30, 2018, and 2017) to ACFO is as follows:

	Three months ended June 30,			**Six months ended June 30,**		
	2018	2017	% Change	**2018**	2017	% Change
Cash provided by operating activities	**$24,935**	$16,031	55.5%	**$43,942**	$32,628	34.7%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**(3,691)**	2,024	(282.4%)	**(3,701)**	1,625	(327.8%)
Maintenance capital expenditures						
Apartments	**(3,276)**	(3,325)	(1.5%)	**(6,495)**	(6,639)	(2.2%)
MHCs	**(387)**	(290)	33.4%	**(775)**	(580)	33.6%
Commercial	**(96)**	—	N/A	**(96)**	—	N/A
Amortization of deferred financing costs	**(561)**	(441)	27.2%	**(1,048)**	(845)	24.0%
Non-controlling interest	**(6)**	(2)	200.0%	**(14)**	(6)	133.3 %
ACFO	**$16,918**	$13,997	20.9%	**$31,813**	$26,183	21.5%
Distributions declared(1)	**13,975**	12,256	14.0%	**27,404**	23,591	16.2%
Excess of ACFO over cash distributions	**$2,943**	$1,741	69.0%	**$4,409**	$2,592	70.1%
ACFO Payout Ratio - diluted (2)	**83%**	88%	(500) bps	**86%**	90%	(400) 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 $0.05333 per unit for March-June 2018, $0.05167 per unit from March 2017 to February 2018 and $0.05 per unit from January 2017 to February 2017.

Killam's ACFO payout ratio of 83% and 86% for the three and six months ended June 30, 2018, a decrease of 500 bps and 400 bps from the payout ratio for the three and six months ended June 30, 2017. Similar to the AFFO payout ratio, Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year.

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

Cash Provided by 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 provided by operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

	Three months ended June 30,		**Six months ended June 30,**	
	2018	2017	**2018**	2017
Net income	**$34,864**	$34,611	**$103,778**	$52,260
Cash provided by operating activities	**$24,935**	$16,031	**$43,942**	$32,628
Total distributions declared	**$13,975**	$12,256	**$27,404**	$23,591
Excess of net income over total distributions declared	**$20,889**	$22,355	**$76,374**	$28,669
Excess of net income over net distributions paid	**$23,554**	$25,195	**$82,471**	$33,993
Excess of cash provided by operating activities over total distributions declared	**$10,960**	$3,775	**$16,538**	$9,037

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

PART VII

Investment Properties

As at

	June 30, 2018	December 31, 2017	% Change
Investment properties	**$2,409,317**	$2,171,372	11.0%
Investment properties under construction ("IPUC")	**90,381**	81,080	11.5%
Land for development	**44,973**	27,311	64.7%
	$2,544,671	$2,279,763	11.6%

Continuity of Investment Properties

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$2,347,491**	$1,950,478	20.4%	**$2,171,372**	$1,887,302	15.1%
Acquisition of properties	**—**	4,105	(100.0)%	**109,688**	68,234	60.8%
Disposition of properties	**—**	(24)	(100.0)%	**—**	(24)	(100.0)%
Transfer to assets held for sale	**—**	—	— %	**—**	(16,592)	(100.0)%
Transfer from IPUC	**28,330**	—	N/A	**28,330**	—	N/A
Capital expenditures	**9,156**	6,337	44.5%	**17,429**	11,432	52.5%
Fair value adjustment - Apartments	**22,467**	22,676	(0.9)%	**78,417**	33,220	136.1%
Fair value adjustment - MHCs	**(710)**	(214)	231.8%	**(531)**	(214)	148.1%
Fair value adjustment - Other	**2,583**	(289)	(993.8)%	**4,612**	(289)	(1,695.8)%
Balance, end of period	**$2,409,317**	$1,983,069	21.5%	**$2,409,317**	$1,983,069	21.5%

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 June 30, 2018 and 2017, and December 31, 2017, is as follows:

Capitalization Rates

	June 30, 2018			December 31, 2017			June 30, 2017		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.75%**	**8.00%**	**5.22%**	3.75%	8.00%	5.37%	4.12%	8.00%	5.35%
MHCs	**5.75%**	**8.00%**	**6.82%**	5.75%	8.00%	6.84%	5.75%	8.00%	6.79%

2018 Acquisitions - Investment Properties

					Purchase Price (1)	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Income-producing Properties**	**Land for Development**
The Killick	Halifax, NS	28-Feb-18	100%	Apartment	$33,000	$ —
4th Avenue Land	Calgary, AB	28-Feb-18	40%	Development land	—	7,200
Weber Scott Pearl	Kitchener, ON	12-Mar-18	100%	Development land	1,200	4,800
Westmount Place	Waterloo, ON	29-Mar-18	100%	Retail/office complex and development land	72,900	4,900
Total Acquisitions					$107,100	$16,900

(1) Purchase price does not include transaction costs.

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

Investment Properties Under Construction

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$95,703**	$40,590	135.8 %	**$81,080**	$34,611	134.3%
Capital expenditures	**22,527**	18,305	23.1%	**33,930**	24,086	40.9%
Interest capitalized	**481**	257	87.2 %	**1,108**	455	143.5%
Acquisitions	**—**	8,000	(100.0)%	**—**	8,000	(100.0)%
Fair value adjustment	**—**	—	—%	**2,593**	—	N/A
Transfer to investment property/land for development	**(28,330)**	—	N/A	**(28,330)**	—	N/A
Balance, end of period	**$90,381**	$67,152	34.6%	**$90,381**	$67,152	34.6%

During Q2-2018, Killam narrowed its definition of IPUC to include only active development projects, which have broken ground. Land for future development, which is not yet in active development, is classified as land for development.

Saginaw Park
In April 2018, Killam's Saginaw Park, a 94-unit, seven-story development in Cambridge reached substantial completion. This project was completed on time and on budget, recognizing $4.9 million in fair value gains on this property year-to-date 2018. The building is currently 79% leased and is expected to be fully stabilized by the end of the year.

The Alexander
This 240-unit project located in downtown Halifax is scheduled to be completed in September 2018. The estimated cost of development is approximately $82.2 million, resulting in an expected all-cash yield of approximately 4.5%. Management's estimated total cost of completion has increased from the original budget due primarily to building code enhancements related to exterior cladding plus inflation, and project delays.

As at June 30, 2018, the project is approximately 91% complete with approximately $75 million in development costs incurred to date. In October 2017, Killam completed the podium level of the development and transferred $9.4 million from IPUC to investment properties. As Killam has control over the development for accounting purposes, 100% of the investment property and 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. The building is currently 80% leased and is expected to be fully leased within six months of opening.

Gloucester City Centre
In 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 is the development manager, and upon completion, Killam will be 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, Frontier, a 23-storey tower containing 227 units, is currently under construction. The total cost to develop Phase I is budgeted at $73 million ($36.5 million for Killam's 50% interest). As at June 30, 2018, Killam has invested $22.5 million in the first phase of the project which is scheduled to be completed mid-2019. Construction of Phase II containing 195 units, is expected to commence in early 2019.

With the completion of Saginaw Park and the two additional developments now underway, Killam forecasts adding approximately $151 million of new developments to its portfolio during the next two years.

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

Land for Development

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$43,558**	$21,151	105.9%	**$27,311**	$20,896	30.7%
Capital expenditures	**1,092**	467	133.8%	**1,451**	591	145.5%
Interest capitalized	**323**	137	135.8%	**551**	268	105.6%
Acquisitions	**—**	4,050	(100.0)%	**17,120**	4,050	322.7%
Dispositions	**—**	—	— %	**(1,460)**	—	N/A
Balance, end of period	**$44,973**	$25,805	74.3%	**$44,973**	$25,805	74.3%

Silver Spear II
In April 2018, Killam received final approval from the City of Mississauga to proceed with its Silver Spear II development on land adjacent to its existing 199-unit building. Killam will have a 50% ownership in this 128-unit development and expects to break ground in late 2018/early 2019. The budget for this project is $47.4 million (100%) or $370,000 per door with an anticipated all cash yield of 5.25%, approximately a 150 bps premium over the market cap-rate for a similar quality asset.

Killam has a robust $700 million development pipeline. Currently, Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Silver Spear II (1)	Mississauga, ON	64	Approved; in design
Weber Scott Pearl	Kitchener, ON	163	In design
Gloucester Phase 2 - 4 (1)	Ottawa, ON	283	In design
Grid 5 vacant land (2)	Calgary, AB	388	In design and approval process
Westmount Place	Waterloo, ON	560	In design
The Governor	Halifax, NS	48	In design and approval process
Carlton Terrace	Halifax, NS	104	In design and approval process
Kanata Lakes (1)	Ottawa, ON	40	In design and approval process
Cameron Heights	Edmonton, AB	190	In design and approval process
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
Carlton Houses	Halifax, NS	80	Future development
Topsail Road	St. John's, NL	225	Future development
Block 4	St. John's, NL	80	Future development
Total Development Opportunities		**2,425**	

(1) Represents Killam's 50% interest in the potential development units.
(2) Represents Killam's 40% interest in the potential development units.

70% of Killam's development pipeline, as a percentage of total potential units, is outside Atlantic Canada, with 46% in Ontario and 24% in Alberta. Killam targets yields of 5.0% to 6.0% on development, 50-150 bps higher than expected cap-rate value on completion. Building out the $700 million pipeline at a 100 basis point spread, would create approximately $175 million in net asset value for unitholders.

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 and/or lower operating costs. These investments include unit and common area upgrades and energy efficiency projects. Killam's AFFO discussion provides further disclosure on the allocation between maintenance capex and value-enhancing capex investments.

During the three and six months ended June 30, 2018, Killam invested $9.2 million and $17.4 million, compared to $6.3 million and $11.4 million for the three and six months ended June 30, 2017. Killam expects to invest between $40 and $45 million during 2018 in capital improvements.

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Apartments	**$8,001**	$5,514	45.1%	**$15,927**	$10,297	54.7%
MHCs	**817**	747	9.4%	**1,120**	949	18.0%
Commercial	**338**	79	327.8%	**382**	186	105.4%
	$9,156	$6,340	44.4%	**$17,429**	$11,432	52.5%

Apartments - Capital Spend

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

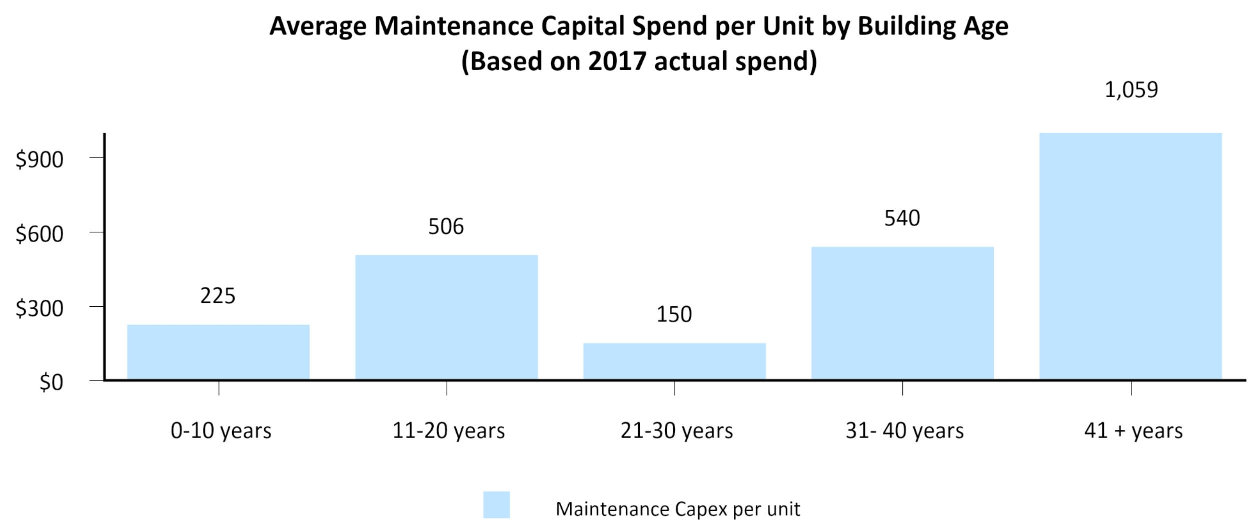
	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Building improvements	**$4,371**	$2,312	89.1%	**$9,011**	$3,699	143.6%
Suite renovations	**2,518**	2,405	4.7%	**4,769**	4,763	0.1%
Appliances	**290**	334	(13.2)%	**578**	714	(19.0)%
Boilers and heating equipment	**588**	390	50.8%	**1,102**	914	20.6%
Other	**234**	73	220.5%	**467**	207	125.6%
Total capital spend	**$8,001**	$5,514	45.1%	**$15,927**	$10,297	54.7%
Average number of units outstanding(1)	**14,563**	14,282	2.0%	**14,438**	14,181	1.8%
Capital spend - $ per unit	**$549**	$386	42.2 %	**$1,103**	$726	51.9 %

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

Killam invested $549 and $1,103 per unit for the three and six months ended June 30, 2018, compared to $386 and $726 per unit for the same periods of 2017. Killam averaged lower capital spend in 2017 as a result of timing of multi-phase projects. The 2018 year-to-date spend is more in line with Killam's 2016 capital spend per unit.

Killam's focus on development and acquisition of newer properties translates into a lower capital spend per unit than many other apartment owners in Canada. Thirty-one percent of Killam's apartments, as a percentage of 2018 forecasted NOI, have been built in the past 10 years, and the average age of Killam's portfolio is 27 years. This portfolio of newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are lower.

Maintenance capital requirements vary significantly by age of each property. As the following chart illustrates, the approximate 2017 maintenance capex for properties built in the past 10 years was $225 per unit vs. $1,059 per unit, for units that were 40+ years old.



Building Improvements
Of the $8.0 million and $15.9 million total capital investment in the apartment segment for the three and six months ended June 30, 2018, approximately 51% and 53% was invested in building improvements, compared to 42% and 36% of the total capital spend for the three and six months ended June 30, 2017. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades/replacements, common area renovations and energy and water efficiency investments to increase the quality of Killam's portfolio. The quarter-over-quarter variance relates primarily to the timing of multi-phase building envelope projects.

Suite Renovations
Killam invested $2.5 million and $4.8 million in suite renovations during the three and six months ended June 30, 2018, consistent with the total spend of $2.4 million and $4.8 million for the three and six months ended June 30, 2017. 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 investment 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.

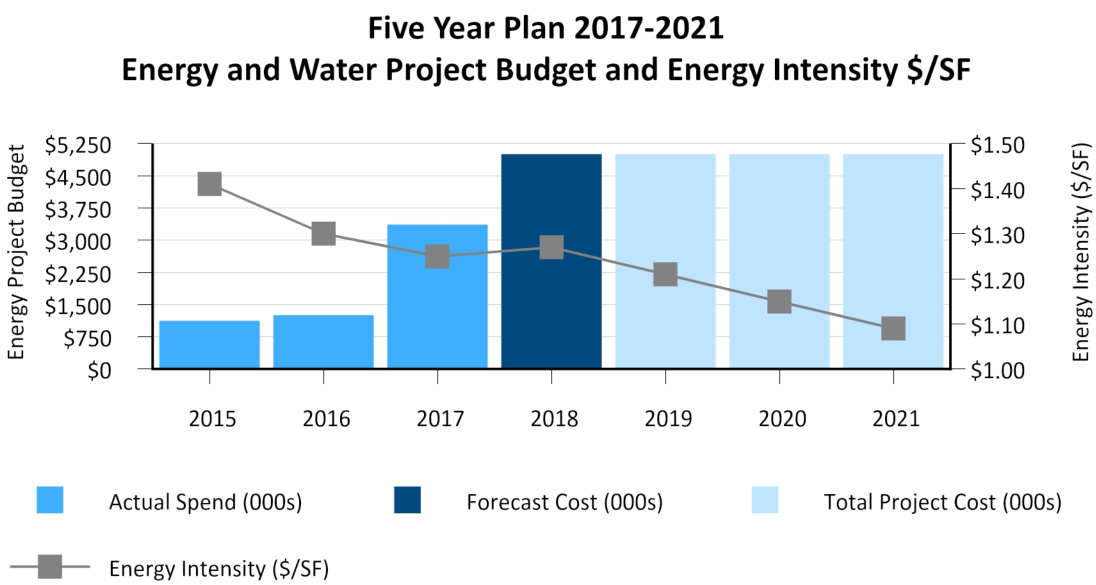
Suite Repositions
In 2018, Killam is accelerating its suite repositioning program, tripling its investment from 2017 to a minimum of $3.0 million in 2018. Killam is targeting a return on investment of at least 10% with monthly rental rate increases of 10% - 30% upon completion of the renovation and lease up. Management is committed to investing further in repositioning its suites to increase revenue growth and the net asset value of the portfolio. The repositioning program is ramping up across all regions. Year-to-date, 70 unit repositionings have been completed and leased up, with an average ROI of 15% and average monthly rental increase of $245 per unit.

Killam is on target to complete 200 repositioned units in 2018 and 300 units in 2019, which Management expects to generate $1.5 million additional revenue on an annualized basis. The opportunity for repositioning units within Killam's current portfolio is about 3,000 units, with an estimated $9.0 million in additional annualized same property revenue and approximately $170 million in increased net asset value. The average cost to reposition a unit is expected to be approximately $20,000.

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 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 square foot. This $0.31 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)



Killam will continue to execute on its energy efficiency plan in 2018, with a budget of $5.0 million and projected annualized savings of $1.1 million. Projects will target the installation of ultra-low flow toilets ($0.6 million), lighting ($1.9 million), and heating efficiency ($2.5 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:

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Water and sewer upgrades	**$293**	$317	(7.6)%	**$524**	$403	30.0%
Site expansion and land improvements	**64**	60	6.7%	**57**	92	(38.0)%
Other	**336**	315	6.7%	**401**	399	0.5%
Roads and paving	**95**	44	115.9%	**92**	44	109.1%
Equipment	**29**	11	163.6%	**46**	11	318.2%
Total capital spend - MHCs	**$817**	$747	9.4%	**$1,120**	$949	18.0%
Average number of sites	**5,165**	5,165	—%	**5,165**	5,165	—%
Capital spend - $ per site	**$158**	$145	9.0%	**$217**	$184	17.9%

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 three and six months ended June 30, 2018 was $0.8 million and $1.1 million, up from $0.7 million and $0.9 million in the three and six months ended June 30, 2017. The increase year-to-date in capital spend is due to timing of water and sewer upgrades. 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	June 30, 2018	December 31, 2017	Change
Weighted average years to debt maturity	**4.3**	4.0	0.3 years
Total debt to total assets	**48.0%**	48.7%	(70) bps
Interest coverage	**3.18x**	3.13x	1.6%
Debt service coverage	**1.53x**	1.51x	1.3%
Debt to EBITDA (1)	**10.85x**	10.70x	1.4%
Weighted average mortgage interest rate	**2.92%**	2.91%	1 bps
Weighted average interest rate of total debt	**2.98%**	2.96%	2 bps

(1) Ratio calculated net of cash.

Killam's long-term debt consists largely of fixed-rate, long-term mortgages. 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 June 30, 2018, was 2.92%, 1 bps higher than the rate as at December 31, 2017.

Total debt as a percentage of total assets decreased 60 bps to 48.0% from December 31, 2017, which is a result of additional cash due to the timing of funds from the June 2018 equity raise, in addition to Killam recognizing $85.1 million in fair value gains in the six months ended June 30, 2018, related to investments properties. 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 June 30, 2018 would have impacted the ratio of debt as a percentage of total assets by 80 bps.

Debt to EBITDA of 10.85x as at June 30, 2018, increased from 10.70x as at December 31, 2017, due to timing of acquisitions and increased construction financing on Killam's development projects. Debt to normalized EBITDA, which includes a full year of earnings from recently completed acquisitions and the lease-up of Saginaw Park, is 10.2x.

Refinancings

For the six months ended June 30, 2018, Killam refinanced the following mortgages:

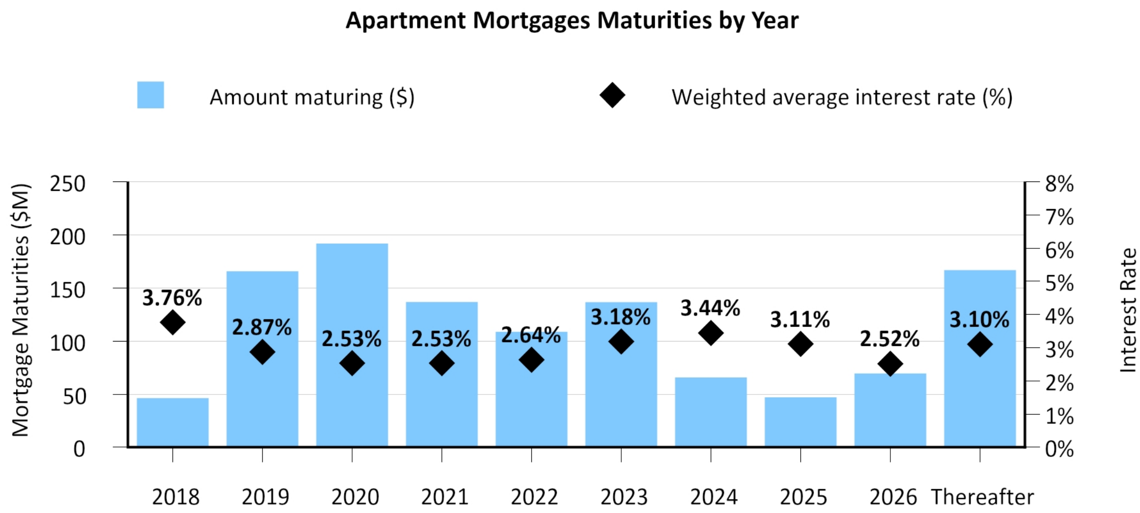
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$30,714	3.74%	$45,637	3.13%	6.5 years	$14,923
MHCs	8,248	4.18%	13,468	4.07%	5.0 years	5,220
	$38,962	3.83%	$59,105	3.34%	6.2 years	$20,143

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			MHCs		Total	
Year of Maturity	Balance June 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance June 30	Weighted Avg Int. Rate %	Balance June 30(1)	Weighted Avg Int. Rate %
2018	$46,225	3.76%	18.0%	$3,690	4.62%	$49,915	3.82%
2019	165,728	2.87%	94.0%	17,789	3.85%	183,517	2.97%
2020	191,765	2.53%	59.5%	6,551	3.52%	198,316	2.56%
2021	136,674	2.53%	85.5%	6,776	3.29%	143,450	2.56%
2022	108,546	2.64%	70.9%	24,194	3.67%	132,740	2.83%
2023	136,469	3.18%	89.9%	10,152	3.98%	146,620	3.24%
Thereafter	348,500	3.05%	100.0%	3,190	—%	351,760	3.06%
	$1,133,907	2.88%	83.2%	$72,341	3.21%	$1,206,318	2.93%

(1) Excludes $16.5 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at June 30, 2018.

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 June 30, 2018, approximately 83% of Killam's apartment mortgages were CMHC-insured (78% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2017 - 80% and 75%). The weighted average interest rate on the CMHC-insured mortgages was 2.78% as at June 30, 2018 (December 31, 2017 - 2.71%).

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

Remaining 2018 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	11	$4,623	$46,237
MHCs with debt maturing	4	851	3,594
	15	$5,474	$49,831

2019 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	39	$20,804	$154,321
MHCs with debt maturing	7	2,409	16,887
	46	$23,213	$171,208

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

Future Contractual Debt Obligations

As at June 30, 2018, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending June 30,	Mortgage and loans payable	Construction loans	Credit facilities	Total
2019	$200,908	$62,745	$—	$263,653
2020	195,311	—	—	195,311
2021	160,400	—	—	160,400
2022	182,915	—	—	182,915
2023	153,571	—	—	153,571
Thereafter	329,699	—	—	329,699
	$1,222,804	**$62,745**	**—**	**$1,285,549**

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $1.5 million (December 31, 2017 - $70.0 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 additional $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 June 30, 2018, Killam has assets with a carrying value of $81.8 million pledged as first mortgage ranking and $317.0 million pledged as second mortgage ranking to the line and a balance outstanding of $nil (December 31, 2017 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at June 30, 2018.

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 June 30, 2018, Killam had assets with a carrying value of $1.9 million pledged as collateral (December 31, 2017 - $1.8 million) and letters of credit totaling $0.7 million outstanding against the facility (December 31, 2017 - $1.1 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at June 30, 2018.

As at June 30, 2018	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	—	719	781
Total	**$71,500**	**—**	**$719**	**$70,781**

Construction Loans

As at June 30, 2018, Killam had access to three floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $98.6 million. Payments are made monthly on an interest only basis. The construction loans have interest rates ranging from prime plus 0.625% or 125 bps BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at June 30, 2018, $62.7 million was drawn on the construction loans (December 31, 2017 - $41.0 million). The weighted-average interest rate was 3.93% (December 31, 2017 - 3.83%).

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

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 three and six months ended June 30, 2018, no unitholders redeemed units.

During Q1-2018, Killam increased its monthly distribution by 3.2% to $0.05333, effective for the March 2018 distribution ($0.64 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 10-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.

Distribution Reinvestment Plan and Net Distributions Paid

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	**2018**	2017	% Change
Distributions declared on trust units	**$13,285**	$11,601	14.5%	**$26,035**	$22,304	16.7%
Distributions declared on exchangeable units	**614**	599	2.5%	**1,218**	1,185	2.8%
Distributions declared on awards outstanding under RTU plan	**76**	56	35.7%	**151**	102	48.0%
Total distributions declared	**$13,975**	$12,256	14.0%	**$27,404**	$23,591	16.2%
Less:						
Distributions on trust units reinvested	**(2,589)**	(2,784)	(7.0)%	**(5,946)**	(5,222)	13.9%
Distributions on RTUs reinvested	**(76)**	(56)	35.7%	**(151)**	(102)	48.0%
Net distributions paid	**$11,310**	$9,416	20.1%	**$21,307**	$18,267	16.6%
Percentage of distributions reinvested	**19.1%**	23.2%		**22.2%**	22.6%	

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 provided by 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 provided by operating activities are expected to be sufficient to fund the current level of distributions and maintenance capex.

(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's credit facilities provide over $200 million of acquisition capacity. Currently, Killam has no balance drawn on its revolving credit facility, and when combined with cash on hand has approximately $250 million in acquisition capacity.

(iii) The retained portion of annual ACFO, mortgage refinancings and construction loans are expected to be sufficient to fund value enhancing capex, 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 condensed consolidated interim statement of financial position and (ii) the historical cost of the assets of Killam. Total debt as a percentage of assets as at June 30, 2018 was 48.0%.

PART VIII
Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the MD&A of Killam's 2017 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2017, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three and six months ended June 30, 2018.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. Significant areas of judgment, estimates and assumptions are set out in note 3 to the audited consolidated financial statements found in Killam's 2017 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, replacing IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. Killam adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively. The implementation of IFRS 15 did not have a significant impact on Killam's revenue recognition. The disclosure in accordance with IFRS 15 is included in Note 15 to the condensed consolidated interim financial statements.

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments,* 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 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. Killam adopted the standard retrospectively on January 1, 2018. The implementation of IFRS 9 did not have a significant impact on Killam's financial instruments.

The IASB issued amendments to IFRS 2, *Share-based Payment*, that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Killam adopted the amendments on January 1, 2018. As Killam's policies and practices are in line with the amendments, the adoption of the new standard did not have any impact on Killam's financial statements.

The IASB issued an amendment to IAS 40, *Investment Property* that clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendment states that 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. A change in management's intentions for the use of a property does not provide evidence of a change in use. Killam adopted the amendment on January 1, 2018. Killam's current policy and practice is in line with the clarification issues, the amendment therefore did not have any impact on Killam's financial statements.

Disclosure Controls, Procedures and Internal Controls

Management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that Killam's 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. During the most recent interim period, there have been no significant changes to Killam's disclosure controls, procedures or internal controls.

Related Party Transactions

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. Since 2016, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, NS with a total development budget of $82.2 million. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner. Killam has a commitment in place to purchase the other 50% interest in this development. The building is expected to be completed in September 2018.

Subsequent Events

On July 17, 2018, Killam acquired a 137-site, 22-acre seasonal property located in Carleton Place, ON. The purchase price of $2.0 million was funded with cash on hand. This seasonal property is adjacent to Killam's Lakewood Estates MHC.

On July 18, 2018, Killam announced a distribution of $0.05333 per unit, payable on August 15, 2018, to unitholders of record on July 31, 2018.

On July 27, 2018, Killam acquired a 10% interest in a 13.57-acre development site in Calgary, AB for $2.0 million. The site is zoned for 829 units and Killam has agreed to purchase the first phase of 233 units at a purchase price of $55.0 million ($236,000 per unit) when completed in 2020. Killam will lease the buildings during construction and take possession upon completion. This agreement also provides Killam with the first right to purchase the remaining three phases of the project. Pricing for the remaining phases will be based upon market conditions at the time of purchase.

Killam has agreed to acquire a new 178-unit property located in Edmonton, Alberta. The purchase price of $47.0 million will be funded with a $35.3 million mortgage with an interest rate of 3.21% and the balance with cash on hand. The purchase is scheduled to close in mid-August.