Q1-2016 Management's Discussion & Analysis

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

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PART I

Basis of Presentation

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

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

The discussions in this MD&A are based on information available as at May 10, 2016. This MD&A has been reviewed and approved by Management and the Board of Trustees.

Forward-looking Statements

Certain statements in this MD&A constitute “forward-looking statements”. In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate”, "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in 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.

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

PART II

Financial and Operational Highlights

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

	Q1-2016	Q1-2015	% Change
Operating Performance(1)			
FFO	**$11,509**	$8,922	29.0%
FFO per unit/share (diluted)	**$0.18**	$0.15	20.0%
AFFO per unit/share (diluted)	**$0.16**	$0.12	33.3%
Weighted average number of units/shares outstanding (diluted) (000's)	**63,184**	61,035	3.5%
Distributions/dividends paid per unit/share	**$0.15**	$0.15	- %
AFFO payout ratio (diluted) - rolling twelve months	**82%**	94%	(12.8)%
Portfolio Performance			
Total portfolio property revenue	**$42,207**	$39,536	6.8%
Total portfolio NOI	**$23,430**	$20,655	13.4%
Same property NOI	**$21,937**	$20,303	8.0%
Same property NOI margin	**55.3%**	51.9%	340 bps
Same property apartment weighted average rental increase	**1.3%**	1.1%	20 bps
Same property apartment occupancy	**95.8%**	95.1%	70 bps

As at	**March 31, 2016**	December 31, 2015	% Change
Leverage Ratios			
Total debt to total assets	**55.8%**	55.7%	10 bps
Weighted average mortgage interest rate	**3.23%**	3.27%	(4) bps
Weighted average years to debt maturity	**4.1**	4.2	(0.1)years
Debt service coverage - rolling twelve months	**1.37x**	1.35x	2 bps
Interest coverage - rolling twelve months	**2.43x**	2.34x	9 bps

(1) Funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see "Non-IFRS Financial Measures").

Q1-2016 Management's Discussion & Analysis

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Summary of Q1-2016 Results and Operations

20% Growth in FFO per Unit
Killam generated FFO per unit growth of 20% quarter-over-quarter, earning $0.18 in Q1-2016 compared to $0.15 in Q1-2015. The earnings growth was attributable to strong same property NOI, contributions from developments and acquisitions completed in 2015, and interest expense savings from refinancings.

Higher Rents and Improved Occupancy Results in Same Property Revenue Growth
Killam continues to generate top-line growth, achieving same property revenue growth of 1.5% in Q1. Increased rents and higher occupancy levels both contributed to improved revenue. Same property revenue was up 3.2% in Halifax in Q1-2016, the highest revenue growth in Killam's core markets.

Warmer Temperatures and Lower Gas Costs Drive 8% Same Property NOI Growth
Killam's same property expenses decreased by 5.6% in Q1, contributing to the 8.0% increase in same property NOI. Lower natural gas, oil and electricity costs led the reduction in expenses and the 12.9% decrease in same property utility and fuel costs. The savings were attributable to warmer weather, lower natural gas costs in New Brunswick ("NB") and Ontario, lower oil prices and energy efficiency initiatives. A decrease in operating expenses and flat property tax expenses also contributed to the strong NOI growth in the quarter.

Developments and Acquisitions Contribute to FFO per Unit
Killam completed $54 million in acquisitions in 2015, as well as $38 million in developments. These properties contributed $0.8 million in funds from operations in Q1-2016 over Q1-2015.

Lower Interest Rates Contribute to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced in 2015 and during Q1-2016, contributing to a 5.8% reduction in same property interest expense in the quarter. During Q1-2016, Killam successfully refinanced $13.9 million of maturing apartment mortgages with $28.4 million of new debt at a weighted average interest rate of 2.51%, 208 bps lower than the weighted average interest rate prior to refinancing. Killam's weighted average mortgage interest rate decreased to 3.23% as at March 31, 2016, from 3.27% as at December 31, 2015.

Business Overview

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

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

The apartment business is Killam's largest business segment, accounting for 91% of Killam's NOI for the three months ended March 31, 2016. As at March 31, 2016, Killam's apartment portfolio consisted of 13,681 units, which includes 528 units that Killam does not own but manages. Its 176 apartment properties are located predominantly in Atlantic Canada's six largest urban centres (namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario ("ON") and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.7% market share of the multi-family rental units in its core Atlantic markets. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Killam also owns 35 MHC sites, also known as land-lease communities or trailer parks, located in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. The MHC portfolio accounted for 7% of Killam's NOI for the three months ended March 31, 2016. Killam also has a portfolio of commercial properties, which accounted for 2% of Killam's NOI in Q1-2016.

Key Performance Indicators ("KPIs")

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

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

Non-IFRS Financial Measures

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

- FFO are calculated by Killam as net income plus depreciation on owner-occupied property, fair value losses, interest expense related to exchangeable units and REIT conversion costs, less fair value gains, deferred tax recovery, gain on disposition and non-controlling interest. FFO, as per the definition of Killam are calculated in accordance with the REALpac definition, except for the add-back of REIT conversion costs as noted above. REALpac does not address this specific type of adjustment.
- AFFO are calculated by Killam as FFO less the industry standard of $450 per apartment unit for “maintenance” versus "NOI enhancing" related capital costs and $100 per MHC site, although the MHC industry does not have a standard amount for “maintenance” related capital costs.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties Killam has owned for equivalent periods in 2016 and 2015 (98% of the portfolio based on the March 31, 2016, unit count).
- Interest coverage is calculated by dividing earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense and principal mortgage repayments.

2016 Outlook

NOI Growth from Same Property Portfolio

Management expects to generate positive same property NOI growth during the remainder of 2016, however not to the extent achieved during Q1. Revenue growth is expected from a combination of increased rental rates, stable occupancy and modest expense growth. Economic growth in Atlantic Canada, aging demographics and a decline in the number of Atlantic Canadians moving west are all expected to support strong demand for apartment rental in Atlantic Canada and enable reasonable rental growth. Strong fundamentals in Ontario should also contribute to revenue growth. Through the completion of on-going energy and water conservation initiatives, combined with operational efficiencies and lower natural gas prices, Management expects to achieve positive NOI growth of up to 2% during the remainder of 2016. Combined with 8.0% growth in Q1, Management anticipates achieving NOI growth of 2%-4% for the year.

Developments are an Important Component of Growth

Based on the relatively low yields available from acquisitions and the higher returns achievable from development, Management is actively developing apartment properties. Targeting a yield on development of 5.5% to 6.0% and an anticipated cap-rate value on completion of 4.5% to 5.0%, Management expects developments to be accretive and create unitholder value. Development is currently underway for 310 units, with a 70-unit development expected to be completed during Q3-2016. Killam owns development land for approximately 1,100 additional apartment units. Management plans to begin construction on at least one additional development in Ontario in 2016. See further discussion on land held for future development in the “Investment Properties” section of the MD&A.

Acquisitions to Expand Geographic Diversification

Management will continue its focus on portfolio expansion and geographic diversification through acquisitions and expects to exceed its minimum acquisition target of $50 million in 2016. Management reviews acquisition opportunities in both Atlantic Canada and Ontario and plans to purchase properties in both locations during the year.

Improving Fundamentals in Atlantic Canada

Large economic projects are driving economic and population growth in urban centres in Atlantic Canada, and most specifically in Halifax. Recent economic forecasts are projecting improved gross domestic product growth in these regions. In its Winter 2016 Metropolitan Outlook, the Conference Board of Canada identified Halifax as one of the fastest growing economies in Canada for 2016, with 2.9% Gross Domestic Product ("GDP") growth expected. The $25 billion, 25-year shipbuilding contract in Halifax started in September 2015 and should be a substantial contributor to both employment and GDP growth. Large construction projects in Atlantic Canada and increased non-energy exports, including seafood, food and forestry products, are also forecasted to contribute to the region's GDP growth. This improved economic outlook for Atlantic Canada is expected to lead to strong apartment fundamentals in the region, where approximately 80% of Killam’s NOI is generated. A forecasted increase in immigration to Atlantic Canada should also support stronger demand for rental units.

Interest Savings

Killam has approximately $105 million of apartment mortgages maturing during the remainder of 2016 having a weighted average interest rate of 4.11%. Based on current bond yields for 5-year and 10-year debt, and an expectation of yields to stay low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management also expects to upfinance $35 - $40 million from maturing mortgages using a combination of 5-year and 10-year debt in 2016. Assuming an average interest rate of 2.4% on refinancings, Killam could generate annualized interest savings of up to $0.8 million. A change in accounting treatment related to the convertible debentures on conversion to the REIT, will result in a reduction in interest expense and deferred financing costs, totalling $1.8 million in 2016.

Reduced Natural Gas Costs in Nova Scotia Expected

Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam experienced more stable pricing in 2015 and Q1-2016, especially in New Brunswick. Natural gas costs remained high in Nova Scotia in Q1-2016 due to fixed price contracts put in place by the Trust's natural gas distributor, Heritage Gas, during 2015.

Based on indications from Heritage Gas, Management expects natural gas prices in Nova Scotia to be lower for the winter of 2016-2017. In addition, Heritage Gas has reduced the distribution rate on one of its rate classes effective April 2016 to improve its pricing versus alternative energy sources. Killam should benefit from this price change, which impacts approximately 30% of its apartment units heated with natural gas in Nova Scotia. In addition, ongoing investments in energy efficiencies will reduce natural gas consumption, ideally providing opportunities for savings.

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

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolio by market as at and for the three months ended March 31, 2016:

APARTMENT PORTFOLIO	Units[1]	Number of Properties	NOI[2] ($)	NOI[2] (% of Total)
Nova Scotia				
Halifax[3]	5,090	58	$8,483	36.2%
Sydney	139	2	$281	1.2%
	5,229	60	$8,764	37.4%
New Brunswick				
Moncton	1,629	31	$1,916	8.2%
Fredericton	1,394	20	$1,968	8.4%
Saint John	1,202	14	$1,068	4.6%
Miramichi	96	1	$129	0.6%
	4,321	66	$5,081	21.8%
Ontario[4]				
Ottawa	780	9	$987	4.2%
London	264	2	$889	3.8%
Toronto	378	2	$776	3.3%
Cambridge	347	3	$986	4.2%
	1,769	16	$3,638	15.5%
Newfoundland & Labrador				
St. John's	915	12	$1,742	7.4%
Grand Falls	148	2	$166	0.7%
	1,063	14	$1,908	8.1%
Prince Edward Island				
Charlottetown	906	17	$1,382	5.9%
Summerside	86	2	$118	0.5%
	992	19	$1,500	6.4%
Alberta[4]				
Calgary	307	1	$449	1.9%
Total Apartments	**13,681**	**176**	**$21,340**	**91.1%**

MANUFACTURED HOME COMMUNITY PORTFOLIO	Sites	Number of Communities	NOI[2] ($)	NOI[2] (% of Total)
Nova Scotia	2,626	16	$1,010	4.3%
Ontario	2,145	16	$475	2.0%
New Brunswick	224	1	$-	-%
Newfoundland & Labrador	170	2	$75	0.3%
Total MHCs	**5,165**	**35**	**$1,560**	**6.6%**

COMMERCIAL PORTFOLIO	Square Footage	Number of Properties	NOI[2] ($)	NOI[2] (% of Total)
Halifax, Nova Scotia	248,000	4	$530	2.3%
Total Portfolio			**$23,430**	**100%**

(1) Unit count includes properties held through Killam's partnerships and joint arrangements.
(2) For the three months ended March 31, 2016.
(3) Killam owns a 49% interest in, and manages, Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 49% ownership interest represents 120 of the 246 units related to this property.
(4) Killam owns and manages three buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all four properties. Killam's ownership interest represents 402 of the 804 units related to these properties.

Core Market Update

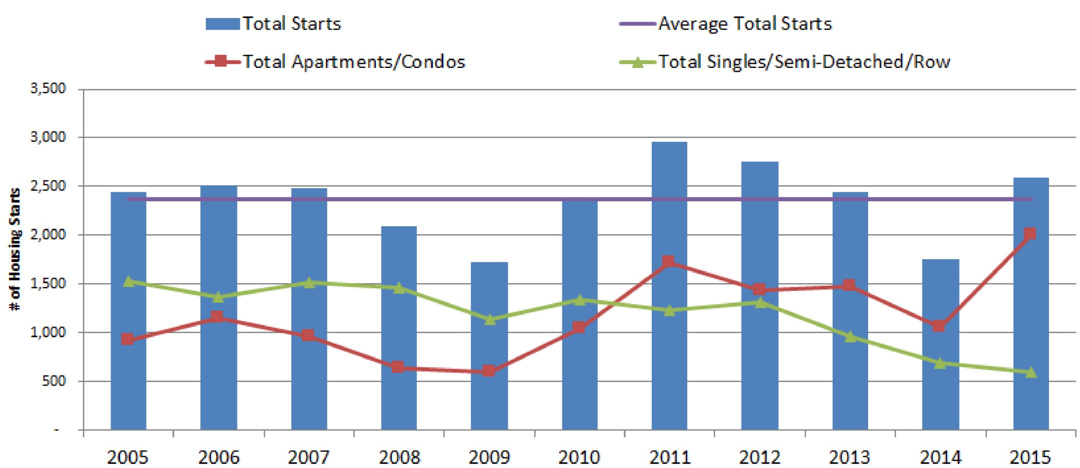
Halifax

36% of Killam's NOI is earned in Halifax. The city's rental unit base is 44,423 units, accounting for 45.7% of the total rental universe in Atlantic Canada as measured by Canadian Mortgage and Housing Corporation ("CMHC"). Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, producing 56% of Nova Scotia's total GDP and home to 44% of the province's population. The city attracts a diverse population base, both from rural areas of Nova Scotia, other regions in Atlantic Canada, and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to approximately 35,000 students per year, including 4,000 international students. Halifax's employment base is well diversified, with jobs focused around retail and wholesale trade, health care, public administration and education among the largest sectors. Halifax is home to the largest Canadian Forces Base, by number of personnel, in Canada and the Department of National Defence is the largest employer in the city.

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

The following graph summarizes the total amount of starts in Halifax for all housing types from 2006 to 2015, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,400 units per year. As the graph highlights, a decrease in single family starts is being offset by an increase in multi-family starts, resulting in relatively stable levels of total housing starts and apartment occupancy. This trend continues in 2016.

Halifax Total Housing Starts



Source: CMHC

Despite an increased rental inventory, units are being absorbed by strong demand in the city, as noted above. CMHC's Fall Rental Market reported Halifax's vacancy to be 3.4% in October 2015, down from 3.8% in October 2014. Management expects population growth in Halifax to increase due to large-scale projects taking place in the region that should drive employment opportunities in the city. Irving Shipyard's $25 billion shipbuilding contract should have positive long-term implications for Halifax and Atlantic Canada. The contract is expected to generate over 1,500 direct jobs, and over 3,400 direct and indirect jobs in Nova Scotia. Investment in offshore energy in Nova Scotia also has the potential to contribute to future growth for both Halifax and Nova Scotia with $2 billion in exploration commitments awarded in recent years. Large construction projects in the city, and the province, will also contribute the Halifax's economic growth.

With a diversified asset base of 5,100 centrally located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam should benefit from the increased demand for housing that will come from population and economic growth. This was realized in Q1-2016 with Halifax achieving 3.2% revenue growth from its same property portfolio.

New Brunswick

22% of Killam's NOI is currently generated in New Brunswick, split between the province's three major urban centres; Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and is a transportation and distribution hub for Atlantic Canada. Moncton has experienced strong population growth in recent years driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 4.6% of Killam's NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city had seen a reduction in economic projects over recent years. However, new investments have started in the forestry sector, and the Energy East Pipeline proposal to bring oil from Western Canada to refineries in Quebec and New Brunswick has potential to generate future economic growth for the city and the province.

Following an increase in vacancy in New Brunswick in recent years, due partly to higher levels of new construction, CMHC reports vacancy rates are coming down. The province has seen less new rental product being introduced into the market. CMHC reports that during 2014 and 2015, there were 573 and 355 new rental apartment unit starts in the province, a marked reduction from the 876 and 812 new rental unit starts during 2012 and 2013.

CMHC reported higher occupancy in all three cities in New Brunswick in its Fall 2015 Rental Market Report. In comparing Killam's October 31, 2015, unit occupancy to CMHC's October vacancy statistics, Killam consistently has higher occupancy than CMHC in all three cities (Moncton - up 120 bps, Fredericton - up 30 bps and Saint John - up 50 bps). During Q1-2016 Killam realized revenue growth in both Fredericton and Saint John with improved occupancy and increased rents. Revenue declined slightly in Moncton in the quarter due to a slight uptick in vacancy; however rental growth was achieved during the period. Management expects moderate top-line growth in New Brunswick to continue.

Newfoundland & Labrador

8% of Killam's apartment NOI is generated in St. John's. After undergoing a transformation over the last ten years following significant offshore investments, the city is now adjusting to the impact of lower oil prices. After maintaining very high occupancy and record high rental rate growth in the St. John's portfolio for most of the last eight years, Management expects softer revenue growth in 2016. During Q1-2016, St. John's achieved 0.6% revenue growth as increased vacancy partially offset the ability to increase rents.

Prince Edward Island

Killam has a 19% market share in Charlottetown, the capital and economic center of Prince Edward Island. The Charlottetown market represents 6% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Immigration is also strong in PEI, contributing to demand for rental units.

Ontario

The Ontario rental market is stable with CMHC reporting a 3.0% increase in average rent in 2015 for the total Ontario rental market, up from 2.1% a year earlier. Killam's average rents in Q1-2016 have increased 1.9% in comparison to Q1-2015.

Alberta

The Alberta rental market has softened with the drop in oil prices. Killam's investment in Alberta is limited to Calgary, with a 50% interest in both an apartment building and land for development. CMHC reported a vacancy rate of 5.3% in October 2015 in Calgary, up from 1.4% a year earlier. Killam also experienced increased vacancy in downtown Calgary throughout 2015 and is currently operating at approximately 15% vacancy. With increased marketing and leasing initiatives, Killam expects to make gains absorbing the current vacancy.

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

PART III

Q1-2016 Financial Overview

Consolidated Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$42,207**	$39,536	6.8%	**$39,671**	$39,093	1.5%	**$2,536**	$443	472.5%
Property expenses									
Operating expenses	**(7,047)**	(6,732)	4.7%	**(6,598)**	(6,710)	(1.7)%	**(449)**	(22)	1,940.9%
Utility and fuel expenses	**(6,711)**	(7,452)	(9.9)%	**(6,460)**	(7,419)	(12.9)%	**(251)**	(33)	660.6%
Property taxes	**(5,019)**	(4,697)	6.9%	**(4,676)**	(4,661)	0.3%	**(343)**	(36)	852.8%
	(18,777)	(18,881)	(0.6)%	**(17,734)**	(18,790)	(5.6)%	**(1,043)**	(91)	1,046.2%
NOI	**$23,430**	$20,655	13.4%	**$21,937**	$20,303	8.0%	**$1,493**	$352	324.1%
Operating margin	**55.5%**	52.2%	330 bps	**55.3%**	51.9%	340 bps	**58.9%**	79.5%	(2,060) bps

Total property revenue for the three months ended March 31, 2016, was $42.2 million, a 6.8% increase in revenue over the same period in 2015. The growth was generated through revenue from acquisitions, completed developments and a 1.5% increase in same property revenue. Killam's total property expenses decreased slightly by 0.6% in Q1-2016 compared to Q1-2015. Killam's operating margin increased by 330 bps quarter-over-quarter as a result of lower utility and fuel expenses, higher margins on recently completed developments, and newly acquired assets outside of Atlantic Canada that have lower property operating expenses.

Same property NOI reflects 206 stabilized properties that Killam has owned for equivalent periods in 2016 and 2015. The same property analysis includes a combined total of 18,533 apartment units and MHC sites, or 98.3% of Killam's portfolio. The same property portfolio realized net revenue growth of 1.5% for the three months ended March 31, 2016. The milder winter in 2016 resulted in savings for both fuel and snow removal costs, driving a 5.6% savings in total operating expenses quarter-over-quarter. Combining net revenue growth and significant savings in property expenses for the first three months of 2016, same property NOI grew by 8.0%. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

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

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

Apartment Results

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$38,165**	$36,624	4.2%	**$36,824**	$36,312	1.4%	**$1,341**	$312	329.8%
Operating expenses	**(5,948)**	(5,926)	0.4%	**(5,802)**	(5,922)	(2.0)%	**(146)**	(4)	3,550.0%
Utility and fuel expenses	**(6,198)**	(7,098)	(12.7)%	**(6,120)**	(7,077)	(13.5)%	**(78)**	(21)	271.4%
Property taxes	**(4,679)**	(4,507)	3.8%	**(4,523)**	(4,506)	0.4%	**(156)**	(1)	15,500.0%
Total property expenses	**(16,825)**	(17,531)	(4.0)%	**(16,445)**	(17,505)	(6.1)%	**(380)**	(26)	1,361.5%
NOI	**$21,340**	$19,093	11.8%	**$20,379**	$18,807	8.4%	**$961**	$286	236.0%
Operating margin	**55.9%**	52.1%	380 bps	**55.3%**	51.8%	350 bps	**71.7%**	91.7%	(2,000) bps

Apartment Revenue

Total apartment revenue for the three months ended March 31, 2016, was $38.2 million, a 4.2% increase in revenue over Q1-2015. This growth was attributable to acquisitions and completed development and growth in rental rates.

Same property apartment revenue increased 1.4% in Q1-2016, generated by a 1.3% increase in rental rates and a 70 bps improvement in occupancy for the quarter. Also contributing to strong revenue growth was a 10 bps decline in rental incentives as a percentage of residential rent, to 0.75% for Q1-2016.

Apartment Occupancy Analysis by Core Market

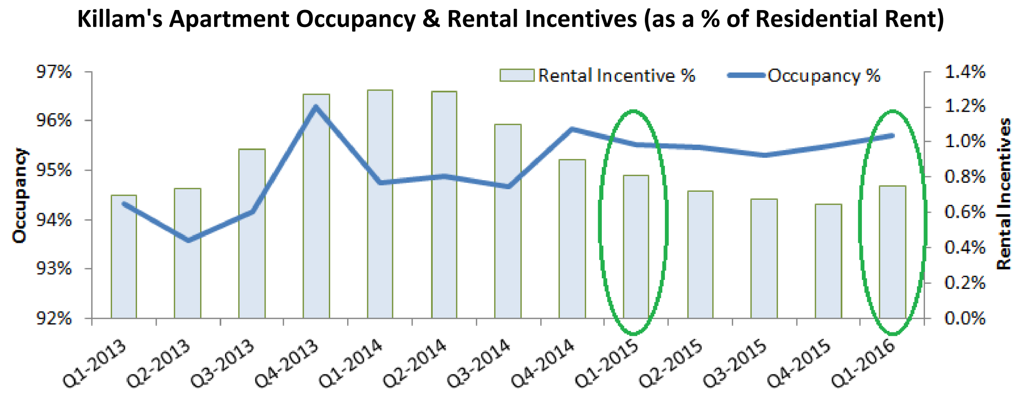
(% of Residential Rent)(1)

		Stabilized(2) Occupancy			Same Property Occupancy		
	# of Units	**Q1-2016**	Q1-2015	Change (bps)	**Q1-2016**	Q1-2015	Change (bps)
Halifax, NS	5,090	**96.3%**	95.2%	110 bps	**96.4%**	94.2%	220 bps
Moncton, NB	1,629	**93.8%**	94.3%	(50) bps	**93.8%**	94.3%	(50) bps
Fredericton, NB	1,394	**95.1%**	94.2%	90 bps	**95.1%**	94.2%	90 bps
Saint John, NB	1,202	**93.3%**	93.4%	(10) bps	**93.9%**	93.4%	50 bps
St. John's, NL	915	**95.7%**	95.4%	30 bps	**95.8%**	96.9%	(110) bps
Charlottetown, PE	906	**97.9%**	96.8%	110 bps	**97.9%**	96.8%	110 bps
Ontario	1,769	**97.3%**	97.6%	(30) bps	**97.2%**	97.1%	10 bps
Alberta	307	**80.6%**	98.1%	(1,750) bps	**80.6%**	98.1%	(1,750) bps
Other Atlantic	469	**97.8%**	100.0%	(220) bps	**97.8%**	100.0%	(220) bps
Total Apartments (weighted average)	13,681	**95.7%**	95.5%	20 bps	**95.8%**	95.1%	70 bps

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

(2) Stabilized occupancy excludes properties in their initial lease-up or undergoing redevelopment.

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



Average Rent Analysis by Core Market

For the three months ended March 31,

		Average Rent			Same Property Average Rent		
	# of Units	**2016**	2015	% Change	**2016**	2015	% Change
Halifax, NS	5,090	**$966**	$949	1.8%	**$967**	$949	1.9%
Moncton, NB	1,629	**$833**	$829	0.5%	**$833**	$829	0.5%
Fredericton, NB	1,394	**$899**	$896	0.3%	**$899**	$896	0.3%
Saint John, NB	1,202	**$782**	$750	4.3%	**$760**	$750	1.3%
St. John's, NL	915	**$947**	$934	1.4%	**$898**	$880	2.0%
Charlottetown, PE	906	**$900**	$889	1.2%	**$900**	$889	1.2%
Ontario	1,769	**$1,302**	$1,268	2.7%	**$1,292**	$1,268	1.9%
Alberta	307	**$1,306**	$1,392	(6.2)%	**$1,306**	$1,392	(6.2)%
Other Atlantic	469	**$841**	$821	2.4%	**$841**	$821	2.4%
Total Apartments (weighted average)	13,681	**$968**	$952	1.7%	**$961**	$949	1.3%

As shown in the above table, the weighted average monthly rent for Killam's apartment portfolio was $968 as at March 31, 2016, up 1.7% from $952 as at March 31, 2015. This increase includes the impact of higher rental rates associated with recently completed developments and acquisitions. Killam's same property apartment portfolio realized a 1.3% increase in average rents quarter-over-quarter.

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

Apartment Expenses

Total apartment expenses for the three months ended March 31, 2016, were $16.8 million, a 4.0% decrease over Q1-2015. The savings is attributable lower fuel costs despite additional costs associated with new acquisitions and completed developments in 2015. Killam realized a 380 bps improvement in its apartment operating margin for the quarter as a result of a mild winter season, lower fuel pricing and consumption, and the development and acquisition of newer and more efficient buildings.

Total same property expenses for the three months ended March 31, 2016, were $16.4 million, a 6.1% decrease over Q1-2015. This improvement is attributable to lower heating oil and natural gas consumption and pricing, the ability to minimize property operating costs, improved operating efficiencies and only a modest increase in overall property taxes.

Utility and Fuel Expense - Same Property

For the three months ended March 31,

	2016	2015	% Change
Natural gas	**$2,390**	$3,044	(21.5)%
Electricity	**2,174**	2,291	(5.1)%
Water	**1,167**	1,178	(0.9)%
Oil	**380**	553	(31.3)%
Other	**9**	11	(18.2)%
Total utility and fuel expenses	**$6,120**	$7,077	(13.5)%

Utility and fuel expenses accounted for approximately 37% of Killam’s total apartment same property operating expenses in Q1-2016 and were down 13.5% from the first quarter of 2015. Warmer weather, lower commodity costs and investments in efficiencies all contributed to the savings. Killam’s apartment properties are heated with a combination of natural gas (56%), electricity (35%), oil (8%) and steam (1%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam’s exposure to the majority of the 4,600 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam’s same property natural gas costs decreased by 21.5% compared to Q1-2015. The decrease was attributable to lower commodity charges in NB and Ontario and lower consumption from a milder winter compared to the winter of 2014/2015. Killam’s weighted average natural gas cost per gigajoule ("GJ") was down approximately 26% in New Brunswick in Q1-2016 due to less volatile pricing. Gas commodity charges in Ontario were down over 35% in the quarter. The weighted average gas cost per GJ was up approximately 10% in Nova Scotia in Q1, attributable to the province’s gas distributor's fixed-rate contracts that were locked in at above market rates in 2015. Despite the per GJ price increase in Nova Scotia, overall natural gas expense was down in the province due to lower consumption levels.

Heating oil costs decreased by 31% in Q1-2016 compared to Q1-2015 due to the significant and sustained decline in world oil prices. Electricity costs were also down in the quarter due to milder weather, energy efficiencies and a reduction in the inclusion of unit electricity as a rental incentive. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, in competitive markets some landlords include electricity in the rental rates. Killam will do the same if the market conditions dictate.

Water expense for same properties decreased by 1% in the year despite higher rates due to various water consumption initiatives, including the installation of low-flow toilets and showerheads.

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

Apartment Same Property NOI by Region

For the three months ended March 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Halifax	**$14,657**	$14,202	3.2%	**$(6,357)**	$(6,613)	(3.9)%	**$8,300**	$7,589	9.4%
Moncton	**4,195**	4,214	(0.5)%	**(2,152)**	(2,334)	(7.8)%	**2,043**	1,880	8.7%
Fredericton	**3,701**	3,652	1.3%	**(1,722)**	(1,978)	(12.9)%	**1,979**	1,674	18.2%
Ontario	**5,510**	5,438	1.3%	**(2,236)**	(2,278)	(1.8)%	**3,274**	3,160	3.6%
St. John's	**2,461**	2,447	0.6%	**(859)**	(851)	0.9%	**1,602**	1,596	0.4%
Saint John	**2,501**	2,472	1.2%	**(1,551)**	(1,707)	(9.1)%	**950**	765	24.2%
Charlottetown	**2,615**	2,543	2.8%	**(1,118)**	(1,265)	(11.6)%	**1,497**	1,278	17.1%
Alberta	**660**	842	(21.6)%	**(211)**	(229)	(7.9)%	**449**	613	(26.8)%
Other Atlantic locations	**524**	502	4.4%	**(239)**	(250)	(4.4)%	**285**	252	13.1%
	$36,824	$36,312	1.4%	**$(16,445)**	$(17,505)	(6.1)%	**$20,379**	$18,807	8.4%

As shown above, Killam generated positive NOI growth in all its core markets in Q1-2016, except for Alberta. With the exception of a 50% ownership of one property in downtown Calgary, the NOI gains ranged from 0.4% in St. John's, Newfoundland to 24.2% in Saint John, New Brunswick. Overall rental rate increases, lower natural gas and heating oil costs and operational efficiencies contributed to the NOI growth for Q1-2016.

Halifax

Halifax is Killam's largest rental market, representing 41% of apartment same property NOI for the three months ended March 31, 2016. Overall, the Halifax same property apartment portfolio achieved 3.2% revenue growth in the quarter. Occupancy, as measured as the percentage of gross rental revenue achievable, was up 220 bps with the Halifax apartment portfolio achieving 96.4% occupancy in Q1-2016, compared to 94.2% in Q1-2015. Average rent for the Halifax same property portfolio was up 1.9% in Q1-2016 to $967.

Total operating expenses decreased by 3.9% in Q1-2016. A milder than normal winter resulted in lower heating oil and natural gas consumption and lower snow removal costs than Q1-2015. As well, lower oil prices and reduced energy consumption resulting from various energy efficiency projects also contributed to the utility and fuel savings quarter-over-quarter. Halifax also experienced lower garbage removal costs, which offset the majority of the 5.7% increase in property tax expense in the quarter. Overall, Halifax achieved 9.4% NOI growth in Q1-2016.

New Brunswick

Killam's three core markets in New Brunswick generated 24% of Killam's apartment NOI for the three months ended March 31, 2016, and in aggregate achieved 0.6% revenue growth for the quarter. Fredericton achieved the strongest revenue growth of the NB cities, up 1.3%, attributable primarily to a reduction in rental incentives while still achieving an increase in average rents of 0.3% quarter-over-quarter. Moncton's 0.5% decline in revenue for Q1-2016 was driven by lower commercial occupancy and a 50 bps decline in residential occupancy for the quarter. These decreases were partially offset by rental rate growth and a reduction of rental incentive offerings. Saint John achieved 1.2% top line growth due mainly to a 1.3% growth in rental rates.

The NB portfolio realized a 9.9% savings in total operating expenses in Q1-2016. The most significant savings were from utilities, down 16.0% quarter-over-quarter. These savings were a result of a 26% reduction in natural gas pricing and lower utility consumption due to the milder winter experienced in Q1-2016 compared to Q1-2015. The NB portfolio also recorded a 6.3% decrease in property tax expense following successful tax assessment appeals in all three regions. Savings were also realized in property operating expenses due to lower snow removal costs and operational efficiencies implemented throughout the regions. Overall, NOI from Killam's NB portfolio increased by 15.1%, including growth of 24.2% in Saint John, 18.2% in Fredericton and 8.7% in Moncton.

Ontario

Killam's Ontario portfolio generated 16% of Killam's apartment same property NOI for the three months ended March 31, 2016. The same property Ontario portfolio achieved 1.3% revenue growth in Q1-2016, realized from increased rents of 1.9% quarter-over-quarter. A 10 bps increase in occupancy levels in Q1-2016 also contributed to the net revenue growth. The Ontario portfolio recorded occupancy of 97.2% for Q1-2016 compared to 97.1% occupancy in Q1-2015. Same property revenue growth was partially offset by a reduction in parking revenue at one of Killam's properties with the expiry of a rental guarantee in June 2015. Excluding the decline in parking revenue, total same property revenue increased by 2.0%.

Total operating expenses decreased by 1.8% for the three months ended March 31, 2016. A 17.4% savings was realized in utilities as a result of lower natural gas pricing and a milder winter heating season than Q1-2015. This was partially offset by a 5.6% increase in property taxes and timing of repairs and maintenance work in the region. Overall, Killam's Ontario portfolio realized a 3.6% increase in NOI in Q1-2016.

Newfoundland & Labrador

Killam's St. John's portfolio generated 8% of Killam's apartment same property NOI in Q1-2016. The portfolio achieved a 2.0% increase in rental rates that were partially offset by a 110 bps decline in occupancy in Q1-2016 compared to Q1-2015. Same property revenue for the St. John's portfolio increased by 0.6% for the three months ended March 31, 2016.

Total same property operating expenses realized a modest increase of 0.9% for Q1-2016. Although property operating costs and utilities were relatively flat quarter-over-quarter, property taxes increased 18.7% as the three-year tax assessment cycle for the region was effective January 1, 2016. Overall, St. John's same property portfolio achieved a 0.4% increase in NOI for Q1-2016.

Prince Edward Island

Killam's Charlottetown portfolio represents 7% of the apartment same property NOI. Charlottetown achieved 2.8% revenue growth in Q1-2016 due to increased rents, up 1.2%, and improved occupancy levels. The portfolio achieved 97.9% occupancy during the quarter, up 110 bps from 96.8% occupancy in Q1-2015.

Total operating expenses decreased 11.6% in Q1-2016. A 1.2% increase in property tax expense was offset by a 23.6% savings in utility costs for the quarter. Most of Killam's buildings in Charlottetown use heating oil, the price of which decreased by approximately 31% quarter-over-quarter. Overall, Charlottetown recorded 17.1% growth in NOI for Q1-2016.

Alberta

Killam has a 50% interest in a 307-unit building in downtown Calgary that represents 2% of its apartment NOI for Q1-2016. This Calgary property recorded a 21.6% decline in revenue quarter-over-quarter due to the softening of the Alberta rental market in the past 12 months. Killam has experienced a decline in occupancy to 80.6% for Q1-2016 and a 6.2% drop in average rental rates to $1,306.

Total operating expenses decreased 7.9% quarter-over-quarter. A 19.0% decrease in property tax expense related to assessment wins and savings in property operating costs offset the marginal increases in utilities. Overall, Alberta recorded a 26.8%, or $164 thousand, decline in NOI in Q1-2016.

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

MHC Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$2,849**	$2,780	2.5%	**$2,847**	$2,781	2.4%	**$2**	$(1)	(300.0)%
Property expenses									
Operating expenses	**(795)**	(750)	6.0%	**(795)**	(788)	0.9%	**-**	38	-%
Utility and fuel expenses	**(341)**	(342)	(0.3)%	**(341)**	(342)	(0.3)%	**-**	-	-%
Property taxes	**(153)**	(155)	(1.3)%	**(153)**	(155)	(1.3)%	**-**	-	-%
Total property expenses	**(1,289)**	(1,247)	3.4%	**(1,289)**	(1,285)	0.3%	**-**	38	-%
NOI	**$1,560**	$1,533	1.8%	**$1,558**	$1,496	4.1%	**$2**	$37	0
Operating margin	**54.8%**	55.1%	(30) bps	**54.7%**	53.8%	90 bps	**-**	-%	-

Killam's MHC business accounted for 7% of NOI from property operations during both the three months ended March 31, 2016, and 2015. Killam's seasonal MHCs contribute to the MHC's NOI during the second and third quarters of the year, increasing the MHC's percentage of total annualized NOI to approximately 9%.

MHC same property revenue increased 2.4% in Q1-2016 compared to Q1-2015 due to both increased rental rates and improved occupancy. Rental rate growth was 1.8% in Q1-2016 for a weighted average rent per site of $236, up from $232 in Q1-2015. Occupancy increased to 97.8% in Q1-2016, which was a 30 bps increase from 97.5% in Q1-2015.

Total same property expenses increased slightly by $4 thousand or 0.3%. Overall, the MHC portfolio generated same property NOI growth of 4.1% for the three months ended March 31, 2016.

Commercial Results

Killam has a commercial portfolio of four properties in Halifax, Nova Scotia. The Brewery Market property contains 158,000 square feet of retail and office space, and a parcel of adjacent land that is currently being developed. The Medical Arts building contains 18,000 square feet of office space and Killam plans to redevelop this property in the future. Along with the 50% ownership of two commercial properties including Killam's head office in Halifax, this commercial portfolio accounted for $0.5 million or 2% of Killam's total NOI for Q1-2016 with an overall occupancy at 98.9%. As well, included in the apartment segment is an additional 118,000 square feet of ancillary commercial space in various residential properties across the portfolio.

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

PART IV

Other Income

For the three months ended March 31,

	2016	2015	% Change
	$289	$378	(23.5)%

Other income includes property management fees, interest on bank account balances, interest on loans receivable and net revenue associated with the sale of homes in Killam's MHC segment. The 23.5% decrease quarter-over-quarter relates to lower interest earned on bank balances, additional home sales costs in the quarter and lower property management fees earned Q1-2016.

Financing Costs

For the three months ended March 31,

	2016	2015	% Change
Mortgage, loan and construction loan interest	**$7,776**	$7,950	(2.2)%
Interest paid on exchangeable units	**711**	-	-%
Amortization of fair value adjustments on assumed debt	**(145)**	(122)	18.9%
Amortization of loss on interest rate hedge	**11**	-	-%
Convertible debenture interest	**1,451**	1,712	(15.2)%
Capitalized interest	**(225)**	(427)	(47.3)%
	$9,579	$9,113	5.1%

Financing costs increased $0.5 million, or 5.1%, in the first quarter of 2016 compared to the same period in 2015 due primarily to the IFRS requirement to record distributions relating to Exchangeable Units as interest expense (see note 2 of condensed consolidated interim financial statements). Excluding the expense recorded associated with the Exchangeable Units, interest expense decreased by 2.7% quarter-over-quarter.

Mortgage and loan interest expense was $7.8 million in Q1-2016, down from $8.0 million in Q1-2015, a decrease of 2.2%. This decrease is a result of refinancings at lower interest rates. The average interest rate on refinancings year-to-date was 2.57%, 204 bps lower than the average interest rate before refinancing.

Interest expense associated with the convertible debentures decreased by $0.3 million, or 15.2%, quarter-over-quarter as a result of a change in accounting treatment related to Killam's conversion to a REIT. Killam was required to fair value the convertible debentures at the time of conversion and Killam has elected to measure the convertible debentures at fair value at the end of each period. Interest expense is recorded based on the stated interest rate for each convertible debenture compared to the effective interest rate, reflecting the value of the convertible debenture, as required for accounting treatment purposes under the corporate structure.

Capitalized interest decreased 47.3% in Q1-2016 compared to Q1-2015. Capitalized interest will vary depending on how many development projects are ongoing and how far along they are in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

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

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt as at March 31, 2016, would affect financing costs by approximately $9.6 million per year. However, only $113.1 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by $1.1 million per year.

Depreciation Expense

For the three months ended March 31,

	2016	2015	% Change
	$208	$180	15.6%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase quarter-over-quarter was primarily due to increased costs associated with upgrades to Killam's accounting and property management software.

Amortization of Deferred Financing Costs

For the three months ended March 31,

	2016	2015	% Change
	$364	$463	(21.4)%

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage.

Deferred financing amortization decreased 21.4% as a result of a change in accounting treatment related to the Trust's convertible debentures upon conversion to the REIT. This change resulted in the write-off of remaining deferred financing costs associated with the convertible debentures through retained earnings on January 1, 2016. This change was required as Killam elected to record the full outstanding amount of each convertible debenture at fair value.

Administration Expenses

For the three months ended March 31,

	2016	2015	% Change
Administration (including REIT conversion costs)	**$3,599**	$2,155	67.0%
REIT conversion costs	**$(1,050)**	$-	-%
Administration (excluding REIT conversion costs)	**$2,549**	$2,155	18.3%
As a percentage of total revenues	**6.0%**	5.5%	0.1%

Administration expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses. Administration expense in Q1-2016 includes one-time costs associated with the REIT conversion. Administrative expenses as a percentage of revenues increased over Q1-2015, due primarily to additional accrued variable compensation reflecting strong financial performance. Management targets annualized administrative costs at approximately 6.0% of total revenues.

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

Fair Value Adjustment on Investment Property

For the three months ended March 31,

	2016	2015	% Change
Apartments	**$-**	$-	-%
MHCs	**-**	-	-%
IPUC	**-**	793	100.0%
	$-	$793	(100.0)%

Killam did not record any fair value gains or losses for Q1-2016. As part of the valuation model completed during Q1-2016, Killam identified a fair value loss on its 50% interest in its Alberta property of $4.0 million, however this was offset by fair value gains generated from increased NOI across the portfolio. There was no movement in cap-rates in Q1-2016 related to Killam's apartment or MHC properties. In Q1-2015, Killam realized a $0.8 million fair value gain on a development property.

Fair Value Adjustment on Convertible Debentures

For the three months ended March 31,

	2016	2015	% Change
	$1,913	$-	-%

Following the REIT conversion and IFRS accounting requirements for convertible debentures redeemable into Trust Units, Killam has elected to record the full outstanding amount of each convertible debenture at fair value determined using the closing trading price, for the publicly traded convertible debentures. Changes in fair value are recognized in the condensed consolidated interim statement of income and comprehensive income. For the three months ended March 31, 2016, there was an unrealized gain on $1.9 million, due to the change in market price of the convertible debentures. Prior to the conversion to a REIT, the convertible debentures were classified as other financial liabilities and recorded at amortized cost using the effective interest rate method net of deferred financing costs.

Fair Value Adjustment on Deferred Unit-based Compensation

For the three months ended March 31,

	2016	2015	% Change
	$212	$-	-%

Killam's Restricted Trust Unit ("RTU") Plan gives members of the senior executive team and director level employees the right to receive a percentage of their annual bonus and non-executive members of the board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The RTUs are intended to facilitate long-term ownership of Trust Units and align the interests of Trustees and senior management with those of the unitholders.

As a result of Killam being an open-ended mutual fund trust, whereby each unitholder of Trust Units is entitled to redeem their Units in accordance with the conditions specified in Killam's Declaration of Trust ("DOT"), under IFRS, the underlying Trust Units relating to the RTU awards are not classified as equity and are instead considered financial liabilities. As such, these RTU awards must be presented as liabilities and remeasured at fair value at each reporting date. For the three months ended March 31, 2016, there was an unrealized loss on remeasurement of $0.2 million, due to the change in market price of the underlying Trust Units. Prior to Killam converting to an open-ended mutual fund trust, the related RTU expense was limited to the amortization of the fair value of the award over the applicable vesting period and was included in administration costs within the condensed consolidated interim statement of income and comprehensive income.

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

Fair Value Adjustment on Exchangeable Units

For the three months ended March 31,

	2016	2015	% Change
	$6,173	$-	-%

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

In accordance with IFRS, Killam accounts for its Exchangeable Units as a financial liability and remeasures the liability at each reporting period, and includes this remeasurement in the condensed consolidated statement of income and comprehensive income. For the three months ended March 31, 2016, there was an unrealized loss on remeasurement of $6.1 million, due to the change in market price of the underlying Killam Trust Units. A description of the key components of the remeasurement of Exchangeable Units is included in note 2 of Killam's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016.

Deferred Tax (Recovery) Expense

Killam converted to a real estate investment trust effective January 1, 2016, and as such, now qualifies as a REIT pursuant to the Canadian *Income Tax Act* (the "Tax Act"). The Tax Act contains legislation affecting the tax treatment of publicly traded trusts (the "SIFT Legislation") and the criteria for qualifying for the real estate investment trust exemption (the "REIT Exemption"), which would exempt Killam from income tax under the SIFT Legislation. As such, Killam is now a flow-throw vehicle; therefore only deferred taxes of Killam's corporate subsidiaries are recorded. If Killam fails to distribute the required amount of income to unitholders or if Killam fails to qualify as a REIT under the Tax Act, substantial adverse tax consequences may occur. Management operates Killam in a manner that enables it to continually qualify as a REIT and is expected to distribute all of its taxable income to Unitholders, and therefore is entitled to deduct such distributions for income tax purposes. Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability in the amount of $40.0 million to reflect the tax status of the Trust as a flow-through vehicle. The deferred tax expense of $0.3 million recorded during the quarter relates to the corporate subsidiary entity of the REIT.

PART V

Per Unit Calculations

As a result of Killam being an open-ended mutual fund trust, unitholders are entitled to redeem their Trust Units, subject to certain restrictions. The impact of this redemption feature causes Killam's Trust Units to be treated as financial liabilities under IFRS. Consequently, all per Unit calculation are considered non-IFRS measures.

The following table explains the number of Units used in the calculation of non-IFRS financial measures on a per unit basis:

As at March 31,

	Weighted Average Number of Units/Shares		**Outstanding Number of Units**
	2016	2015	**2016**
Trust Units/Common Shares	**58,206**	60,668	58,331
Exchangeable Units(1)	**4,743**	-	4,709
Basic number of units/shares	**62,949**	60,668	63,040
Plus:			
Units under option plan	**-**	214	-
Units under restricted trust unit/restricted share unit plan(2)	**235**	153	290
Dilutive number of units/shares(3)	**63,184**	61,035	63,330

(1) See note 2 to the accompanying unaudited condensed consolidated interim financial statements for details of the Exchangeable Units.
(2) See note 2 to the accompanying unaudited condensed consolidated interim financial statements for details of Killam's RTU plan.
(3) The calculation of the diluted weighted average units/shares outstanding excludes the convertible debentures for the periods ended March 31, 2016, and 2015 as they are anti-dilutive. For FFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

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

Funds from Operations

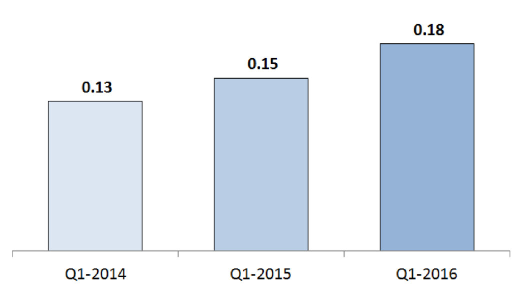
FFO are recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. FFO do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. Killam calculates FFO in accordance with the REALpac definition with the exception of the add-back of REIT conversion costs as REALpac does not address this specific type of adjustment. FFO for the three months ended March 31, 2016, and 2015, are determined as follows:

For the three months ended March 31,

	2016	2015	% Change
Net income	**$45,167**	$7,168	530.1%
Fair value adjustment on convertible debentures	**(1,913)**	-	-%
Fair value adjustment on unit-based compensation	**212**	-	-%
Fair value adjustment on exchangeable units	**6,173**	-	-%
Fair value adjustment on investment properties	**-**	(793)	(100.0)%
Gain on disposition	**(27)**	-	-%
Non-controlling interest	**(254)**	(246)	3.3%
Deferred tax (recovery) expense	**(39,643)**	2,747	(1,543.1)%
Interest expense related to exchangeable units	**711**	-	-%
Depreciation on owner-occupied building	**33**	46	(28.3)%
REIT conversion costs	**1,050**	-	-%
FFO	**$11,509**	$8,922	29.0%
FFO unit/share - basic	**$0.18**	$0.15	20.0%
FFO unit/share - diluted	**$0.18**	$0.15	20.0%
Weighted average units/shares- basic (000's)	**62,949**	60,668	3.8%
Weighted average number of units/shares - diluted (000's)	**63,184**	61,035	3.5%

Killam earned FFO of $11.5 million, or $0.18 per unit, during Q1-2016 compared to $8.9 million, or $0.15 per share, during Q1-2015. The 20.0% increase in FFO per unit is attributable to same property NOI growth of 8.0% ($1.5 million), contributions from acquisitions and completed unit developments ($0.7 million), interest and deferred financing expense savings due to the change in accounting treatment of the convertible debentures ($0.4 million) and interest expense savings on refinancings at lower interest rates ($0.4 million). This growth was partially offset by an increase in administration costs ($0.4 million) and a reduction in capitalized interest ($0.1 million). FFO have been adjusted for costs incurred in Q1-2016 to complete the conversion from a Corporation to a REIT effective January 1, 2016. These costs were unique to Killam's corporate structure and therefore have been removed for FFO purposes.

FFO per Unit/Share ($)



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

Adjusted Funds from Operations

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

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

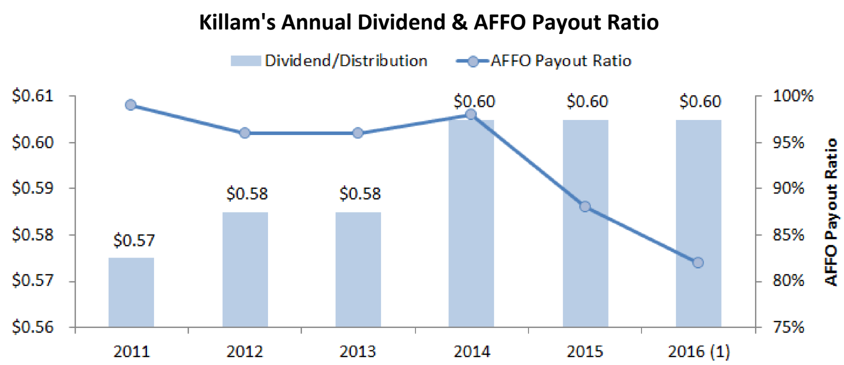
For the three months ended March 31,

	2016	2015	% Change
FFO	**$11,509**	$8,922	29.0%
Maintenance Capital Expenditures			
Apartments	**(1,479)**	(1,443)	2.5%
MHCs	**(129)**	(129)	-%
AFFO	**$9,901**	$7,350	34.7%
AFFO per unit/share - basic	**$0.16**	$0.12	33.3%
AFFO per unit/share - diluted(1)	**$0.16**	$0.12	33.3%
AFFO payout ratio - diluted	**94%**	125%	(24.8)%
AFFO payout ratio - rolling 12 months(2)	**82%**	94%	(12.8)%
Weighted average number of units/shares - diluted (000's)	**63,184**	61,035	3.5%

(1) The calculation of weighted average units/shares outstanding for diluted AFFO purpose excludes the convertible debentures for the periods ended March 31, 2016 and 2015, as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.
(2) Based on Killam's annualized distribution/dividend of $0.60 for the 12-month period ending March 31, 2016 and 2015.

The AFFO payout ratio of 94% for Q1-2016 has improved from the payout ratio of 125% in Q1-2015. The reduction in the payout ratio is attributable to the 35% increase in AFFO driven by increased same property NOI growth. A higher payout ratio in Q1 corresponds with the seasonality of Killam’s business. Killam’s first quarter typically has the highest payout ratio due to the heating costs in the winter months.

Killam’s Board evaluates the Trust’s payout ratio on a quarterly basis. The Board has not set a specific AFFO payout target, but believes that a ratio below 90% is important. The Trust’s 12-month rolling payout ratio in Q1-2016 is 82%, an improvement from the 12-month rolling payout ratio in Q1-2015 of 94%.



(1) 12-month rolling AFFO payout ratio

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

Cash Generated from Operating Activities to AFFO Reconciliation

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

For the three months ended March 31,

	2016	2015	% Change
Cash generated from operating activities	**$13,114**	$5,370	144.2%
Adjustments:			
Net change in non-cash operating activities	**(679)**	5,751	(111.8)%
Non-controlling interest	**(254)**	(246)	3.3%
Non-cash compensation expense	**2**	(13)	(115.4)%
Interest paid	**7,683**	7,770	(1.1)%
Financing costs	**(9,014)**	(9,234)	(2.4)%
REIT conversion costs	**1,050**	-	-%
Depreciation and amortization	**(393)**	(476)	(17.4)%
Provision for maintenance property capital investments	**(1,608)**	(1,572)	2.3%
AFFO	**$9,901**	$7,350	34.7%

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

For the three months ended March 31,

	2016	2015	% Change
Distributions declared on Trust Units/Common Shares	**$8,787**	$9,203	(4.5)%
Distributions declared on Exchangeable Units(1)	**710**	-	N/A
Distributions declared on awards outstanding under RTU/RSU plan(2)	**34**	21	61.9%
Total distributions declared	**$9,531**	$9,224	3.3%
Less:			
Distributions on Trust Units reinvested	**(1,724)**	(1,399)	23.2%
Distributions on RTU/RSUs reinvested	**(34)**	(21)	61.9%
Net distributions paid	**$7,773**	$7,804	(0.4)%
Percentage of distributions reinvested	**18%**	15%	20.0%

(1) See note 1 to the accompanying unaudited condensed consolidated interim financial statements for details of the Exchangeable Units.

(2) See note 10 to the accompanying unaudited condensed consolidated interim financial statements for details of Killam's restricted trust unit plan.

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

PART VI

Investment Properties

As at March 31,

	2016	2015	% Change
Investment properties	**$1,799,368**	$1,726,804	4.2%
Investment properties under construction ("IPUC")	**49,779**	51,520	(3.4)%
	$1,849,147	$1,778,324	4.0%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the three months ended March 31, 2016, and 2015.

As at and for the three months ended March 31,

	2016	2015
Balance, beginning of period	**$1,794,580**	$1,693,055
Acquisition of properties	**364**	22,190
Disposition of properties	**(8)**	-
Transfer to IPUC	**-**	(2,300)
Transfer from IPUC	**-**	9,199
Capital expenditures	**4,432**	4,535
Fair value adjustment - Apartments	-	125
Balance, end of period	**$1,799,368**	$1,726,804

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at March 31, 2016, December 31, 2015, and March 31, 2015, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	March 31, 2016			December 31, 2015			March 31, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.53%**	4.12%	8.00%	5.53%	4.50%	8.00%	5.63%
MHCs	**5.75%**	**8.00%**	**6.82%**	5.75%	8.00%	6.82%	5.75%	8.00%	6.69%

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

Investment Properties Under Construction

For the three months ended March 31,

	2016	2015
Balance, beginning of year	**$45,676**	$40,840
Capital expenditures	**3,878**	5,658
Interest capitalized	**225**	427
Land acquisitions	-	10,701
Transfer from investment properties	-	2,300
Transfer to investment properties	-	(9,199)
Fair value gain	-	793
Balance, end of year	**$49,779**	$51,520

Construction of the 142-unit Southport development, located in downtown Halifax is expected to be completed in the third quarter of 2016. Killam owns a 49% interest in the project (representing 70 rental units). Killam's cost for the development is $14.7 million ($210,000 per unit) resulting in an all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets at that location. Killam has invested $10.2 million on the project as at March 31, 2016.

During 2015, Killam acquired a 50% interest in vacant land for future development located in downtown Halifax across from the waterfront. Killam and its 50% partner began construction of a 242-unit building on this site late in the third quarter of 2015 and the project is expected to be completed in Q3-2017. The cost for the development is approximately $70.2 million ($290,000 per unit) resulting in an all cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets at that location. To date, Killam has invested $9.0 million in the project, representing its 50% interest in the project.

Killam has the following land available for future development:

Property	**Location**	**Development Potential** (# of Units)	**Status**
Silver Spear(1)	Mississauga, ON	64	In design and approval process
Saginaw - Phase II	Cambridge, ON	93	In design and approval process
Spring Garden Terrace Land	Halifax, NS	106	Approved development agreement
The Alexander - Phase II	Halifax, NS	50	As of right
Carlton Houses	Halifax, NS	70	Future development
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
1335 Hollis Street	Halifax, NS	30	Future development
Block 4	St. John's, NL	80	As of right
Topsail Road	St. John's, NL	225	Approved development agreement
Grid 5 vacant land(1)	Calgary, AB	198	Future development
Total Development Opportunities		**1,116**	

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

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three months ended March 31, 2016, Killam invested a total of $4.4 million in its portfolio, compared to $4.5 million for the three months ended March 31, 2015.

For the three months ended March 31,

	2016	2015	% Change
Apartments	**$4,180**	$4,108	1.8%
MHCs	**70**	422	(83.4)%
Commercial	**182**	5	3,540.0%
	$4,432	$4,535	(2.3)%

Apartments - Capital Spend

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

For the three months ended March 31,

	2016	2015	% Change
Building improvements	**$1,628**	$1,412	15.3%
Suite renovations	**2,078**	2,195	(5.3)%
Appliances	**183**	231	(20.8)%
Boilers and heating equipment	**129**	157	(17.8)%
Other	**81**	57	42.1%
Equipment	**80**	53	50.9%
Parking lots	**1**	-	-%
Land improvements	**-**	3	(100.0)%
Total capital spend	**$4,180**	$4,108	1.8%
Average number of units outstanding	**13,681**	12,870	6.3%
Capital spend per unit	**$306**	$319	(4.1)%

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

Of the $4.2 million capital investment made in the apartment segment in 2016, approximately 40% was invested in building improvements, which included several upgrades, renovations and energy efficiency investments to increase the quality of Killam's portfolio.

In the first quarter of 2016, Killam installed 972 new low-flow toilets and upgraded various common area lighting resulting in annualized savings at $0.1 million and a payback of approximately 2.4 years.

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

Anticipated efficiency investments for the remainder of 2016 include the installation of an additional 1,643 low-flow toilets, boiler upgrades and various other electrical related projects.

Approximately 50% of the apartment capital investment in Q1-2016 was invested in suite renovations. Killam continues to focus on unit upgrades to maximize occupancy and rental increases, and to increase yields on properties identified for repositioning.

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

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

MHCs - Capital Spend

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

For the three months ended March 31,

	2016	2015	% Change
Water and sewer upgrades	**$80**	$303	(73.6)%
Site expansion and land improvements	**5**	26	(80.8)%
Other	**38**	52	(26.9)%
Roads and paving	**(73)**	1	-%
Equipment	**20**	40	(50)%
Total capital spend - MHCs	**$70**	$422	(83.4)%
Average number of units outstanding	**5,165**	5,165	-%
Capital spend per site	**$14**	$82	(82.9)%

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

The reduction in capital spend quarter-over-quarter is based on timing of projects. The credit balance related to roads and paving spend is a result of a reversal of an accrual for capital work. Excluding this item, the total spend for the period was $143 thousand.

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

Loans Receivable

On May 23, 2014, Killam provided a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is expected in the second quarter of 2016. Killam also has a vendor take-back loan receivable for $0.95 million, bearing interest at 6.5%.

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

Liquidity and Capital Resources

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

Killam’s ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt and construction financing, and to raise equity in the capital markets. Killam had cash on hand of $15.6 million as at March 31, 2016.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at

	March 31, 2016	December 31, 2015	% Change
Weighted average years to debt maturity	**4.1**	4.2	(0.1 years)
Gross mortgage, loan and vendor debt as a percentage of total assets	**50.4%**	50.4%	- bps
Total debt as a percentage of total assets	**55.8%**	55.7%	10 bps
Interest coverage - rolling twelve months	**2.43x**	2.34x	9 bps
Debt service coverage - rolling twelve months	**1.37x**	1.35x	2 bps
Weighted average mortgage interest rate	**3.23%**	3.27%	(4) bps
Weighted average interest rate of total debt	**3.60%**	3.60%	- bps

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

Killam’s March 31, 2016, weighted average interest rate on mortgages improved to 3.23% from 3.27% as at December 31, 2015 as a result of refinancings at lower interest rates during the period. This trend is expected to continue over the remainder of 2016 with $106.3 million of mortgage balances maturing. Management expects to refinance these mortgages at lower interest rates than their current weighted average rates of 4.13%. These refinancings represent 11.3% of Killam's total mortgage portfolio.

Total debt as a percentage of total assets has increased 10 bps to 55.8% from December 31, 2015. Management expects its percentage of debt to total assets to not exceed 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps increase in the weighted average cap-rate as at March 31, 2016, would have increased the ratio of debt as a percentage of total assets by 90 bps.

Including the outstanding convertible debentures, Killam's debt as a percentage of assets is 55.8%. The convertible debentures mature in 2017 ($57.5 million) and 2018 ($46.0 million). Killam has the option to redeem the convertible debentures at fair value anytime after November 2015 and June 2016, respectively. Management may redeem the convertible debentures with equity in the future and thereby reduce Killam’s debt levels.

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

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

2016 Refinancings

During the three months ended March 31, 2016, Killam refinanced the following mortgages:

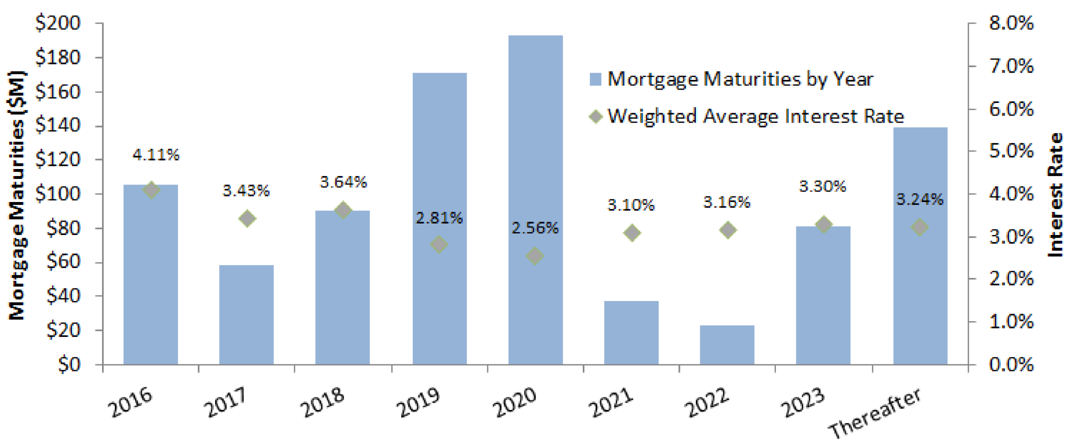
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$13,914	4.59%	$28,384	2.51%	8.2 years	$14,470
MHCs	531	5.21%	1,786	3.44%	5.0 years	1,255
	$14,445	4.61%	$30,170	2.57%	8.0 years	$15,725

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

	Apartments			MHCs		Total	
Year of Maturity	Balance March 31, 2016	Weighted Avg Int. Rate %	% CMHC Insured	Balance March 31, 2016	Weighted Avg Int. Rate %	Balance March 31, 2016	Weighted Avg Int. Rate %
2016	105,188(1)	4.11	49.5	2,428	5.05	107,616	4.13
2017	58,436	3.43	43.0	16,337	4.65	74,773	3.69
2018	90,201	3.64	41.0	12,118	4.34	102,319	3.73
2019	171,084	2.81	97.1	19,410	3.86	190,494	2.92
2020	192,766	2.56	57.6	7,157	3.52	199,923	2.59
2021	36,867	3.10	93.1	1,776	3.44	36,867	3.12
2022	22,869	3.16	100.0	-	-	22,869	3.16
2023	80,871	3.30	100.0	-	-	80,871	3.30
Thereafter	139,150	3.24	100.0	-	-	139,150	3.24
	$ 897,432	3.21	73.3	$ 57,450	4.17	$954,882	3.23

(1) Excludes $11.2 million related to demand loans classified as current mortgage debt on the March 31, 2016, condensed consolidated interim financial statements.

Apartment Mortgage Maturities by Year



As at March 31, 2016, approximately 73% of Killam's apartment mortgages were CMHC insured (70% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2015 – 73% and 69%). The weighted average interest rate on the CMHC insured mortgages was 2.97% as at March 31, 2016 (December 31, 2015– 3.01%).

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

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

The following table presents the NOI for properties that are available to Killam to refinance at debt maturity in the remainder of 2016 and 2017:

Remaining 2016 Debt Maturities	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	34	$12,062	$103,883(1)
MHCs with debt maturing	3	588	2,380
	37	$12,650	$106,263

(1) Includes $5.0 million VTB loan

2017 Debt Maturities	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	11	$7,078	$55,806
MHCs with debt maturing	9	2,754	15,150
	20	$9,832	$70,956

Future Contractual Debt Obligations

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

For the twelve months ended March 31,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2017	$150,238	$6,161	$-	$156,399
2018	123,059	-	57,500	180,559
2019	131,519	-	46,000	177,519
2020	181,176	-	-	181,176
2021	158,425	-	-	158,425
Thereafter	223,487	-	-	223,487
	$967,904	$6,161	$103,500	$1,077,565

Convertible Debentures

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

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

Construction Loan

As at March 31, 2016, Killam had access to a $10.1 million floating rate non-revolving demand construction loan for the purpose of financing its Southport development project. Payments are made monthly on an interest only basis. The construction loan has an interest rate of prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loan will be repaid in full and converted into a conventional mortgage. As at March 31, 2016, $6.2 million (December 31, 2015 - $4.1 million) was drawn at a weighted average interest rate of 3.45% (December 31, 2015 - 3.45%).

Credit Facilities

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

A $2.0 million revolving demand facility that can be used for Killam's acquisition program and general business purposes. The interest rate on this debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at March 31, 2016, Killam had assets with a carrying value of $1.6 million pledged to the line and a balance outstanding of $Nil (December 31, 2015 - $Nil). The agreement includes certain covenants and undertakings of which Killam is in compliance.

A $1.5 million revolving demand facility that can be used for Killam's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at March 31, 2016, Killam had assets with a carrying value of $1.8 million pledged as collateral and letters of credit totalling $1.5 million outstanding against the facility (December 31, 2015 - $1.5 million). The agreement includes certain covenants and undertakings with which Killam is in compliance.

Unitholders' Equity

Unitholders' Equity represents the issued and outstanding Trust Units, and excludes the Exchangeable Units and any Units issued in connection with Unit-based incentive plans are treated as equity as they have claims similar or identical to those of the Trust Units.

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

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

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

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

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 months ended March 31, 2016, no Unitholders redeemed units.

	Number of Trust Units	Number of Common Shares	Value
Balance, January 1, 2015	-	60,475,979	$459,138
Dividend reinvestment plan	-	96,438	1,010
Stock options exercised	-	234,917	2,191
Shares issued for acquisition	-	1,092,548	12,000
Restricted Trust Units redeemed	-	12,566	147
Balance, March 31, 2015	-	61,912,448	$474,486
Dividend reinvestment plan	-	571,156	5,897
Stock options exercised	-	132,990	1,267
Shares issued for acquisition	-	249,311	2,536
Restricted Trust Units redeemed	-	18,129	139
Repurchase through NCIB	-	(21,000)	(192)
Balance, December 31, 2015		62,863,034	$484,133
REIT conversion adjustments (January 1, 2016)	**58,114,973**	**(4,748,061)**	**(36,567)**
Distribution reinvestment plan	**159,341**	**-**	**1,696**
Restricted share units redeemed	**16,973**	**-**	**76**
Units issued on exchange of exchangeable units	**39,250**	**-**	**460**
Balance, March 31, 2016	**58,330,537**	**58,114,973**	**$449,798**

In July 2015, Killam announced that the TSX had accepted its notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 1,500,000 Trust Units/common shares commencing on July 30, 2015, and ending July 29, 2016. The normal course issuer bid was not affected by Killam's conversion to a REIT (Refer to note 1 of the condensed consolidated interim financial statements). All purchases of Trust Units are made through the facilities of the TSX at the market price of the Trust Units at the time of the acquisition. Daily repurchases by Killam are limited to 23,698 Trust Units, other than block purchase exemptions. Any Trust Units acquired will be cancelled. For the three months ended March 31, 2016, no Trust Units were purchased or cancelled.

PART VII

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 Management's Discussion and Analysis found in Killam's 2015 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, 2015, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the period ended March 31, 2016. The opening adjustments recorded on January 1, 2016, related to the REIT conversion are described in note 3 to the condensed consolidated interim financial statements.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in note 3 of the consolidated financial statements found in Killam's 2015 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes.

Disclosure Controls and 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 changes in Killam's accounting judgments, estimates and assumptions.

Subsequent Events

On April 18, 2016, Killam announced a distribution of $0.05 per unit, payable on May 16, 2016, to Unitholders of record on April 29, 2016.

Subsequent to March 31, 2016, Killam has agreed to acquire the remaining 51% ownership interest in Garden Park Apartments in Halifax for $23.7 million, which will result in Killam owning 100% of the well-located property. Killam has been acquiring ownership interests in the 246-unit apartment since its first investment in the property in 2005 and has been acting as the property manager for the building since 2011. The Garden Park acquisition will be fully-funded through a new mortgage on the property; the property is currently free and clear of any mortgage debt. The acquisition is expected to close in June 2016.

Subsequent to March 31, 2016, Killam has agreed to acquire a 50% interest in Kanata Lake Apartments III, located at 1047 Canadian Shields Avenue in Ottawa. The 173-unit apartment building was completed in late 2014 and is the third of a five-building complex with a shared clubhouse. The acquisition cost of $30.8 million for Killam's 50% interest will be funded though CMHC-insured mortgage debt and cash. The acquisition is expected to close in May 2016. Killam and its 50/50 partner have the two remaining buildings of the Kanata Lakes apartment development under contract with closings scheduled for Q1-2017.