Condensed Consolidated Interim Financial Statements [unaudited]
For the three months ended March 31, 2018 and 2017

Condensed Consolidated Interim Statements of Financial Position

In thousands of Canadian dollars,
[unaudited]

	Note	**March 31, 2018**	December 31, 2017
ASSETS			
Non-current assets			
Investment properties	[4]	**$2,486,730**	$2,279,763
Property and equipment		**5,510**	5,192
Other non-current assets		**691**	659
		$2,492,931	$2,285,614
Current assets			
Cash		**$14,545**	$12,000
Rent and other receivables		**3,635**	2,355
Other current assets	[6]	**14,146**	11,241
		32,326	25,596
TOTAL ASSETS		**$2,525,257**	$2,311,210
EQUITY AND LIABILITIES			
Unitholders' equity	[12]	**$1,027,618**	$967,618
Accumulated other comprehensive loss ("AOCL")		**(22)**	(37)
Non-controlling interest		**116**	141
Total Equity		**$1,027,712**	$967,722
Non-current liabilities			
Mortgages and loans payable	[7]	**$998,761**	$951,645
Other liabilities		**12,135**	12,161
Exchangeable units	[11]	**53,246**	54,937
Deferred income tax	[17]	**112,575**	103,206
Deferred unit-based compensation	[14]	**3,864**	4,501
		$1,180,581	$1,126,450
Current liabilities			
Mortgages and loans payable	[7]	**$162,125**	$136,862
Credit facilities	[8]	**60,985**	—
Construction loans	[9]	**48,887**	41,046
Accounts payable and accrued liabilities	[10]	**44,967**	39,130
		316,964	217,038
Total Liabilities		**$1,497,545**	$1,343,488
TOTAL EQUITY AND LIABILITIES		**$2,525,257**	$2,311,210
Commitments and contingencies	[21]		
Financial guarantees	[22]		

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

(signed) "G. Wayne Watson "
Trustee

(signed) "Philip D. Fraser "
Trustee

Condensed Consolidated Interim Statements of Income and Comprehensive Income

In thousands of Canadian dollars,
[unaudited]

For the three months ended March 31,

	Note	2018	2017
Property revenue	[15]	**$49,449**	$44,305
Property operating expenses			
Operating expenses		**(7,992)**	(7,677)
Utility and fuel expenses		**(7,220)**	(6,279)
Property taxes		**(5,814)**	(5,407)
		(21,026)	(19,363)
Net operating income		**$28,423**	$24,942
Other income		**295**	185
Financing costs	[16]	**(8,468)**	(8,768)
Depreciation		**(226)**	(163)
Amortization of deferred financing costs		**(487)**	(404)
Administration		**(3,337)**	(2,920)
Fair value adjustment on convertible debentures		**—**	469
Fair value adjustment on unit-based compensation		**238**	(287)
Fair value adjustment on exchangeable units	[11]	**1,314**	(2,861)
Fair value adjustment on investment properties	[4]	**60,714**	10,545
Loss on disposition		**(183)**	—
Income before income taxes		**78,283**	20,738
Deferred tax expense	[17]	**(9,369)**	(3,088)
Net income		**$68,914**	$17,650
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to financing costs		**15**	15
Comprehensive income		**$68,929**	$17,665
Net income attributable to:			
Unitholders		**68,907**	17,645
Non-controlling interest		**7**	5
		$68,914	$17,650
Comprehensive income attributable to:			
Unitholders		**68,922**	17,660
Non-controlling interest		**7**	5
		$68,929	$17,665

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

In thousands of Canadian dollars,
[unaudited]

Three months ended March 31, 2018	**Trust Units**	**Contributed Surplus**	**Retained Earnings**	**AOCL**	**Non-controlling Interest**	**Total Equity**
As at January 1, 2018	**$718,858**	**$795**	**$247,965**	**($37)**	**$141**	**$967,722**
Exchange of exchangeable units	**378**	—	—	—	—	**378**
Distribution reinvestment plan	**3,267**	—	—	—	—	**3,267**
Deferred unit-based compensation	**198**	—	—	—	—	**198**
Net income	—	—	**68,907**	—	**7**	**68,914**
Amortization of loss on forward interest rate hedge	—	—	—	**15**	—	**15**
Distributions on non-controlling interest	—	—	—	—	**(32)**	**(32)**
Distributions declared and paid	—	—	**(8,409)**	—	—	**(8,409)**
Distributions payable	—	—	**(4,341)**	—	—	**(4,341)**
As at March 31, 2018	**$722,701**	**$795**	**$304,122**	**($22)**	**$116**	**$1,027,712**

Three months ended March 31, 2017	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2017	$560,197	$795	$189,458	($97)	$113	$750,466
Distribution reinvestment plan	2,563	—	—	—	—	2,563
Restricted trust unit plan	186	—	—	—	—	186
Units issued for cash	73,569	—	—	—	—	73,569
Net income	—	—	17,645	—	5	17,650
Amortization of loss on forward interest rate hedge	—	—	—	15	—	15
Distributions declared and paid	—	—	(6,847)	—	—	(6,847)
Distributions payable	—	—	(3,857)	—	—	(3,857)
As at March 31, 2018	$636,515	$795	$196,399	($82)	$118	$833,745

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,
[unaudited]

For the three months ended March 31,

	Note	2018	2017
OPERATING ACTIVITIES			
Net income		**$68,914**	$17,650
Add (deduct) items not affecting cash			
Fair value adjustments		**(62,266)**	(7,866)
Depreciation and amortization		**713**	567
Non-cash compensation expense		**366**	110
Deferred income taxes		**9,369**	3,088
Loss on disposition		**183**	—
Net change in non-cash operating activities	[19]	**1,489**	2,461
Cash provided by operating activities		**$18,768**	$16,010
FINANCING ACTIVITIES			
Deferred financing costs paid		**(2,647)**	(1,210)
Net proceeds on issuance of units		**—**	73,569
Cash paid on vesting of restricted units		**(538)**	(201)
Mortgage financing		**82,194**	58,947
Mortgages repaid on maturity		**(22,939)**	(4,027)
Mortgage principal repayments		**(9,370)**	(8,523)
Advances from credit facility		**60,985**	—
Proceeds from construction loans		**7,841**	4,451
Construction loans repaid on maturity		**—**	(9,717)
Distributions paid to non-controlling interest		**(32)**	—
Distributions to unitholders		**(9,926)**	(8,287)
Cash provided by financing activities		**$105,568**	$105,002
INVESTING ACTIVITIES			
Decrease (increase) in restricted cash		**120**	(68)
Acquisition of investment properties, net of debt assumed		**(102,170)**	(64,129)
Disposition of investment properties		**1,460**	—
Development of investment properties		**(13,440)**	(6,234)
Capital expenditures		**(7,761)**	(5,586)
Cash used in investing activities		**($121,791)**	($76,017)
Net increase in cash		**2,545**	44,996
Cash, beginning of period		**12,000**	24,652
Cash, end of period		**$14,545**	$69,648

See accompanying notes to the unaudited condensed consolidated interim financial statements.

1. Organization of the Trust

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

The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at and for the three months ended March 31, 2018. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Trust's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

2. Significant Accounting Policies

(A) Statement of Compliance
These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been omitted or condensed.

The condensed consolidated interim financial statements of the Trust for the period ended March 31, 2018 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on May 8, 2018.

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

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 the Trust's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the consolidated financial statements for the year ended December 31, 2017, and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three months ended March 31, 2018, are not necessarily indicative of results that may be expected for the full year ending December 31, 2018, due to seasonal variations in property expenses and other factors.

(C) Adoption of Accounting Standards

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

IFRS 9, Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of *IFRS 9, Financial Instruments* which introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. Killam adopted the standard retrospectively on January 1, 2018. The implementation of IFRS 9 did not have a significant impact on Killam's financial instruments.

2. Significant Accounting Policies (continued)

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

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

3. Future Accounting Policy Changes

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

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The objective of the new standard is to provide financial statement users with information to assess the amount, timing and uncertainty of cash flows arising from lease obligations. This standard introduces a single lessee accounting model and is effective for Killam's annual periods beginning after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on its consolidated financial statements. Killam does not expect a significant impact to its consolidated financial statements on adoption of this IFRS standard. Killam intends to adopt the new standard on the required effective date.

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

4. Investment Properties

As at March 31, 2018

Segment	**Apartments**	**MHCs**	**Other**	**IPUC**	**Total**
Balance, beginning of period	**$1,995,144**	**$139,783**	**$37,295**	**$107,541**	**$2,279,763**
Fair value adjustment on investment properties	**55,950**	**179**	**2,029**	**2,593**	**60,751**
Acquisitions	**33,872**	**—**	**75,816**	**17,120**	**126,808**
Dispositions	**—**	**—**	**—**	**(1,460)**	**(1,460)**
Capital expenditure on investment properties	**6,723**	**303**	**402**	**—**	**7,428**
Capital expenditure on IPUC	**—**	**—**	**—**	**12,608**	**12,608**
Interest capitalized on IPUC	**—**	**—**	**—**	**832**	**832**
Balance, end of period	**$2,091,689**	**$140,265**	**$115,542**	**$139,234**	**$2,486,730**

As at December 31, 2017

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

During the three months ended March 31, 2018, Killam acquired the following properties:

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

[1] Purchase price does not include transaction costs.

During the three months ended ended March 31, 2018, Killam capitalized salaries of $0.7 million (March 31, 2017 - $0.8 million), as part of its project improvement, suite renovation and development programs. For the three months ended March 31, 2018, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.90% (March 31, 2017 - 3.11%). Interest costs associated with development specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $2.4 billion as at March 31, 2018 (December 31, 2017 - $2.2 billion), have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

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

4. Investment Properties (continued)

Valuation Basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.75% to 8.00%, applied to a stabilized NOI of $110.4 million (December 31, 2017 - 3.75% to 8.00% and $107.8 million), resulting in an overall weighted average cap-rate of 5.25% (December 31, 2017 - 5.37%). The stabilized occupancy rates used in the calculation of NOI were in the range of 95% to 99% (December 31, 2017 - 93.1% to 98.3%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of $9.6 million (December 31, 2017 - 5.75% to 8.00% and $9.6 million), resulting in an overall weighted average cap-rate of 6.82% (December 31, 2016 - 6.84%). The stabilized occupancy rate used in the calculation of NOI was 97.8% (December 31, 2017 - 97.8%).

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

	March 31, 2018			December 31, 2017		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**3.75%**	**8.00%**	**5.25%**	3.75%	8.00%	5.37%
Halifax	4.85%	6.00%	5.30%	4.85%	6.00%	5.34%
Moncton	5.15%	7.00%	5.73%	5.15%	7.00%	5.88%
Fredericton	5.00%	6.25%	5.79%	5.15%	6.50%	5.98%
Saint John	5.75%	6.50%	6.19%	6.00%	6.75%	6.40%
St. John's	5.00%	6.00%	5.63%	5.00%	6.00%	5.63%
Charlottetown	5.50%	6.00%	5.85%	5.50%	6.25%	5.94%
Ontario	3.75%	5.08%	4.34%	3.75%	5.08%	4.55%
Alberta	4.50%	5.25%	4.95%	4.52%	5.75%	5.30%
Other Atlantic	5.75%	8.00%	6.68%	5.75%	8.00%	6.83%
MHCs	**5.75%**	**8.00%**	**6.82%**	5.75%	8.00%	6.84%
Ontario	7.00%	8.00%	7.48%	7.00%	8.00%	7.48%
Nova Scotia	5.75%	7.00%	6.22%	5.75%	7.00%	6.26%
New Brunswick	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Newfoundland	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation model as at March 31, 2018 and December 31, 2017, is included in the above table.

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

Class of property	**Capitalization rate**	
	10 basis points increase	*10 basis points decrease*
Apartments	($39,371)	$40,902
MHCs	($2,032)	$2,092

5. Joint Operations and Investments in Joint Venture

Killam has interests in five properties (eight buildings), a development project and land for future development that are subject to joint control and are joint operations. Accordingly, the condensed consolidated statements of financial position and condensed consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at March 31, 2018, the fair value of the investment property subject to joint control was $255.6 million (March 31, 2017 - $211.0 million).

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

6. Other Current Assets

As at	**March 31, 2018**	December 31, 2017
Restricted cash	**$7,859**	$7,979
Prepaid expenses	**6,192**	3,163
Inventory	**95**	99
	$14,146	$11,241

Restricted cash consists of security deposits, funds held in trust and property tax reserves. Inventory relates to manufactured homes for which sales have not closed at quarter-end.

7. Mortgages and Loans Payable

As at	**March 31, 2018**		December 31, 2017	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**2.90%**	**$1,141,398**	2.89%	$1,070,387
Variable rate	**5.03%**	**13,486**	4.56%	12,116
Vendor financing	**5.00%**	**6,002**	5.00%	6,004
Total		**$1,160,886**		$1,088,507
Current		**162,125**		136,862
Non-current		**998,761**		951,645
		$1,160,886		$1,088,507

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

As at March 31, 2018, unamortized deferred financing costs of $28.2 million (December 31, 2017 - $26.0 million) and mark-to-market adjustments on mortgages assumed on acquisitions of $0.4 million (December 31, 2017 - $0.4 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations by the 12 month period ending March 31, are as follows:

	Principal Amount	**% of Total Principal**
2019	$162,125	13.6%
2020	203,654	17.1%
2021	184,778	15.5%
2022	173,795	14.6%
2023	111,015	9.3%
Subsequent to 2023	354,067	29.9%
	$1,189,434	100%
Unamortized deferred financing costs	(28,163)	
Unamortized mark-to-market adjustments	(385)	
	$1,160,886	

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

8. Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $1.5 million (December 31, 2017 - $70.0 million and $1.5 million) that can be used for acquisition and general business purposes. Killam holds an accordion option to increase the $70.0 million facility by an additional $20 million.

The $70.0 million facility bears interest at prime plus 75 bps on prime rate advances or 170 bps over bankers acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at March 31, 2018, Killam has assets with a carrying value of $52.2 million pledged as first mortgage ranking and $311.3 million pledged as second mortgage ranking to the line and a balance outstanding of $61.0 million (December 31, 2017 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at March 31, 2018.

The $1.5 million facility bears interest at prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at March 31, 2018, Killam had assets with a carrying value of $1.9 million pledged as collateral (December 31, 2017 - $1.8 million) and letters of credit totaling $0.3 million outstanding against the facility (December 31, 2017 - $1.1 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at March 31, 2018.

As at March 31, 2018	**Maximum Loan Amount**	**Amount Drawn**	**Letters of Credit**	**Amount Available**
$70.0 million demand facility	$70,000	$60,985	—	$9,015
$1.5 million demand facility	1,500	—	261	1,239
Total	**$71,500**	**$60,985**	**$261**	**$10,254**

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

9. Construction Loans

As at March 31, 2018, Killam had access to three floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $98.6 million. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625%. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at March 31, 2018, $48.9 million was drawn on the construction loans (December 31, 2017 - $41.0 million). The weighted-average interest rate was 4.08% (December 31, 2017 - 3.83%).

10. Accounts Payable and Accrued Liabilities

As at	**March 31, 2018**	December 31, 2017
Accounts payable and other accrued liabilities	**$30,627**	$25,431
Distributions payable	**4,545**	4,388
Mortgage interest payable	**2,490**	2,343
Security deposits	**7,306**	6,968
	$44,968	$39,130

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

11. Exchangeable Units

	Number of Exchangeable Units	Value
Balance, December 31, 2017	3,863,336	$54,937
Exchangeable units exchanged	(27,200)	(377)
Fair value adjustment	—	(1,314)
Balance, March 31, 2018	**3,836,136**	**$53,246**

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

12. Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three months ended March 31, 2018, no unitholders redeemed units.

The units issued and outstanding are as follows:

	Number of Trust Units	Value
Balance, December 31, 2017	80,565,279	$718,858
Distribution reinvestment plan	242,676	3,267
Restricted trust units redeemed	38,706	198
Units issued on exchange of exchangeable units	27,200	378
Balance, March 31, 2018	**80,873,861**	**$722,701**

Distribution Reinvestment Plan ("DRIP")

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

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

13. Distributions

Killam paid distributions to its unitholders during 2018 in accordance with its DOT. Distributions declared by the Board of Trustees were paid monthly, on or about the 15th day of each month.

For the three months ended March 31, 2018, the distributions declared related to the trust units were $12.7 million (three months ended March 31, 2017 - $10.7 million), respectively. For the three months ended March 31, 2018, distributions declared related to the exchangeable units were $0.6 million (December 31, 2017 - $0.6 million). The distributions on the exchangeable units are recorded in financing costs.

On February 13, 2018, the Board of Trustees approved a 3.2% increase to Killam's annual distribution, to $0.64 per unit ($0.05333 per unit monthly). The increase was effective for the March 2018 distribution, paid on April 15, 2018.

14. Deferred Unit-based Compensation

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

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

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

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver trust units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs for the period ended March 31, 2018, is $3.9 million, which includes $0.2 million related to RTUs subject to performance conditions (March 31, 2017 - $3.8 million and $nil). For the three months ended March 31, 2018, compensation expense of $0.4 million (March 31, 2017 - $0.1 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

For the three months ended March 31,	**2018**		2017	
	Number of RTUs	**Weighted Average Issue Price**	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of period	**432,687**	**$12.09**	263,735	$10.73
Granted	**117,091**	**12.95**	127,320	12.74
Redeemed	**(78,369)**	**10.76**	(36,857)	10.81
Forfeited	**(2,380)**	**12.83**	—	—
Additional restricted trust unit distributions	**5,578**	**13.50**	3,723	12.33
Outstanding, end of period	**474,607**	**$12.53**	357,921	$11.56

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

15. Revenue

In accordance with the adoption of IFRS 15, Revenue from Contracts with Customers, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

For the three months ended March 31,	**2018**	2017
Rental Revenue	**$35,590**	$31,886
Property Management Recoveries	**12,061**	10,806
Ancillary Revenue [1]	**1,798**	1,613
	$49,449	$44,305

[1] Ancillary revenue consists of parking, laundry and other revenue.

16. Financing Costs

For the three months ended March 31,	**2018**	2017
Mortgage, loan and construction loan interest	**$8,702**	$7,903
Interest on exchangeable units	**604**	586
Amortization of fair value adjustments on assumed debt	**11**	(67)
Amortization of loss on interest rate hedge	**15**	15
Unrealized (gain) loss on derivative liability	**(32)**	26
Convertible debenture interest	**—**	634
Capitalized interest	**(832)**	(329)
	$8,468	$8,768

17. Deferred Income Tax

Trusts that satisfy the REIT Exemption are excluded from the specified investment flow-through ("SIFT") definition and therefore will not be subject to taxation under the SIFT Rules. Effective December 31, 2017, Killam qualified for the REIT Exemption and continues to meet the REIT Exemption as at March 31, 2018, and is therefore not subject to taxation to the extent that income is distributed to unitholders. However, this exemption does not extend to the corporate subsidiaries of Killam that are taxable legal entities. For the three months ended March 31, 2018, the deferred tax expense relates to the corporate subsidiary entity of the REIT.

18. Segmented Information

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

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

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

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

18. Segmented Information (continued):

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

For the three months ended March 31, 2018	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$45,368**	**$2,984**	**$1,097**	**$49,449**
Property operating expenses	**(18,946)**	**(1,346)**	**(734)**	**(21,026)**
Net operating income	**$26,422**	**$1,638**	**$363**	**$28,423**

For the three months ended March 31, 2017	Apartments	MHCs	Other	Total
Property revenue	$40,268	$2,918	$1,119	$44,305
Property operating expenses	(17,300)	(1,349)	(714)	(19,363)
Net operating income	$22,968	$1,569	$405	$24,942

As at March 31, 2018	**Apartments**	**MHCs**	**Other**	**Total**
Total assets	**$2,222,547**	**$157,964**	**$144,746**	**$2,525,257**
Total liabilities	**$1,311,457**	**$93,135**	**$92,953**	**$1,497,545**

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

19. Supplemental Cash Flow Information

For the three months ended March 31,	**2018**	2017
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$8,841**	$7,718
Net change in non-cash operating assets and liabilities		
Rent and other receivables	**($1,280)**	($607)
Other current assets	**(2,981)**	(2,685)
Accounts payable and other liabilities	**5,750**	5,753
	$1,489	$2,461

20. Financial Instruments and Financial Risk Management Objectives and Policies

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

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

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

As at March 31, 2018, $123.4 million of Killam's debt had variable interest rates, including two construction loans for $48.9 million, a credit facility balance of $61.0 million, and five demand loans totaling $13.5 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% or 170 bps above BAs. (December 31, 2017 - prime plus 0.63% - 2.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage and vendor debt, which matures in the next 12 months, totals $113.6 million. 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.

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

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 1% of the tenant receivables as at March 31, 2018, or at March 31, 2017. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(ii) Liquidity Risk
Management manages Killam's cash resources based on financial forecasts and anticipated cash flows. Killam structures its financing so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, reducing the refinancing risk upon mortgage maturities.

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

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

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

During the three months ended March 31, 2018 Killam refinanced $19.2 million of maturing apartment mortgages with new mortgages totaling $28.8 million generating net proceeds of $9.6 million. As well, Killam refinanced $1.3 million of maturing MHC mortgages with new mortgages totaling $3.3 million for net proceeds of $2.0 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending March 31,	Mortgage and loans payable	Construction loans	Credit facilities	Total
2019	$162,125	$48,887	$—	$211,012
2020	203,654	—	—	203,654
2021	184,778	—	60,985	245,763
2022	173,795	—	—	173,795
2023	111,015	—	—	111,015
Thereafter	354,067	—	—	354,067
	$1,189,434	$48,887	$60,985	$1,299,306

Capital Management

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

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

As at	March 31, 2018	December 31, 2017
Total debt(1)	**$1,253,625**	$1,115,149
Total assets(1)	**$2,499,532**	$2,288,445
Total debt as a percentage of total assets	**50.2%**	48.7%

(1) Total assets adjusted for Killam's 50% interest in The Alexander development- $25.7 million (December 31, 2017 - $22.8 million). Total mortgages, loans payables and construction loans adjusted for Killam's non-controlling interest related to The Alexander - $17.1 million (December 31, 2017 - $14.4 million).

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at March 31, 2018, would increase the debt as a percentage of assets by 90 bps.

Fair Value of Financial Instruments

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

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

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

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

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

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

The significant financial instruments and their carrying values as at March 31, 2018, and December 31, 2017, are as follows:

As at	**March 31, 2018**		December 31, 2017	
Classification	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset [1]	**$691**	**$691**	$659	$659
Financial liabilities carried at amortized cost:				
Mortgages payable	**$1,160,886**	**$1,190,363**	$1,088,507	$1,119,922
Credit facilities	**$60,985**	**$60,985**	$—	$—
Financial liabilities carried at FVTPL:				
Exchangeable units	**$53,246**	**$53,246**	$54,937	$54,937
Deferred unit-based compensation	**$3,864**	**$3,864**	$4,501	$4,501

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

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

As at	**March 31, 2018**	December 31, 2017
Mortgages - Apartments	**2.90%**	2.82%
Mortgages - MHCs	**4.70%**	4.52%

Assets and Liabilities Measured at Fair Value

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

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

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

As at	**March 31, 2018**			December 31, 2017		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	**$2,486,730**	—	—	$2,279,763
Derivative asset	—	**$691**	—	—	$659	—
Liabilities						
Exchangeable units	—	**$53,246**	—	—	$53,246	—
Deferred unit-based compensation	—	**$3,657**	**$207**	—	$4,351	150

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

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

Transfers between levels in the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three months ended March 31, 2018.

21. Commitments and Contingencies

Killam has entered into commitments for development costs of $17.4 million as at March 31, 2018 (December 31, 2017 - $25.8 million).

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

Killam and its 50% partner are developing a 240-unit building, which is scheduled to be completed mid-2018. The cost to develop is approximately $79.5 million. At the completion of construction and following the achievement of certain leasing conditions, Killam has a commitment in place to purchase the other 50% interest in this development.

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

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

22. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at March 31, 2018, the maximum potential obligation resulting from these guarantees is $130.7 million (at 100%), related to long-term mortgage financing (December 31, 2017 - $119.9 million). These loans are secured by a first ranking mortgage over the associated investment properties. Half of the total mortgages for these properties are recorded as a mortgage liability on the condensed consolidated interim statements of financial position. Killam is also the guarantor on a joint and several basis for the construction loan related to The Alexander development project. As at March 31, 2018, the maximum potential obligation resulting from this guarantee is $17.1 million (December 31, 2017 - $14.4 million).

Management has reviewed the contingent liability associated with its financial guarantee contracts and, as at March 31, 2018, determined that a provision is not required to be recognized in the consolidated statements of financial position (December 31, 2017 - $nil).

23. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period. Killam reclassified, on the condensed consolidated statement of financial position, a derivative asset from "other liabilities" to "other non-current assets" as this derivative is in an asset position as at March 31, 2018 and 2017. Killam reclassified, on the condensed consolidated statements of cash flows, a portion of cash related to interest expense on exchangeable units from "net change in non-cash operating activities" to "interest expense on exchangeable units" as this interest is not related to net working capital.

24. Related Party Transactions

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. Since 2016, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia with a total development budget of $79.5 million. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner. The building is expected to be completed in September 2018.

25. Subsequent Events

On April 17, 2018, Killam announced a distribution of $0.05333 per unit, payable on May 15, 2018, to unitholders of record on April 30, 2018.