2017 Management's Discussion and Analysis

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

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PART I

Business Overview

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

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

1) increase earnings from the existing portfolio;

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

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

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

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

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2016 Annual Information Form, are available on SEDAR at www.sedar.com.

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

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

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

Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward-looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in Killam's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statement, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors that affect this information, except as required by law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in Killam. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

Non-IFRS Financial Measures

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

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

PART II

Key Performance Indicators

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

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

Financial and Operational Highlights

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

For the years ended December 31,

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

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

(1) FFO, AFFO, AFFO payout ratio, debt to EBITDA, debt service coverage ratio, interest coverage ratio, and same property NOI are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see "Non-IFRS Financial Measures").

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

(3) AFFO calculation was revised in 2017 based on the issuance of the February 2017 REALpac white paper on AFFO. Prior period balances have been restated to conform to the current period calculation. Refer to Part VI of the MD&A for additional disclosure.

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

Summary of 2017 Results and Operations

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

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

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

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

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

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

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

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

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

Strategic Targets

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

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

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

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

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

Outlook

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

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

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

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

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

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

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

Additionally, Killam has a development pipeline of almost 1,500 units, representing a potential investment of $500 million. One of these projects, in Mississauga, is in the final stages of planning and approval, and construction is expected to commence in 2018. The second phase of the Ottawa project is scheduled to commence in mid-2019, following the completion of the first phase. Developments reinforce Killam's position as the owner of one of the newest and highest quality apartment portfolios in Canada. See further discussion on land held for future development in the "Investment Properties" section of this MD&A.

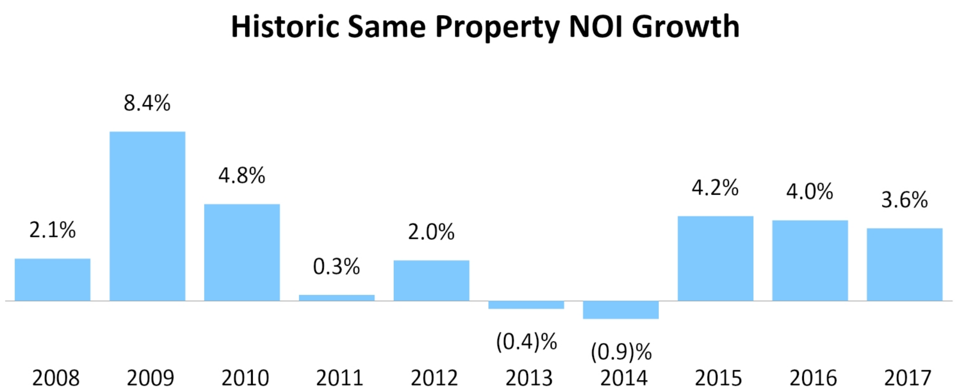
Rising Interest Rates May Lead to Higher Interest Expense Beyond 2018
Management expects to refinance near-term maturities at lower interest rates. Killam has $77.2 million of apartment mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.54%, approximately 50 bps and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

PART III

Business Strategy

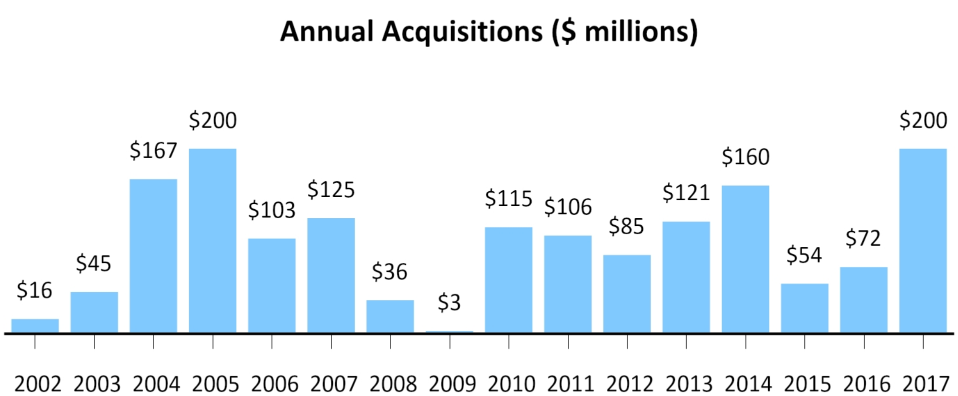
Maximize NOI from Existing Portfolio

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



Growth through Acquisitions

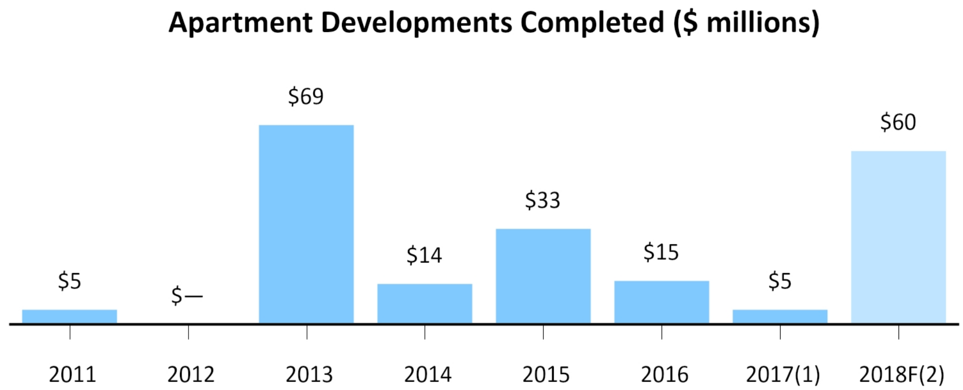
Killam is expanding its portfolio through the acquisition of centrally located buildings in its target markets of Ontario and Alberta, and continuing to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. Killam has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



Expansion through Development

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

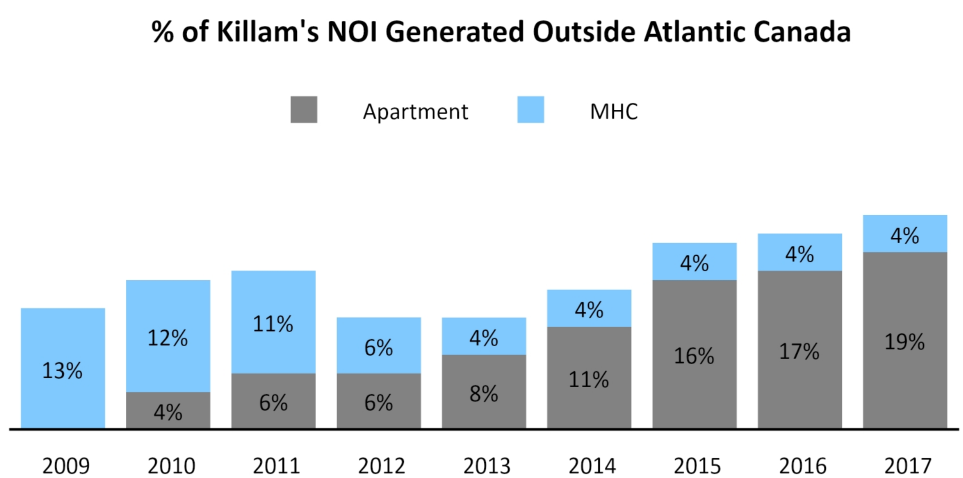
To mitigate risk and manage the short-term dilution impact associated with development, Killam expects to manage the capital invested in active developments to approximately 5% of its total assets.



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

Geographic Diversification

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



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

Portfolio Summary

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

Apartment Portfolio				
	Units [1]	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia				
Halifax	5,459	63	$41,936	36.5%
Sydney	139	2	$1,300	1.1%
	5,598	65	$43,236	37.6%
New Brunswick				
Fredericton	1,422	21	$9,157	7.9%
Moncton	1,629	31	$8,680	7.5%
Saint John	1,202	14	$5,520	4.8%
Miramichi	96	1	$582	0.5%
	4,349	67	$23,939	20.7%
Ontario				
Ottawa	1,064	9	$6,945	6.0%
London	523	5	$4,566	4.0%
Toronto	378	2	$3,586	3.1%
Cambridge	347	3	$4,170	3.6%
	2,312	19	$19,267	16.7%
Newfoundland & Labrador				
St. John's	915	12	$7,315	6.3%
Grand Falls	148	2	$792	0.7%
	1,063	14	$8,107	7.0%
Prince Edward Island				
Charlottetown	906	18	$6,054	5.3%
Summerside	86	2	$529	0.5%
	992	20	$6,583	5.8%
Alberta				
Edmonton	296	2	$742	0.6%
Calgary	373	2	$2,077	1.8%
	669	4	$2,819	2.4%
Total Apartments	**14,983**	**189**	**$103,951**	**90.2%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia	2,626	16	$4,354	3.8%
Ontario	2,145	16	$4,510	3.9%
New Brunswick	224	1	$170	0.1%
Newfoundland & Labrador	170	2	$343	0.3%
	5,165	**35**	**$9,377**	**8.1%**
Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($)	NOI (% of Total)
Halifax, NS	254,000	5	$1,892	1.7%
Total Portfolio			**$115,220**	**100.0%**

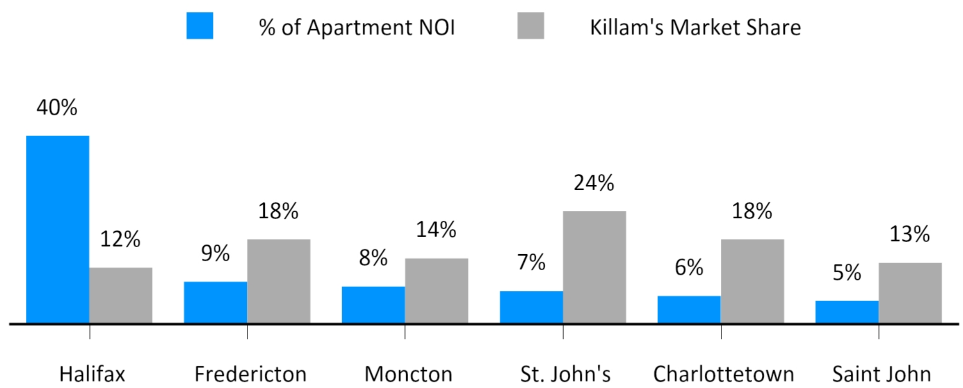
(1) Unit count includes properties held through Killam's joint arrangements. Killam has a 50% ownership interest in one property in Alberta and two properties in Ontario, representing a proportionate ownership of 623 units of the 1,245 units in these properties. Killam manages the operations of all the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

(2) For the year ended December 31, 2017.

Unique Portfolio Features

Atlantic Canada's Market Leader
Killam is the single largest residential landlord in Atlantic Canada, with a 14% market share of apartments in its core markets as of December 31, 2017. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, higher operating margins from economies of scale and the ability to attract and retain top talent. With strong rental fundamentals in Atlantic Canada, Canada Mortgage and Housing Corporation's ("CMHC") Fall 2017 Rental Market Reports reported improved occupancy in all six of Killam's Atlantic Canadian markets versus October 2016. This corresponds with Killam's experience in the market, with five of six of its Atlantic Canadian markets experiencing improved occupancy during 2017 compared to 2016.

Market Share and Apartment NOI (%)



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

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

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

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

Core Market Update

Halifax

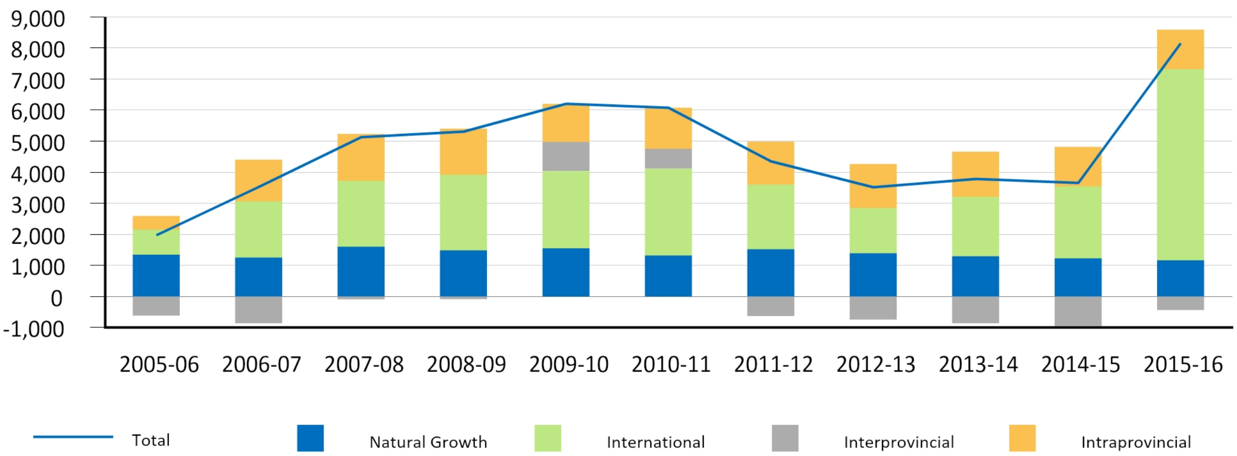
36% of Killam's NOI is generated by its Halifax properties. Halifax is the largest city in Eastern Canada and is home to 18% of Atlantic Canadians. The city's rental market totals 47,303 units, representing 47% of Atlantic Canada's rental universe, as measured by CMHC.

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

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

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

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

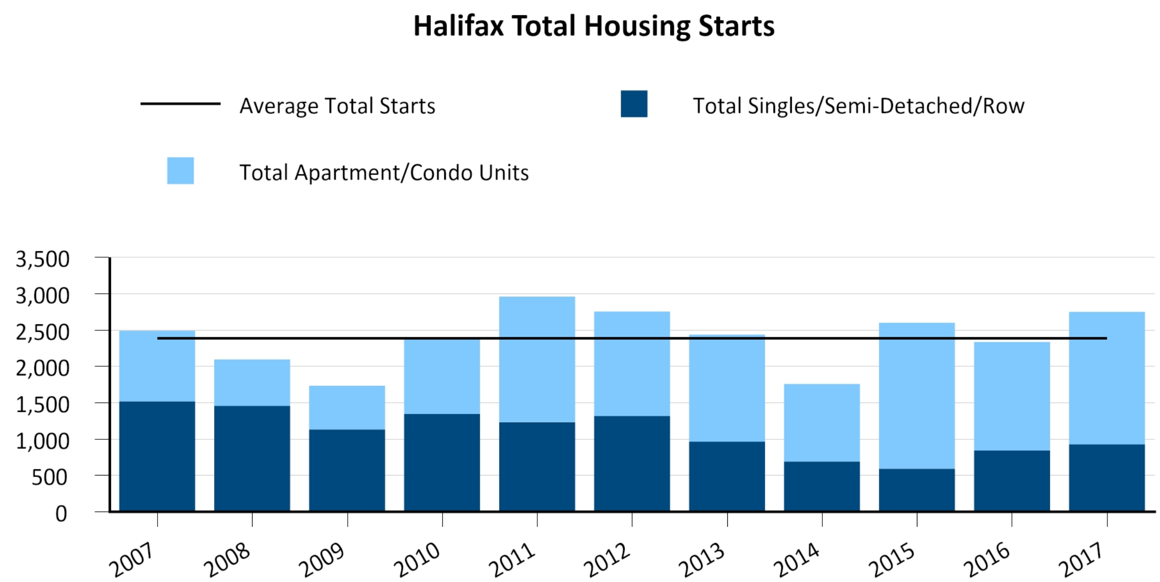


Source: Statistics Canada

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

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

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



Source: CMHC

New Brunswick

21% of Killam's NOI is generated by apartments in New Brunswick's three major urban centres - Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university and a significant public sector workforce. Moncton is the province's largest city and is a transportation and distribution hub for Atlantic Canada. Moncton has experienced strong population growth in recent years, driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5% of Killam's NOI, is focused on industry and energy.

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

Newfoundland and Labrador

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

Prince Edward Island

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

Ontario

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

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

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

Alberta

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

PART IV

2017 Financial Overview

Consolidated Results

For the years ended December 31,

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

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

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

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

Apartment Results

For the years ended December 31,

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

Apartment Revenue

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

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

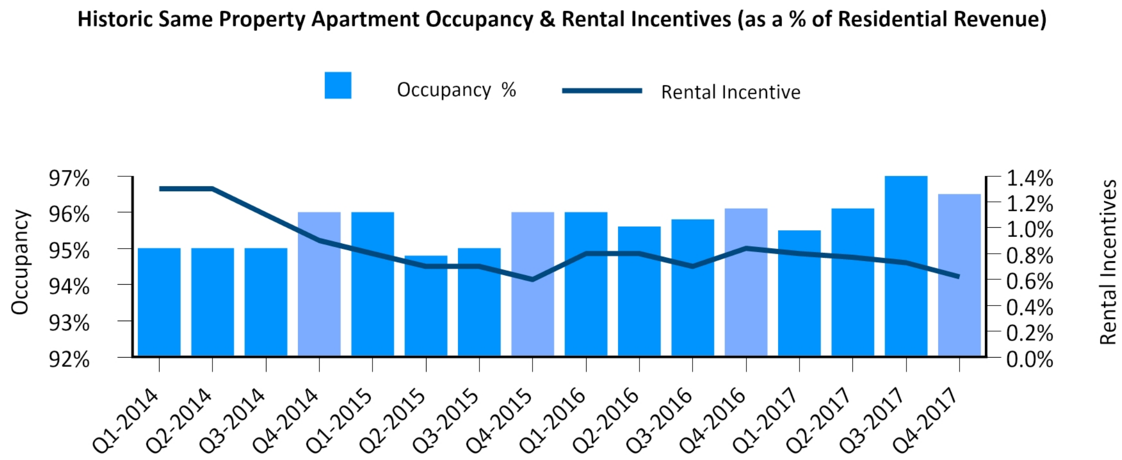
Apartment Occupancy Analysis by Core Market (% of Residential Rent)[(1)]

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

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

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

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



Average Rent Analysis by Core Market

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

Same Property Rental Increases - Tenant Renewal versus Unit Turn

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

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

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

Apartment Expenses

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

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

Apartment Utility and Fuel Expenses - Same Property

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

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

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

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

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

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

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

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

Apartment Same Property NOI by Region

For the years ended December 31,

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

Halifax

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

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

Ontario

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

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

New Brunswick

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

Newfoundland and Labrador

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

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

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

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

MHC Results

For the years ended December 31,

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

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

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

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

Commercial Results

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

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

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

PART V

Other Income and Expenses

Other Income

For the years ended December 31,

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

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

Financing Costs

For the years ended December 31,

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

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

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

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

Capitalized interest increased $1.1 million for the year ended December 31, 2017, as compared to 2016. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering maturity dates. Additionally, Killam may enter into forward interest rate hedges. $90 million (or 8.2%) of Killam's fixed mortgage and vendor debt mature in the next twelve months. If maturing mortgages are refinanced on similar terms, with the exception of a 100 bps increase/(decrease) in interest rates, financing costs would increase/(decrease) by $0.9 million per year.

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

Depreciation Expense

For the years ended December 31,

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

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

Amortization of Deferred Financing Costs

For the years ended December 31,

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

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

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

Administration Expenses

For the years ended December 31,

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

Administration expenses include expenses that are not specific to individual properties, including TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses. Administration expenses for the years ended December 31, 2017 and 2016 include one-time costs associated with the REIT conversion.

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

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

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

Fair Value Adjustments

For the years ended December 31,

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

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

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

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

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

Deferred Tax Expense

Killam converted to a real estate investment trust effective January 1, 2016, and as such qualifies as a REIT pursuant to the *Income Tax (Canada)* (the “Tax Act”). The Tax Act contains legislation affecting the tax treatment of publicly traded trusts (the “SIFT Legislation”) and the criteria for qualifying for the real estate investment trust exemption (the “REIT Exemption”), which would exempt Killam from income tax under the SIFT Legislation. Killam is classified as a flow-through vehicle; therefore, only deferred taxes of Killam’s corporate subsidiaries are recorded. If Killam fails to distribute the required amount of income to unitholders or if Killam fails to qualify as a REIT under the Tax Act, substantial adverse tax consequences may occur. Management operates Killam in a manner that enables Killam to continually qualify as a REIT and expects to distribute all of its taxable income to unitholders, and therefore is entitled to deduct such distributions for income tax purposes.

PART VI

Per Unit Calculations

As an open-ended mutual fund trust, Killam unitholders may redeem their trust units, subject to certain restrictions. As a result, Killam's trust units are classified as financial liabilities under IFRS. Consequently, all per unit calculations are considered non-IFRS measures. The following table reconciles the number of units used in the calculation of non-IFRS financial measures on a per unit basis:

For the years ended December 31,	Weighted Average Number of Units (000s)			Outstanding Number of Units (000s)
	2017	2016	% Change	**2017**
Trust units	**73,711**	63,467	16.1%	**80,565**
Exchangeable units	**3,864**	4,445	(13.1)%	**3,863**
Basic number of units	**77,575**	67,912	14.2%	**84,428**
Plus:				
Units under RTU plan	**202**	138	46.4%	—
Convertible debentures	**881**	5,331	(83.5)%	—
Diluted number of units	**78,658**	73,381	7.2%	**84,428**

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition, with the exception of the add-back of REIT conversion costs as REALpac does not address this specific type of adjustment. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the years ended December 31, 2017 and 2016 are calculated as follows:

For the years ended December 31,	**2017**	2016	% Change
Net income	**$104,760**	$71,439	46.6%
Fair value adjustments	**(56,202)**	11,231	(600.4)%
Loss on disposition	**259**	264	(1.9)%
Non-controlling interest	**(28)**	(531)	94.7%
Deferred tax expense (recovery)	**18,659**	(27,598)	(167.6)%
Interest expense related to exchangeable units	**2,383**	2,659	(10.4)%
Unrealized gain on derivative liability	**(362)**	(297)	21.9%
Depreciation on owner-occupied building	**168**	171	(1.8)%
REIT conversion costs	**236**	1,548	(84.8)%
FFO	**$69,873**	$58,886	18.7%
FFO unit - basic	**$0.90**	$0.87	3.4%
FFO unit - diluted	**$0.90**	$0.86	4.7%
Weighted average number of units - basic (000s)	**77,575**	67,912	14.2%
Weighted average number of units - diluted (000s)(1)	**78,658**	73,381	7.2%

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

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

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

FFO have been adjusted for costs incurred for the years ended December 31, 2017 and 2016 to complete the conversion from a corporation to a REIT effective January 1, 2016. These costs were unique to Killam's corporate structure and therefore have been removed for FFO purposes. The REIT costs incurred during 2017 relate to professional services to support tax requirements following the conversion to a REIT.

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to assess FFO after taking into consideration capital spent to maintain the earning capacity of a portfolio. AFFO may not be comparable to similar measures presented by other real estate trusts or companies. Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining earning capacity of an asset compared to the capital expenditures that will lead to higher rents or more efficient operations.

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 31, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 38 of this MD&A.

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

Maintenance Capex Reserve - Apartments

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

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

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

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

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

Maintenance Capex Reserve - MHCs

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

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

For the years ended December 31,

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

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

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

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

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

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

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

Adjusted Cash Flow from Operations

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

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

For the years ended December 31,

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

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 37.
(2) Based on Killam's monthly distribution of $0.05167 per unit from March 2017 to December 2017 and $0.05 per unit from January 2016 to February 2017.

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

Cash Flows from Operating Activities and Distributions Declared

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

For the years ended December 31,

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

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

PART VII

Investment Properties

As at December 31,

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

Continuity of Investment Properties

For the years ended December 31,

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

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

Capitalization Rates

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

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

2017 Acquisitions - Investment Properties

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

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

Investment Properties Under Construction

For the years ended December 31,

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

The Alexander

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

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

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

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

Saginaw Park

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

Gloucester City Centre

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

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

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

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

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

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

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

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

Capital Improvements

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

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

For the years ended December 31,

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

Apartments - Capital Spend

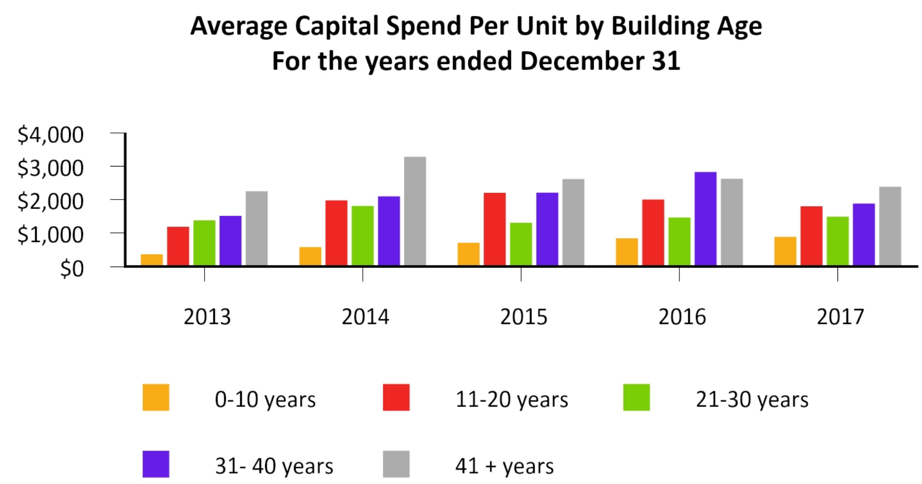
A summary of the capital spend on the apartment segment is included below:

For the years ended December 31,

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

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

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



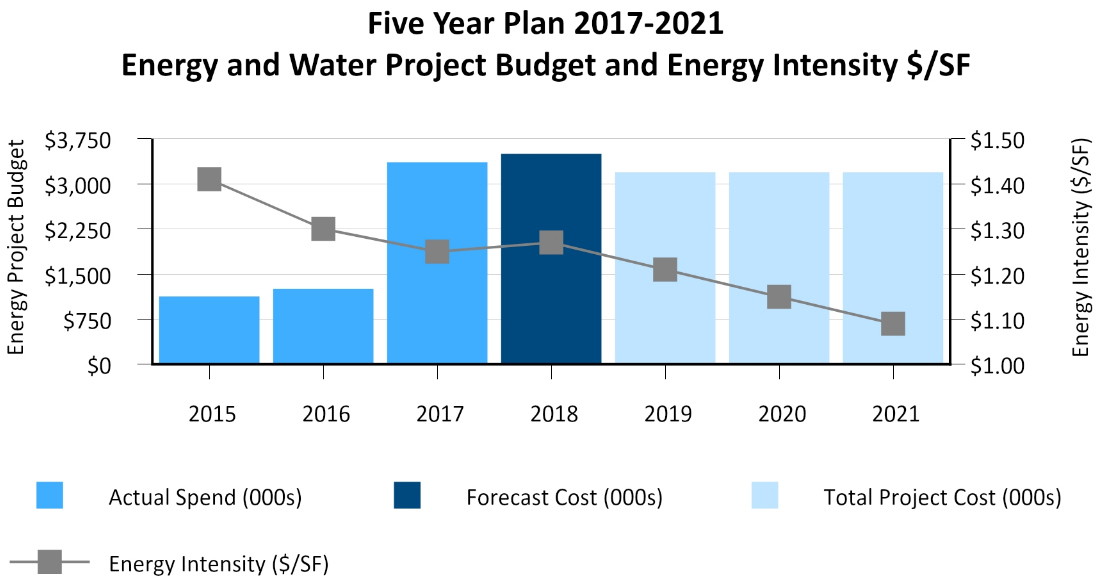
Building Improvements
Of the $27.0 million total capital investment in the apartment segment, approximately 46% was invested in building improvements, compared to 57% of the total capital spend for the year ended December 31, 2016. These investments include exterior cladding and brick work, balcony refurbishments,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

Suite Renovations
Killam invested $10.0 million in suite renovations during the year ended December 31, 2017, consistent with the total spend of $10.3 million for the year ended December 31, 2016. Killam continues to focus on unit upgrades to maximize occupancy and rental increases; Killam targets a minimum return on investment of 10% for its suite renovations. The timing of suite renovation spend is influenced by tenant turnover, market conditions and individual property requirements. In addition, the length of time that Killam has owned a property and the age of the property also impact capital requirements.

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

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

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



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

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

MHCs - Capital Spend

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

For the years ended December 31,

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

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

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

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

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

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

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

(1) Ratio calculated net of cash

Killam's long-term debt consists largely of fixed-rate, long-term mortgage financings. In certain cases, Killam will also utilize vendor-take-back mortgages as part of an acquisition. Mortgages are secured by a first or second charge against individual properties, and vendor financing is secured by a general corporate guarantee. Killam's weighted average interest rate on mortgages as at December 31, 2017 improved to 2.91% from 3.01% as at December 31, 2016, as a result of refinancing at lower interest rates over the past twelve months.

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

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

Refinancings

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

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

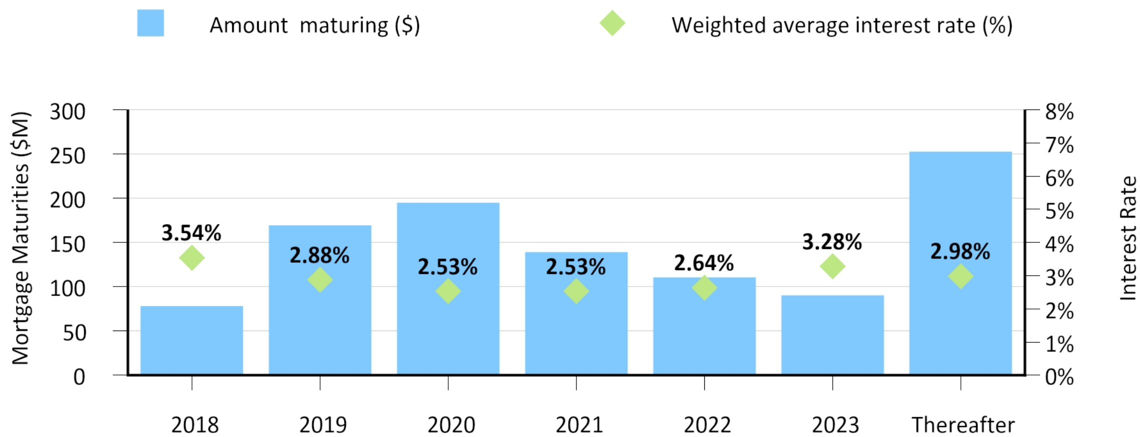
The following table details the maturity dates and average interest rates of mortgage and vendor debt, and the percentage of apartment mortgages that are CMHC-insured by year of maturity:

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

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

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

Apartment Mortgages Maturities by Year



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

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

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

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

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

Future Contractual Debt Obligations

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

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

Convertible Debentures

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

Construction Loans

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

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

Credit Facilities

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

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

The $1.5 million facility bears interest at prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2017, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2016 - $1.6 million) and letters of credit totaling $1.1 million outstanding against the facility (December 31, 2016 - $1.2 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2017.

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

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

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

Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the year ended December 31, 2017, no unitholders redeemed units.

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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

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

Liquidity and Capital Resources

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

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

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

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

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

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of the assets of Killam as shown on the most recent consolidated statement of financial position and (ii) the historical cost of the assets of Killam. Killam's total debt as a percentage of assets as at December 31, 2017 was 48.7%.

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

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

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

Q4 Same Property NOI

For the three months ended December 31,

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

Apartment Same Property

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

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

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

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

Q4-2017 Occupancy by Region

For the three months ended December 31,

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

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

Q4-2017 Same Property Apartment NOI by Region

For the three months ended December 31,

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

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

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

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

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

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

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

MHC Same Property

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

Q4 FFO and AFFO

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

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

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

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

Selected Consolidated Financial Information

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

PART IX
Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These risks include (i) changes in general economic conditions, (ii) changes in local conditions (such as an oversupply of units or a reduction in demand for real estate in an area), (iii) changes to government regulations (such as new or revised residential tenant legislations), (iv) competition from others with available units, and (v) the ability of the landlord or owner to provide adequate maintenance economically.

Real estate is relatively illiquid. Such illiquidity will tend to limit Killam’s ability to rebalance its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners, resulting in distress sales, may depress real estate values in the markets in which Killam operates. Killam’s exposure to general risks associated with real estate investments is mitigated by its geographic and sector diversification due to investments in apartments and MHCs.

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

Interest rate risk is the risk that Killam would experience lower returns as the result of its exposure to a higher interest rate environment. Killam is exposed to interest rate risk as a result of its mortgages and loans payable; however, this risk is mitigated through Killam's strategy to have the majority of its mortgages payable in fixed-term arrangements. Killam also structures its financings so as to stagger the maturities of its debt, minimizing Killam's exposure to interest rates in any one year.

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

Liquidity Risk

Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program or refinance its debt obligations as they mature. Killam manages cash resources based on financial forecasts and anticipated cash flows. The maturities of Killam’s long-term financial liabilities are set out in note 24 of the consolidated financial statements. Killam staggers the maturities of its debt, minimizing exposure to liquidity risk in any year. In addition, Killam’s apartments qualify for CMHC-insured debt, reducing the refinancing risk on maturity. Killam’s MHCs do not qualify for CMHC-insured debt; however, they continue to have access to mortgage debt.

Increased Supply Risk

Increased supply risk is the risk of loss from competition from new rental units in Killam’s core markets. Numerous residential developers and apartment owners compete for potential tenants. Although it is Killam’s strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located, offer lower rents or additional rental incentives. An increase in alternative housing could have a material adverse effect on Killam’s ability to lease units and the rents charged and could adversely affect Killam's revenues and ability to meet its obligations. To mitigate against this risk, Killam has a geographically diverse asset base. Management is expanding this diversification by increasing Killam’s investment in apartment markets outside Atlantic Canada.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill the commitments of their lease. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted for to all new leases, and Killam also obtains a security deposit to assist in potential recovery requirements. Killam's bad debt expense has historically been less than 0.4% of revenues, and none of Killam's tenants account for more than 2% of tenant receivables.

Cyber Security Risk

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

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays will occur and/or units will not be leased in the timeframe and/or at rents anticipated. Killam manages its exposure to development risk by limiting the amount of development underway at any one time to approximately 5% of its consolidated statement of financial position. To reduce Killam's exposure to cost increases, Killam enters into fixed-rate contracts when possible. To reduce the lease-up risk, Killam does market research in advance of each development to support expected rental rates and premarkets its properties early on in the process, to increase demand for the new developments.

Environmental Risk

As an owner of real estate, Killam is subject to federal, provincial and municipal environmental regulations. These regulations may require Killam to fund the costs of removal and remediation of certain hazardous substances on its properties or releases from its properties. The failure to remediate such properties, if any, could adversely affect Killam's ability to borrow using the property as collateral or to sell the real estate. Killam is not aware of any material noncompliance with environmental laws at any of its properties. Killam has made, and will continue to make, the necessary capital expenditures to comply with environmental laws and regulations. Environmental laws and regulations can change rapidly, and Killam may be subject to more stringent environmental laws and regulations in the future. Killam mitigates its risk of losses associated with oil tank leaks by enforcing the requirement for appropriate insurance, performing regular oil tank inspections, and enforcing the removal of oil tanks when homes are sold at its MHC communities.

General Uninsured Losses

Killam carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customary for the industry. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or would not be economically insurable.

Rent Control Risk

Rent control exists in some provinces in Canada, limiting the percentage of annual rental increases to existing tenants. Killam is exposed to the risk of the implementation of, or amendments to, existing legislative rent controls in the markets in which it operates, which may have an adverse impact on Killam's operations. In the provinces in which Killam currently operates, Prince Edward Island and Ontario have rent controls. As well, Nova Scotia has rent control for MHCs.

Utility, Energy and Property Tax Risk

Killam is exposed to volatile utility and energy costs and increasing property taxes. Killam has the ability to raise rents on the anniversary date of its leases, subject to the overall rental market conditions, to offset rising energy and utility costs; however, rental increases may be limited by market conditions or regulation. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility and carbon tax on natural gas and heating oil. Killam has the ability to fix rates through the use of swap contracts for a portion of its oil and fixed contracts through suppliers for natural gas consumption to reduce the impact of fluctuations in commodity prices. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Potential Volatility of Unit Prices

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

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

As holders of units, unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring “oppression” or “derivative” actions against the Trust. The units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Fluctuation and Availability of Cash Distributions

Killam's distribution policy is established pursuant to the Declaration of Trust and may only be changed with the approval of a majority of Unitholders. However, the Board of Trustees may reduce or suspend cash distributions indefinitely, which could have a material adverse effect on the market price of the trust units. There can be no assurance regarding the amount of income to be generated by Killam's properties. The ability of Killam to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of Killam, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital, the sustainability of income derived from the tenant profile of Killam's properties and capital expenditure requirements. Distributions may be increased, reduced or suspended entirely depending on Killam's operations and the performance of Killam's assets at the discretion of the Trustees. The market value of the trust units will deteriorate if Killam is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return of investors.

Ability of Unitholders to Redeem Units

The entitlement of unitholders to receive cash upon the redemption of their trust units is subject to the following limitations: (i) the total amount payable by Killam in respect of such trust units and all other trust units tendered for redemption in the same calendar month must not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such trust units are tendered for redemption, the outstanding trust units must be listed for trading on a stock exchange or traded or quoted on another market that the Trustees consider, in their sole discretion, provides fair market value prices for the trust units; (iii) the trading of trust units is not suspended or halted on any stock exchange on which the trust units are listed (or, if not listed on a stock exchange, on any market on which the trust units are quoted for trading) on the redemption date for more than five trading days during the 10-day trading period commencing immediately after the redemption date; and (iv) the redemption of the trust units must not result in the delisting of the trust units from the principal stock exchange on which the trust units are listed.

Exchangeable Units

Holders of exchangeable units may lose their limited liability in certain circumstances, including by taking part in the control or management of the business of Killam Apartment Limited Partnership (“Limited Partnership”). The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province have not been authoritatively established. If limited liability is lost, there is a risk that holders of exchangeable units may be liable beyond their contribution of capital and share of undistributed net income of the Limited Partnership in the event of judgment on a claim in an amount exceeding the sum of the net assets of the General Partner and the net assets of the Limited Partnership. Holders of exchangeable units remain liable to return to the Limited Partnership for such part of any amount distributed to them as may be necessary to restore the capital of the Limited Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Limited Partnership is reduced and the Limited Partnership is unable to pay its debts as they become due.

Taxation-related Risks

Killam currently qualifies as a mutual fund trust for Canadian income tax purposes. It is the current policy of Killam to distribute all of its taxable income to unitholders and it is therefore generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, Killam is required to comply with specific restrictions regarding its activities and the investments held by it. Should Killam cease to qualify as a mutual fund trust, the consequences could be adverse.

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects Killam or its unitholders. If Killam ceases to qualify as a “mutual fund trust”, Killam will be required to pay a tax under Part XII.2 of the *Income Tax Act* (“the Tax Act”). The payment of Part XII.2 tax by Killam may have adverse income tax consequences for certain of Killam’s unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans (“designated savings plans”), which acquired an interest in Killam directly or indirectly from another Killam unitholder. If Killam ceases to qualify as a “mutual fund trust” or “registered investment” under the Tax Act and Killam units cease to be listed on a designated stock exchange, Killam units will cease to be qualified investments for trusts governed by designated savings plans. Killam will endeavour to ensure trust units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether Killam units are “prohibited investments” for registered retirement savings plans, registered retirement income funds or tax-free savings accounts.

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

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

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

- At each time in the taxation year, the total fair market value at that time of all “non-portfolio properties” that are “qualified REIT properties” held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;

- Not less than 90% of the Trust’s “gross REIT revenue” for the taxation year is from one or more of the following: “rent from real or immovable properties”, interest, capital gains from dispositions of “real or immovable properties” that are capital properties, dividends, royalties and dispositions of “eligible resale properties”;

- Not less than 75% of the Trust’s gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, from dispositions of real or immovable properties that are capital properties;

- At no time in the taxation year can the total fair market value of properties comprising real or movable property that is capital property, an “eligible resale property”, cash, deposits (within the meaning of the *Canada Deposit Insurance Corporation Act* or with a branch in Canada of a bank or a credit union), indebtedness of Canadian corporations represented by banker’s acceptances, and debt issued or guaranteed by the Canadian government or issued by a province, municipal government or certain other qualifying public institutions be less than 75% of the “equity value” (in each case, as defined in the Tax Act) of the Trust at that time; and

- Investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

The SIFT Rules contain a “look-through rule” under which a trust could qualify for the REIT Exception where it holds properties indirectly through intermediate entities, provided that each such entity, assuming it were a trust, would satisfy paragraphs (1) through (4) of the REIT Exception above.

The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy. The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each taxation year, and each direct and indirect subsidiary of the Trust will qualify as an “excluded subsidiary entity” (as defined in the Tax Act) such that the Trust will not be a SIFT Trust within the meaning of the SIFT Rules at any time. However, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a Taxation Year will not result in the Trust failing to qualify for the REIT Exception for that taxation year.

If the Trust does not qualify for the REIT Exception for a taxation year, the SIFT Rules will apply to the Trust for that year. Application of the SIFT Rules may, depending on the nature of distributions from the REIT, including what portion of its distributions is income and what portion is returns of capital, have a material adverse effect on the after-tax returns of certain unitholders. Such adverse tax consequences may impact the future level of cash distributions made by the Trust, the ability of the Trust to undertake future financings and acquisitions and could also adversely affect the marketability of the Trust’s securities.

The REIT Exception is applied on an annual basis. Accordingly, if the Trust did not qualify for the REIT Exception in a particular taxation year, it may be possible to restructure the Trust such that it may qualify in a subsequent taxation year. There can be no assurances, however, that the Trust will be able to restructure such that it will not be subject to the tax imposed by the SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the Trust and unitholders. The Trust intends to take such steps as are necessary to ensure that, to the extent possible, it qualifies for the REIT Exception and any negative effects of the SIFT Rules on the Trust and unitholders are minimized.

Other Canadian Tax Matters

There can be no assurance that Canadian federal income tax laws, the terms of the Canada-United States Income Tax Convention, or the administrative policies and assessing practices of the Canada Revenue Agency will not be changed in a manner that adversely affects the REIT or unitholders. Any such change could increase the amount of tax payable by the REIT or its affiliates and/or unitholders or could otherwise adversely affect unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to unitholders in respect of distributions. In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes.

Competition for Real Property Investments

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

Future Acquisitions of Real Property Investments

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

Zoning and Approval

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

Dependence on Key Personnel

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

Market for Securities and Price Volatility

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

Co-ownership

Killam has co-ownership of four properties (eight buildings) that are subject to joint control and are joint operations. Risks associated with co-ownership include the risk of non-payment for operating and capital costs from the partner, risk of inability to finance a property associated with a joint venture or limited partnership and the risk of a partner selling their interest in the properties.

Ground Leases

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties
The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 5 to the consolidated financial statements. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates and expected maintenance costs) used in the overall capitalization rate valuation method as well as discount rates and forecasted cash flows used in the discounted cash flow valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 5 for sensitivity analysis.

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

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

(iii) Deferred taxes
The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 22 to the consolidated financial statements.

Future Accounting Policy Changes

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

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

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

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

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

IAS 40, Investment Property ("IAS 40")
In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment required that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intention for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Killam will apply the amendment when it becomes effective prospectively, however, since the current policy and practice is in line with the clarification issues, Killam does not expect any impact to its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures
As of December 31, 2017, Management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, with the assistance of Management.
Disclosure controls and procedures are designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Management, including the President ad Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the inherent limitations noted above, Disclosure Controls are effective in ensuring that material information relating to Killam and its consolidated subsidiaries is made known to Management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Internal Controls over Financial Reporting
Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Killam's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. Management's documentation and assessment of the effectiveness of Killam's ICFR continues as of the date of this MD&A with the focus on processes and controls in areas identified as being "key risks".

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

Related Party Transactions

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

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

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

Subsequent Events

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

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

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

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