2016 Management's Discussion and Analysis

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

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PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with material contained in Killam Apartment Real Estate Investment Trust's audited consolidated financial statements for the years ended December 31, 2016, and 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2015 Annual Information Form, are available on SEDAR at www.sedar.com.

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

The discussions in this MD&A are based on information available as at February 14, 2017. This MD&A has been reviewed and approved by Management and the Board of Trustees.

Declaration of Trust

The investment guidelines and operating policies of Killam are outlined in Killam's Amended and Restated Declaration of Trust (the "DOT") dated as of November 27, 2015, a copy of which is available on SEDAR (www.sedar.com). Some of the principal investment guidelines and operating policies set out in the DOT are as follows:

Investment guidelines
- Acquire, hold, develop, maintain, improve, lease and manage income producing real estate properties;
- No investment will be made that would disqualify Killam as a "mutual fund trust" or a "unit trust" as defined within the *Income Tax Act* (Canada);
- Investments in joint ventures, partnerships (general or limited) and limited liability companies are permitted; and,
- Investments in land for development that will be capital property for Killam are permitted.

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" as defined within the *Income Tax Act* (Canada) are not permitted; and,
- Killam must maintain at all times property insurance coverage in respect of potential liabilities of the Trust.

At December 31, 2016, Killam was in compliance with all investment guidelines and operating policies stipulated in the DOT.

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 (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of Killam's performance or sustainability of its distributions. These measures do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly-traded companies.

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income plus depreciation on owner-occupied building, fair value losses, interest expense related to exchangeable units, loss on disposition, deferred tax expense and REIT conversion costs, less fair value gains, deferred tax recovery, unrealized gain on derivative liability and non-controlling interest. FFO, as per the definition of Killam, are calculated in accordance with the REALpac definition, except for the add-back of REIT conversion costs as noted above; REALpac does not address this specific type of adjustment.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less $450 per apartment unit for maintenance capital costs, which is an estimate in the industry range for the multi-family sector. Although the manufactured home community ("MHC") industry does not have a standard amount for maintenance related capital costs, a $100 per MHC site estimate is used by Killam.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties Killam has owned for equivalent periods in 2016 and 2015 (97% of the portfolio based on the December 31, 2016, unit count).
- Interest coverage is calculated by dividing earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense adjusted for interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, gain or loss on disposition and fair value adjustments by interest expense adjusted for interest expense related to exchangeable units and principal mortgage repayments.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, loss on disposition, income taxes, interest, depreciation and amortization.

PART II

Key Performance Indicators ("KPIs")

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

1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit.
2) Payout Ratio – This ratio is not meant to be a measure of the sustainability of Killam's distributions. Although Killam's expectation is to continue to sustain and grow distributions, the actual amount of distributions will depend up on various factors, including, but not limited to, earnings, debt repayments, capital investments and other factors that may be beyond the control of the REIT.
3) Rental Increases – Management expects to achieve increases in average annual rental rates and tracks the average rate increases achieved.
4) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on the amount of revenue lost to vacancy divided by gross potential residential rent (in dollars) of total properties for the year.
5) Same Property NOI Growth – This measure considers Killam's ability to increase the same property NOI, removing the impact of acquisitions, dispositions, developments and other non-same property operating adjustments.
6) Weighted Average Interest Rate of Mortgage Debt and Total Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.
7) Debt to Total Assets – Killam's primary measure of its leverage is debt as a percentage of total assets. Killam's DOT operating policies outline that its overall indebtedness is to not exceed 70% of total assets. Debt to total assets is calculated by dividing total interest bearing debt by total assets, adjusted for any non-controlling interest.
8) Weighted Average Years to Maturity – Management monitors the average number of years to maturity on Killam's debt.
9) 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.
10) 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.

Financial and Operational Highlights

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

For the years ended December 31,

Operating Performance	2016	2015	Change [2]
Property revenue	**$175,269**	$166,614	5.2%
Net operating income ("NOI")	**$105,424**	$98,390	7.1%
Net income	**$71,439**	$35,800	99.6%
FFO[1]	**$58,886**	$49,016	20.1%
FFO per unit/share (diluted)[3]	**$0.86**	$0.79	8.9%
AFFO per unit/share (diluted)[4]	**$0.77**	$0.68	13.2%
Weighted average number of units/shares outstanding (diluted) (000s)[3]	**73,519**	62,360	17.9%
AFFO payout ratio (diluted)	**78%**	88%	(1,000) bps
Portfolio Performance			
Same property NOI	**$97,729**	$93,980	4.0%
Same property NOI margin	**60.0%**	58.7%	130 bps
Same property apartment weighted average rental increase [5]	**1.6%**	1.1%	50 bps
Same property apartment occupancy	**95.8%**	95.4%	40 bps

As at December 31,	2016	2015	Change
Leverage Ratios			
Total debt to total assets	**53.5%**	56.4%	(290) bps
Weighted average mortgage interest rate	**3.01%**	3.27%	(26) bps
Weighted average years to debt maturity (years)	**4.3**	4.2	0.1
Debt service coverage[1]	**1.43x**	1.35x	8 bps
Interest coverage[1]	**2.74x**	2.34x	40 bps

(1) FFO, AFFO, debt service coverage ratio and interest coverage ratio 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) The calculation of weighted average units/shares outstanding for diluted FFO includes the convertible debentures for the year ended December 31, 2016, as they are dilutive, and excludes the convertible debentures for the year ended December 31, 2015, as they are anti-dilutive.

(4) The calculation of weighted average units/shares outstanding for diluted AFFO excludes the convertible debentures for the years ended December 31, 2016, and 2015, as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

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

Summary of 2016 Results and Operations

FFO per Unit Growth of 8.9%

Killam generated FFO per unit of $0.86 in 2016, 8.9% higher than the $0.79 generated in 2015. FFO growth was attributable to a 4.0% increase in same property NOI, interest expense savings on mortgage refinancings, the July redemption of $57.5 million of convertible debentures, and accretive returns from developments and acquisitions. This growth was partially offset by a 17.9% increase in the weighted average number of units outstanding following the June 2016 equity raise.

Strengthened Balance Sheet and Increased Flexibility

Following the $98 million equity raise completed in June, Killam redeemed $57.5 million of convertible debentures on July 4, 2016. This initiative contributed to a 290 bps improvement in Killam's leverage ratio, ending the year with 53.5% debt as a percentage of total assets compared to 56.4% at December 31, 2015. Killam's interest coverage ratio improved by 40 bps during the year. Killam used funds from the equity raise to increase its portfolio of unencumbered assets, facilitating a significant increase to its acquisition credit facility, increasing it from $2 million to $30 million.

Higher Rents and Improved Occupancy Resulted in Same Property Revenue Growth

Killam achieved consolidated same property revenue growth of 1.8% in 2016. Both increased rents and higher occupancy levels contributed to improved revenue. The Halifax market outperformed in 2016, achieving 3.3% same property revenue growth, the highest revenue growth of Killam's core markets. Halifax, representing 36% of Killam's NOI, is a strong rental market, benefiting from economic growth, urbanization and strong demand for rental apartments from an older demographic transitioning from homeownership to apartment rental. Killam's Charlottetown and Ontario portfolios also achieved above average revenue growth, up 2.2% and 2.0%, respectively.

Warmer Temperatures and Efficiencies Contributed to Lower Operating Costs

Killam's same property expenses decreased by 1.2% in 2016, contributing to the 4.0% increase in NOI. A warmer than normal Q1 resulted in lower energy consumption and lower natural gas costs during the winter, a major contributor to the 6.2% reduction in utility expense in the year. Efficiencies from energy and water reduction initiatives also contributed to savings. These savings, combined with lower garbage collection rates and successful property tax appeals, offset the impact of higher operating costs, most notably insurance costs.

Lower Interest Rates Contributed to Earnings Growth

Killam benefited from lower interest rates on mortgages refinanced during 2016, contributing to a 1.6% reduction in same property interest expense for the year. During 2016, Killam successfully refinanced $120.0 million of maturing mortgages with $186.6 million of new debt at a weighted average interest rate of 2.34%, 186 bps lower than the weighted average interest rate prior to refinancing. Killam's weighted average mortgage interest rate decreased 26 bps to 3.01% as at December 31, 2016, from 3.27% as at December 31, 2015.

Growth from Acquisitions and Developments

The $71.5 million in acquisitions completed during 2016 contributed positively to FFO, as did the NOI growth achieved from Killam's Saginaw development in Cambridge, which was completed in Q2-2015. Killam's newest development, Southport Apartments, completed at the end of August 2016, was fully leased by November and also contributed positively to FFO for the year.

Business Overview

Killam Apartment REIT, based in Halifax, NS, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and MHC properties. Killam's current portfolio includes
$2.0 billion in assets, and its strategy to maximize its value and long-term profitability includes concentrating on three key areas of growth:

1) Increase earnings from the existing portfolio;

2) Expand the portfolio and geographic diversification through accretive acquisitions targeting newer properties; and

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

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

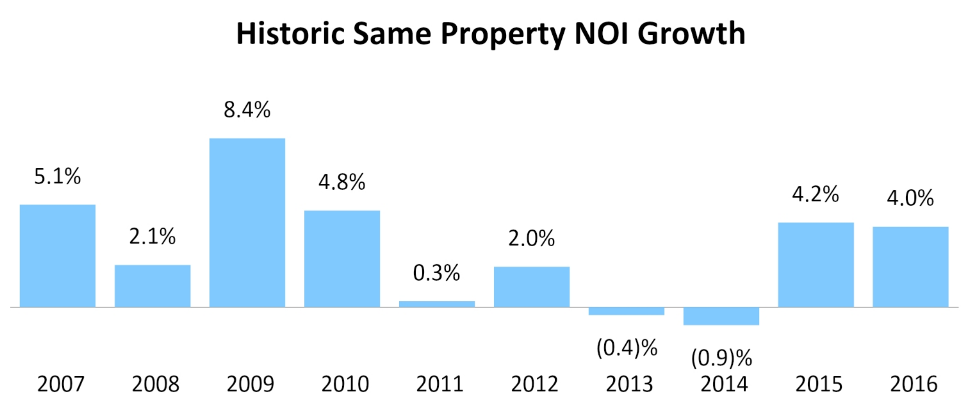
The apartment business is Killam's largest business segment, accounting for 89% of Killam's NOI for the year ended December 31, 2016. As at December 31, 2016, Killam's apartment portfolio consisted of 14,105 units, which include 977 units that Killam co-owns 50% through a joint arrangement. Its 181 apartment properties are located predominantly in Atlantic Canada's six largest urban centres (namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario ("ON"- including Ottawa, London, Toronto and Cambridge) and Calgary, Alberta ("AB"). Killam is Atlantic Canada's largest residential landlord, with a 13.6% market share of the multi-family rental units in its core Atlantic markets. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Killam also owns 5,165 MHC sites, also known as land-lease communities or trailer parks, located in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting each community and leases the lots to tenants who own their own homes and pay Killam monthly site rent. The MHC portfolio accounted for 9% of Killam's NOI for the year ended 2016. Killam also has a portfolio of commercial properties, which accounted for 2% of Killam's NOI for the year ended December 31, 2016.

Business Strategy

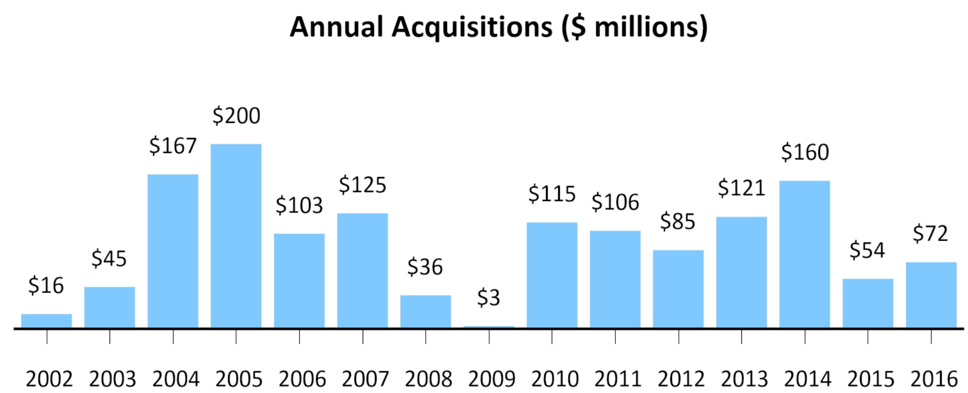
Maximize NOI from Existing Portfolio

Management increases the value of its real estate portfolio by maximizing revenue and generating operating efficiencies. To achieve NOI growth, Killam must address three critical factors: occupancy, rental rates and operating costs. Killam focuses on customer service, investing in its properties, leasing and marketing initiatives and training its employees to maximize these outcomes. Killam has increased its same property NOI an average of 3.0% per year over the last 10 years.



Growth through Acquisitions

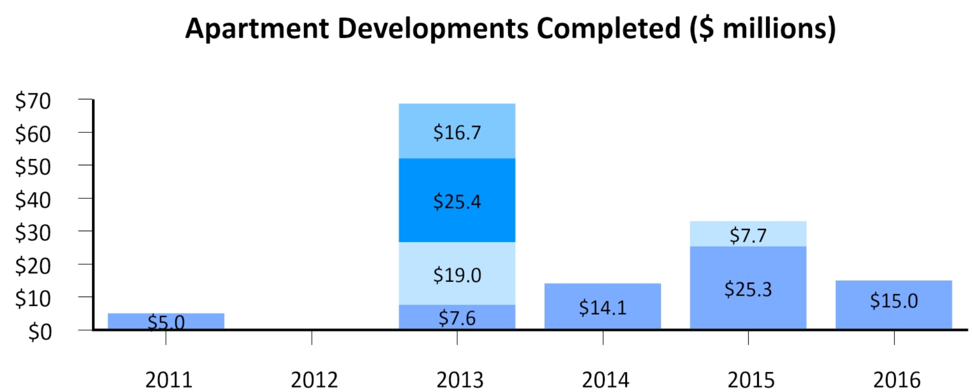
Killam is expanding its portfolio by acquiring centrally located buildings in urban markets and expanding its ownership interest in Ontario and Alberta, as well as adding to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on accretive opportunities and access to capital.



Growth through Development

Killam enhances its external growth opportunities with development. Killam started apartment developments in 2010 and has completed $136 million of projects, which comprises eight properties totaling 626 units to date. Killam has an experienced development team that oversees all projects. Killam's new property construction emphasis enables Management to directly control the quality and features of its buildings and generally deliver higher returns than through acquisitions. Management expects to build to a 75 - 125 bps cap-rate or spread premium over the cap-rate used to value comparable assets, thereby enhancing Unitholders' value.

In order to manage the short-term dilution impact associated with development, and mitigate development risk, Management plans to limit new development to approximately 5% of Killam's balance sheet asset value on an annual basis.



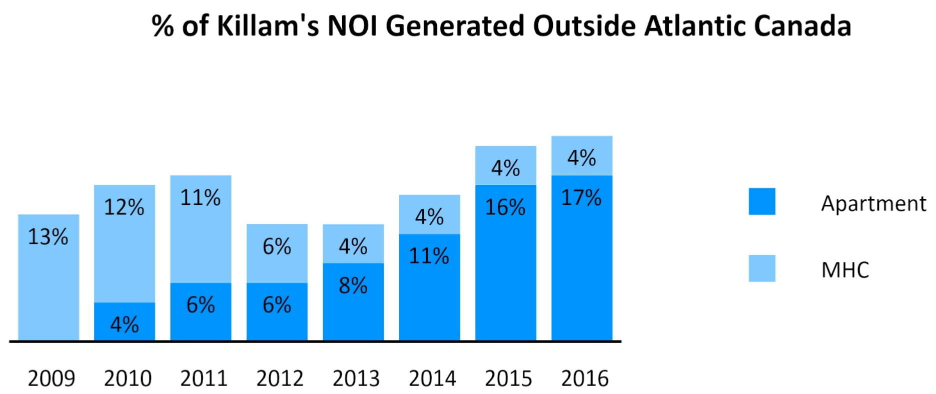
Investment in New Properties

In addition to developing properties, Killam also acquires newly constructed buildings. When available at accretive returns, Management believes that increasing Killam’s ownership in new, high-quality buildings will result in above-market rents and long-term demand for its properties, reduce annual capital requirements related to deferred maintenance, and transform Killam’s portfolio over time into one of the highest quality portfolios in Canada. Today, Killam has one of the newest apartment portfolios in Canada; 37% of Killam's apartment NOI comes from properties built post 2000.

The majority of the new properties added to Killam's portfolio are condominium quality, providing tenants with features and amenities traditionally associated with ownership. Management believes demand for newer rental accommodations will grow given the increasing number of homeowners reaching retirement age and seeking alternatives to home ownership. Killam is also attracted to the low capital spend requirements for new assets compared to older buildings. In addition, with energy efficient features, the NOI margins are typically higher in newer buildings. With strong demand for the acquisition of apartments in recent years, cap-rates have declined and the pricing differential between older and newer buildings has narrowed. This enables Killam to add newer apartments to its portfolio without paying a significant premium for these higher quality assets.

Geographic Diversification

Geographic diversification is a priority for Killam. Killam's strong operating platform can support a larger and more geographically diverse portfolio. Killam is actively building a portfolio in targeted markets outside of Atlantic Canada, including Ottawa, the Greater Toronto Area, Southwestern Ontario and Alberta. Increased investment in Ontario and Western Canada will enhance Killam's diversification and exposure to the urban centres in Canada with higher population growth than Atlantic Canada. Management has set a long-term target to grow the NOI generated outside of Atlantic Canada.



Outlook

Increased Earnings from Killam's Same Property Portfolio

Management expects to generate same property NOI growth and improved operating margins by increasing rental revenue and expense management. Top-line growth is expected to be driven primarily from increased rental rates. A growing number of baby boomers and seniors looking to transition from home ownership to apartment-style living are expected to support strong demand for apartment rentals for the foreseeable future. Population growth, fueled in part from increased international immigration levels in Killam's core markets, most notably Halifax, is also expected to support a strong rental market.

Investments in energy initiatives and operational efficiencies are expected to contribute to improved operating margins and mitigate operating expense pressures. Having identified over $25 million in efficiency related opportunities with an average payback of four years, Management is doubling its investment in energy and water saving initiatives from approximately $1.6 million in 2016 to over $3 million in 2017, and going forward. These investments, including low-flow water solutions, heating system upgrades, lighting solutions and temperature control solutions, are expected to augment Killam's annual same property NOI growth.

Reduced natural gas rates in Nova Scotia in 2017 are also forecasted to contribute to NOI growth next year. Having absorbed significant increases in natural gas prices in Atlantic Canada during 2013 and 2014, Killam has experienced more stable pricing in 2015 and 2016, especially in New Brunswick. Natural gas costs remained relatively high in Nova Scotia in 2016 due to fixed price contracts put in place by Killam's natural gas distributor, Heritage Gas, during 2015. Based on indications from Heritage Gas, Management expects natural gas commodity charges in Nova Scotia to be lower in 2017. In addition, Heritage Gas reduced the distribution rate on one of its rate classes effective April 2016 to deliver more competitve pricing versus alternative energy sources. Killam is benefiting from this price change, which impacts approximately 30% of its apartment units heated with natural gas in Nova Scotia. Longer-term, Management does not expect to experience the same level of volatility in natural gas prices as was experienced in 2013 and 2014. Heritage Gas has committed to invest in both natural gas storage solutions and new pipeline capacity in an effort to mitigate customers' exposure to periodically volatile winter gas markets, such as through Algonquin City Gate. This is expected to reduce price volatility for Killam's Nova Scotia portfolio. In addition, expansion projects have been completed, and are planned to increase the capacity and alleviate bottlenecks in the New England market, which is expected to help improve future price stability in Killam's Maritime markets.

Overall, the outlook for same property NOI growth for 2017 is 1%-3%.

Acquisitions to Add Increased Geographic Diversification

Killam's strong operating platform can support a larger and more geographically diverse portfolio. Management is actively looking for accretive acquisition opportunities in Ontario, Atlantic Canada and Alberta, with a focus on its core markets in Ontario. Management expects its acquisition program will contribute to a higher percentage of Killam's total portfolio NOI being generated outside Atlantic Canada, up from 21% during 2016. Subsequent to year-end, on January 16, 2017, Killam acquired its second apartment property in Calgary for $13.4 million and has already committed to acquire a 50% interest in two new apartment buildings in Ottawa: the two remaining buildings of the five-building complex, Kanata Lakes Apartments. After acquiring these two properties, Killam will own 50% of the 739 suite, five-property asset. This $50 million acquisition of the two remaining Kanata assets, is expected to close during the first quarter of 2017.

Developments to Contribute to NAV Growth
Killam is an experienced developer, having completed over $130 million in apartment developments. New developments will continue to be an important component of Killam's growth strategy. Targeting a yield on development of 5.5% to 6.0% and an anticipated cap-rate value on completion of 4.5% to 5.0%, Management expects its developments to be accretive and create Unitholder value. Based on the two developments underway and additional projects expected to start in 2017, Killam forecasts adding between $60 and $100 million of new developments to its portfolio during the next three years. These new properties are expected to reinforce Killam's portfolio as 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 the MD&A.

Strengthening Balance Sheet
The redemption of $57.5 million in convertible debentures on July 4, 2016, resulted in a reduction in Killam's leverage in 2016, down 290 bps to 53.5% at December 31, 2016. Management has identified opportunities to further strengthen Killam's balance sheet and is targeting a leverage level of 50% during the next few years. In addition, Management plans to expand its portfolio of unencumbered assets and increase its $30 million acquisition line, providing additional capital flexibility.

Interest Savings
Killam has $145 million of mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.55%, approximately 135 bps and 75 bps higher than current 5 and 10-year Canadian Mortgage and Housing Corporation ("CMHC") insured rates. Based on an expectation of yields remaining low in the near-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings. Management also expects to up-finance approximately $40 million from maturing mortgages through to the end of 2018. Assuming a weighted average interest rate of 2.5% on refinanced apartment mortgages over the next two years, using a mix of 5 and 10-year debt, Killam could generate annualized interest savings of up to $0.5 million.

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

Targets

Growth in Same Property NOI	
2016 Target	Same property NOI growth of 1% to 3%.
2016 Performance	Target exceeded. Killam's same property portfolio generated 4.0% growth. Attributable to top line growth of 1.8% and a 1.2% reduction in year-over-year total operating expenses, primarily attributable to lower utility and fuel expenses.
2017 Target	Same Property NOI growth of 1% to 3%.
Longer-term Target	Same Property NOI growth averaging over 2%.

Geographic Diversification	
2016 Target	Increase NOI generated outside Atlantic Canada.
2016 Performance	Target achieved. 21.3% of NOI earned outside Atlantic Canada in 2016, up from 20.2% in 2015. In addition, 62% of acquisitions completed in 2016 were in Ontario, including $31.1 million in Ottawa and $13.4 million in London.
2017 Target	At least 75% of acquisitions made outside Atlantic Canada and to have over 23% of 2017 NOI earned outside Atlantic Canada.
Longer-term Target	Over 30% of NOI generated outside Atlantic Canada by 2020.

Expanded Portfolio through Accretive Acquisitions	
2016 Target	A minimum of $50 million of acquisitions.
2016 Performance	Target achieved. Killam completed $71.5 million in acquisitions, including $70.0 million in NOI-producing assets (and $1.5 million in land for future developments). A summary of the acquisitions completed during 2016 is shown on page 30. The weighted average all-cash yield on the acquisitions is expected to be over 5% in the first year.
2017 Target	A minimum of $75 million of acquisitions.
Longer-term Target	Grow the portfolio to $2.5 billion by 2020, from $1.9 billion at the end of 2016.

Development of High-Quality Properties	
2016 Target	Completion of the Southport Apartments development.
2016 Performance	Target achieved. Southport was completed in August and tenants started taking occupancy in September. The development came in on budget and exceeded Management's expectations on lease-up.
2017 Target	To remain on schedule to have the 240-unit Alexander development completed by Q1-2018 and the 93-unit Saginaw development completed by Q2-2018.
Longer-term Target	To add a minimum of $20 million of value creation from Killam's development program through to the end of 2020.

Strengthened Balance Sheet	
2016 Target	Improve Killam's debt metrics and increase capital flexibility.
2016 Performance	Target achieved. Debt as a percentage of total assets was reduced by 290 bps to 53.5%. In addition, Killam expanded its acquisition line of credit to $30 million, up from $2 million.
2017 Target	Further reduce debt as a percentage of assets.
Longer-term Target	Debt as a percentage of assets to be less than 50% by 2020, and an expanded acquisition line of credit of a least $50 million.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolio by market as at December 31, 2016:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (% of Total) (2)
Nova Scotia				
Halifax	5,160	59	$38,147	36.1%
Sydney	139	2	1,263	1.2%
	5,299	61	$39,410	37.3%
New Brunswick				
Moncton	1,629	31	$8,279	7.9%
Fredericton	1,422	21	8,582	8.1%
Saint John	1,202	14	5,088	4.8%
Miramichi	96	1	559	0.5%
	4,349	67	$22,508	21.3%
Ontario (3)				
Ottawa	953	10	$4,942	4.7%
London	417	4	3,644	3.5%
Toronto	378	2	3,290	3.1%
Cambridge	347	3	4,120	3.9%
	2,095	19	$15,996	15.2%
Newfoundland & Labrador				
St. John's	915	12	$7,091	6.7%
Grand Falls	148	2	798	0.8%
	1,063	14	$7,889	7.5%
Prince Edward Island				
Charlottetown	906	17	$5,920	5.6%
Summerside	86	2	499	0.5%
	992	19	$6,419	6.1%
Alberta (3)				
Calgary	307	1	$2,166	2.1%
Total Apartments	**14,105**	**181**	**$94,388**	**89.5%**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (% of Total) (2)
Nova Scotia	2,626	16	$4,312	4.1%
Ontario	2,145	16	4,173	4.0%
New Brunswick	224	1	178	0.2%
Newfoundland & Labrador	170	2	323	0.3%
	5,165	**35**	**$8,986**	**8.6%**
Total MHCs				

Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($) (2)	NOI (% of Total) (2)
Halifax, NS	248,000	4	$2,050	1.9%
Total Portfolio			**$105,424**	**100.0%**

(1) Unit count includes properties held through Killam's joint arrangements.

(2) For the year ended December 31, 2016.

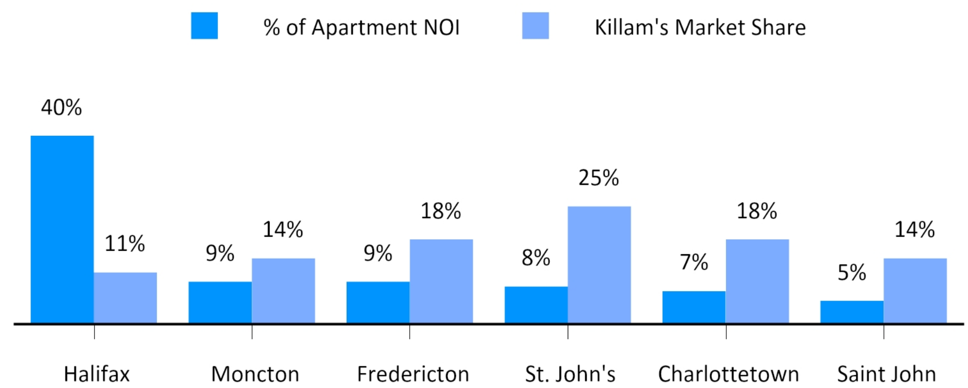
(3) Killam owns and manages four buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all five properties. Killam's ownership interest represents 489 of the 977 units in these properties.

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the dominant residential landlord in Atlantic Canada with a 13.6% market share. 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 improving rental fundamentals in Atlantic Canada, four of Killam's six core markets experienced improved occupancy in October 2016 vs. October 2015, as disclosed in CMHC's Fall 2016 Rental Market Report. This compares favourably with the overall decline in occupancy for Canada as reported by CMHC, at 96.3% occupancy in October 2015 compared to 96.5% in October 2015.

Market Share and Apartment NOI (%)



Limited Exposure to Rent Control

The majority of Killam's portfolio is not impacted by rent control, allowing Killam to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control for apartments, and this represents only 7.3% of Killam's apartment units. Ontario has rent control; however the legislation excludes properties built after 1991. Nine of Killam's nineteen properties in Ontario (1,261 of 2,095 units) are newer properties (built after 2004) and therefore do not fall under the rent control guideline. The balance of Killam's Ontario properties 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, owners may apply for above-guideline increases to offset significant capital expenditures. Higher rent increases are also allowed for new tenants entering the communities. To determine rental increases for its portfolio, Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers.

CMHC Insured Debt Available for over 90% of Killam's Portfolio

Canadian apartment owners can apply for CMHC mortgage loan insurance. The mortgage insurance guarantees the repayment of the loan to the lender, eliminating default risk, which results in lower interest rates for the borrower than with conventional mortgages. Killam uses CMHC insurance and has 77% of its apartments financed with CMHC insured debt. As mortgages are renewed or new properties are financed, Killam expects to use CMHC insurance and increase the percentage of insured debt. CMHC insurance is not available for the owners of MHCs; however, it is available for the individual manufactured home owners.

Focused on Service

Killam takes pride in providing tenants with well-maintained properties, being responsive to service requests and providing an attractive value proposition for tenants' housing needs. In-house educational programs enhance employees' skills and experience to best service tenants and prospective tenants. Annually, Management measures tenants' satisfaction through an on-line survey (approximately 2,100 respondents in 2016). Killam's 2016 survey results support Killam's focus on service with a 90% tenant satisfaction rating, the same rating received in 2015.

Geographic Diversification

Killam is focused on increasing its geographic diversification by acquiring and developing more properties in its core markets in Ontario and Alberta. In 2016, Killam's apartment portfolio included 2,091 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the Ontario apartment market, and includes properties in Ottawa, Toronto, London and Cambridge. During 2016, Killam added an additional 322 units to its Ontario portfolio. In addition to apartments, 42% of Killam's MHC sites are located in Ontario. Killam acquired its first apartment property in Alberta in 2014, a 50% interest in a 307-unit building in downtown Calgary, and subsequent to year-end 2016, added an additional 66-unit building.

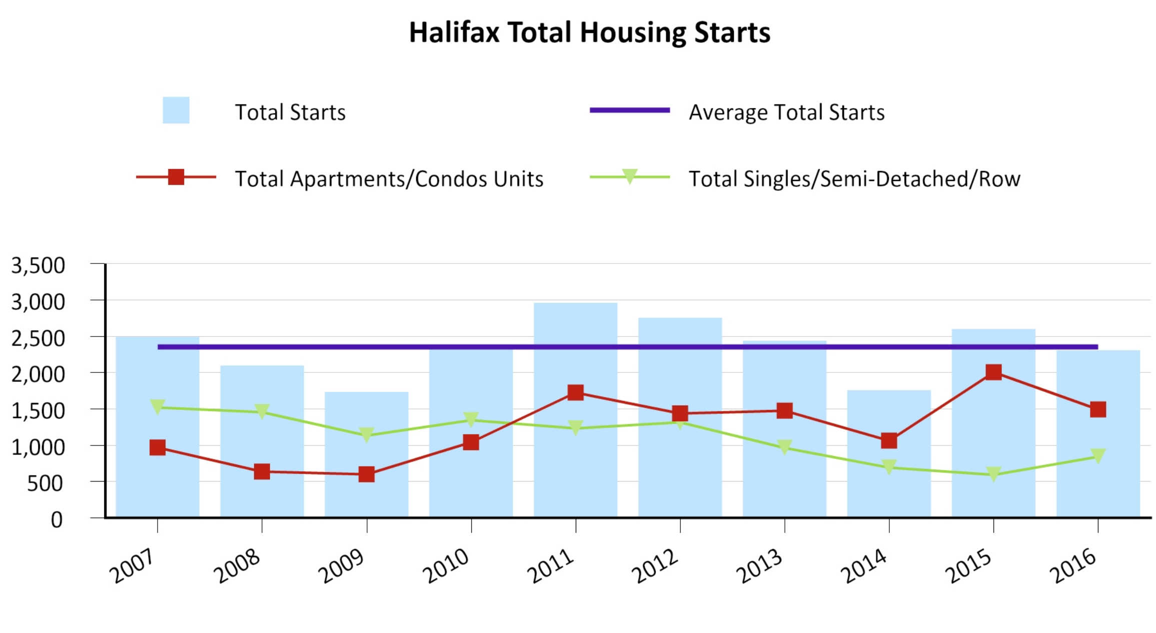
Core Market Update

Halifax
36% of Killam's total NOI is earned from its Halifax apartment portfolio. The city's rental unit base is 46,097 units, accounting for 47.1% of the total rental universe in Atlantic Canada as measured by CMHC. Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, producing 56% of Nova Scotia's total GDP and home to 44% of the province's population. The city attracts a diverse population base, from rural areas of Nova Scotia, other regions in Atlantic Canada, and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to over 35,000 students per year, including 5,800 international students. Halifax's employment base is well diversified, with jobs focused around public service, health care, education, and retail and wholesale trade among the largest sectors. Halifax is home to the largest Canadian Armed Forces base by number of personnel, and the Department of National Defence is the largest employer in the city.

Halifax has experienced improved occupancy and rental growth in 2016, attributable to economic and population growth in the city, and increasing demand from the baby boomer generation shifting away from home ownership into apartment living. Intraprovincial migration and international migration have also contributed to increased demand for apartments in the city. In its 2016 Rental Market Report, CMHC noted that the population of Halifax increased by more than 3,200 residents in 2015, approximately 2,700 of whom were immigrants. The number of international immigrants is expected to be higher in 2016, as over 2,800 immigrants arrived in the city during the first six months of the year.

Increased numbers of rental units are being built to absorb this demand. Much of the new rental supply introduced into the market in recent years has catered to this demographic, with spacious units of 1,200 square feet ("SF") or more, and monthly rents of $1,300 and higher in the suburban areas. In the downtown core, an increased number of smaller rental units are being constructed, catering to renters looking for a more urban lifestyle.

The following graph summarizes the total number of starts in Halifax for all housing types from 2007 to 2016, as reported by CMHC. During the last ten years, the annual total housing starts averaged 2,350 units per year. As the graph highlights, a decrease in single family starts is being offset by an increase in multi-family starts, resulting in relatively stable levels of total housing starts and apartment occupancy. This trend continued in 2016, with 1,492 apartment and condo unit starts during the year compared to 843 single family, semi-detached and row housing starts, as per CMHC's Starts and Completions Survey. This compares with 2,005 apartment starts and 594 single family, semi-detached and row housing starts during 2015.

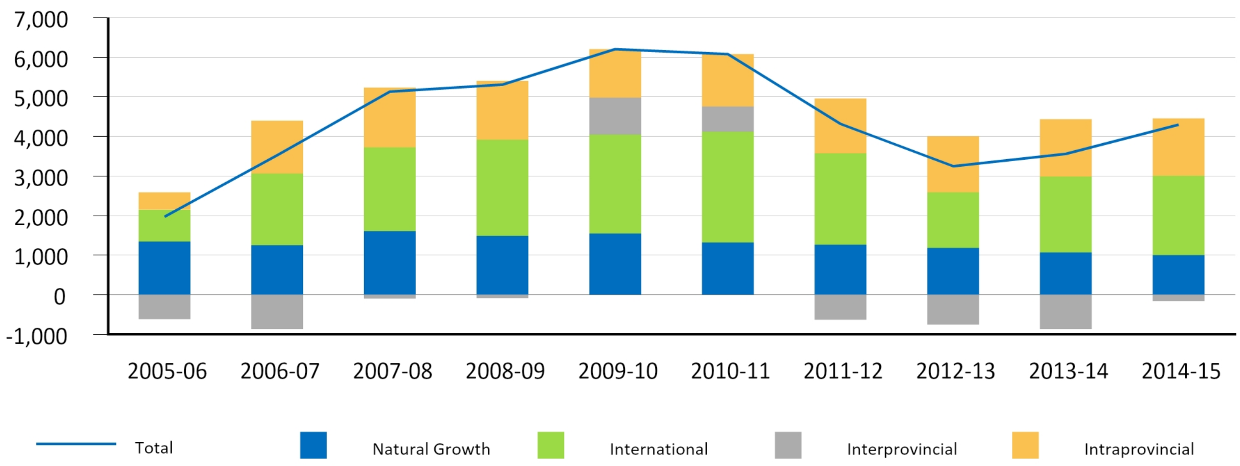


Source: CMHC

Despite an increased rental inventory, units are being absorbed by strong demand in the city, as noted above. CMHC's Fall Rental Market Outlook reported Halifax's vacancy to be 2.6% in October 2016, down from 3.4% in October 2015. CMHC forecasted vacancy to increase to 3.2% in 2017 due to a higher than normal amount of rental completions expected in 2017.

The population of Halifax has been growing at approximately 1% per year, driven by a combination of natural growth, international immigration and intraprovincial migration. International immigration accelerated in 2016. Although annual numbers have not been finalized, CMHC reports the arrival of 2,849 immigrants during the first six months of 2016 compared to 2,730 during the full year before. The chart below highlights historical population growth for Halifax by source from 2005 - 2015:

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



Source: Statistics Canada

Management expects population growth in Halifax to continue to increase due to urbanization and local large-scale projects that should drive employment opportunities. Irving Shipyard's $25 billion shipbuilding contract is expected to have positive long-term implications for Halifax and Atlantic Canada. Large construction projects in the city, as well as steady growth in the service sector, will also contribute to Halifax's economic growth. A growing population base of those 60 years and older, many of whom are expected to transition to rental units, will also drive long-term demand for apartments in Halifax.

With a diversified asset base of more then 5,100 well-located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam should benefit from the increased demand for housing that will come from population and economic growth plus the growing base of aging homeowners transitioning to apartment rental.

New Brunswick

21% of Killam's NOI is currently generated in New Brunswick, split between the province's three major urban centres: Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and is a transportation and distribution hub for Atlantic Canada. Moncton has experienced strong population growth in recent years driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5% of Killam's NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city has seen a reduction in new projects over recent years. However, new investments have started in the forestry sector, and the Energy East Pipeline proposal to bring oil from Western Canada to refineries in Quebec and New Brunswick has potential to generate future economic growth for the city and the province.

Following an increase in vacancy in New Brunswick in recent years, due partly to higher levels of new construction, CMHC reported improved vacancy rates with fewer new rental projects being introduced into the market. CMHC reported that during 2015 and 2016 respectively, there were 355 and 310 new rental apartment unit starts in the province, a marked reduction from the 876 and 812 new rental unit starts during 2012 and 2013.

CMHC reported improved occupancy in both Moncton and Fredericton in its Fall 2016 Rental Market Report; and stable vacancy in Saint John. The improved occupancy in Moncton and Fredericton was driven primarily by intraprovincial and international migration and increasing demand from retiring baby boomers. Moncton experienced the most improvement in occupancy, with CMHC reporting 6.0% vacancy in 2016, a 140 bps improvement from 2015.

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

Newfoundland and Labrador

7% of Killam's apartment NOI is generated in St. John's. After undergoing a transformation over the last ten years following significant offshore investments, the city is now adjusting to the impact of lower oil prices. After maintaining very high occupancy and record high rental rate growth in the St. John's portfolio for most of the last eight years, Killam experienced more modest revenue growth in 2016 of 0.8%. CMHC reported a 300 bps increase in vacancy in St. John's due to the economic pressures of lower oil activity, with 7.9% vacancy in 2016, up from 4.9% in 2015.

Prince Edward Island

Killam has a 18% market share in Charlottetown, the provincial capital and economic center of Prince Edward Island. The Charlottetown market represents 6% of Killam's total NOI. The Prince Edward Island economy continues to realize GDP growth following increases in merchandise exports since 2013. Demographics and international immigration are driving strong demand for rental units. CMHC reported a 250 bps improvement in occupancy rates, reporting 98.3% occupancy in October 2016, compared to 95.8% in October 2015.

Ontario

Killam's Ontario apartment portfolio represents 15% of NOI. The Ontario rental market is strong, with CMHC reporting a second year of 3.0% increases in average rents for the total Ontario rental market and a 30 bps point reduction in vacancy. In its Fall Rental Market Report, CMHC reported vacancy of 2.1% in October 2016, down from 2.4% in October 2015. CMHC highlights three of Killam's four markets in Ontario (Toronto, London and Ottawa) contributing most to the decline in the provincial vacancy rate. The strength of the Ontario rental market is attributable to an improved economy, rising cost gap between owning and renting and higher levels of international immigration. Looking forward, CMHC projects that vacancy rates will continue to edge lower in 2017 in most urban centres, driven by increased housing prices, international migration and an aging population.

Alberta

2% of Killam's NOI is earned in Alberta. The Alberta rental market has softened following lower oil prices. CMHC reported a vacancy rate of 7.0% in October 2016 in Calgary, up from 5.1% in October 2016 and 1.4% a year earlier. Higher vacancy in the year was attributable to an increased base of rental units and the continued weak labour market. CMHC forecasts improvements in economic conditions to lead to lower vacancy rates in 2017 and 2018; however, new rental supply is expected to keep vacancy levels above historical averages.

PART III

2016 Financial Overview
Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$175,269**	$166,614	5.2%	**$162,965**	$160,041	1.8%	**$12,304**	$6,573	87.2%
Property operating expenses									
Operating expenses	**(29,097)**	(27,590)	5.5%	**(27,073)**	(26,694)	1.4%	**(2,024)**	(896)	125.9%
Utility and fuel expenses	**(20,462)**	(21,299)	(3.9)%	**(19,516)**	(20,807)	(6.2)%	**(946)**	(492)	92.3%
Property taxes	**(20,286)**	(19,335)	4.9%	**(18,647)**	(18,560)	0.5%	**(1,639)**	(775)	111.5%
Total operating expenses	**(69,845)**	(68,224)	2.4%	**(65,236)**	(66,061)	(1.2)%	**(4,609)**	(2,163)	113.1%
NOI	**$105,424**	$98,390	7.1%	**$97,729**	$93,980	4.0%	**$7,695**	$4,410	74.5%
Operating margin %	**60.1%**	59.1%	100 bps	**60.0%**	58.7%	130 bps	**62.5%**	67.1%	(460) bps

Total property revenue for the year ended December 31, 2016, was $175 million, a 5.2% increase in revenue over 2015. The growth was generated through acquisitions, completed developments and a 1.8% increase in same property revenue.

Killam's total property expenses increased by 2.4% in 2016 compared to 2015, as a result of expenses associated with newly acquired properties and completed developments. Killam's consolidated operating margin improved 100 bps year-over-year, primarily as a result of adding high-quality assets to the portfolio and a 130 bps margin improvement from its same property portfolio.

Same property NOI reflects 206 stabilized properties that Killam has owned for equivalent periods in 2016 and 2015. The same property analysis includes a combined total of 18,529 apartment units and MHC sites, which is 96.5% of Killam's portfolio. The same property portfolio realized net revenue growth of 1.8% for the year ended December 31, 2016. Operational efficiencies combined with the milder winter in 2016 generated a 1.2% savings in total operating expenses in comparison to the year ended December 31, 2015. Combining net revenue growth and savings in property expenses, same property NOI grew by 4.0% in 2016. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

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

Non-same property NOI consists of properties acquired in 2015 and 2016, development projects completed in 2015 and 2016, and other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items.

Apartment Results

For the years ended December 31,	Total			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$155,839**	$148,846	4.7%	**$148,284**	$145,718	1.8%	**$7,555**	$3,128	141.5%
Property operating expenses									
Operating expenses	**(24,196)**	(23,303)	3.8%	**(23,453)**	(23,158)	1.3%	**(743)**	(145)	412.4%
Utility and fuel expenses	**(18,431)**	(19,490)	(5.4)%	**(18,035)**	(19,339)	(6.7)%	**(396)**	(151)	162.3%
Property taxes	**(18,823)**	(18,171)	3.6%	**(18,038)**	(17,974)	0.4%	**(785)**	(197)	298.5%
Total operating expenses	**(61,450)**	(60,964)	0.8%	**(59,526)**	(60,471)	(1.6)%	**(1,924)**	(493)	290.3%
NOI	**$94,389**	$87,882	7.4%	**$88,758**	$85,247	4.1%	**$5,631**	$2,635	113.7%
Operating margin %	**60.6%**	59.0%	160 bps	**59.9%**	58.5%	140 bps	**74.5%**	84.2%	(970) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2016, was $155.8 million, a 4.7% increase in revenue over 2015. This growth was attributable to $71.5 million in acquisitions, $15 million in completed developments, growth in rental rates and improved occupancy.

Same property apartment revenue increased 1.8% in 2016 due to a 1.6% increase in rental rates and a 40 bps improvement in same property occupancy for the year.

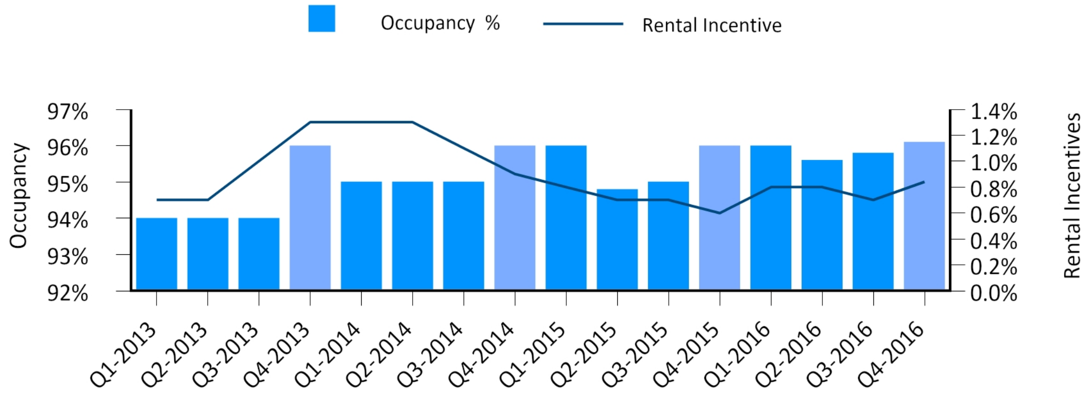
Apartment Occupancy Analysis by Core Market (% of Residential Rent)[1]

		Total Occupancy			Same Property Occupancy		
For the years ended December 31,	# of Units	**2016**	2015	Change (bps)	**2016**	2015	Change (bps)
Halifax, NS	5,160	**96.1%**	94.9%	120	**96.2%**	95.0%	120
Moncton, NB	1,629	**94.9%**	94.7%	20	**94.9%**	94.7%	20
Fredericton, NB	1,422	**94.8%**	94.4%	40	**94.8%**	94.4%	40
Saint John, NB	1,202	**92.5%**	94.2%	(170)	**93.0%**	94.3%	(130)
St. John's, NL	915	**95.2%**	96.5%	(130)	**95.3%**	96.5%	(120)
Charlottetown, PE	906	**98.5%**	97.7%	80	**98.5%**	97.7%	80
Ontario	2,095	**96.9%**	95.0%	190	**97.0%**	96.9%	10
Alberta	307	**86.8%**	89.7%	(290)	**86.8%**	89.7%	(290)
Other Atlantic	469	**97.7%**	97.6%	10	**97.7%**	97.6%	10
Total Apartment (Weighted Average)	14,105	**95.7%**	95.1%	60	**95.8%**	95.4%	40

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

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

Killam's Historic Apartment Occupancy & Rental Incentives (as a % of Residential Revenue)



Average Rent Analysis by Core Market

As at December 31,

		Average Rent			Same Property Average Rent		
	# of Units	**2016**	2015	% Change	**2016**	2015	% Change
Halifax, NS	5,160	**$989**	$963	2.7%	**$984**	$963	2.2%
Moncton, NB	1,629	**$844**	$830	1.7%	**$844**	$830	1.7%
Fredericton, NB	1,422	**$915**	$898	1.9%	**$917**	$898	2.1%
Saint John, NB	1,202	**$784**	$779	0.6%	**$763**	$757	0.8%
St. Johns's, NL	915	**$962**	$941	2.2%	**$913**	$892	2.4%
Charlottetown, PE	906	**$905**	$899	0.7%	**$905**	$899	0.7%
Ontario	2,095	**$1,274**	$1,261	1.0%	**$1,271**	$1,245	2.1%
Alberta	307	**$1,188**	$1,354	(12.3)%	**$1,188**	$1,354	(12.3)%
Other Atlantic	469	**$855**	$833	2.6%	**$855**	$833	2.6%
Total Apartment (Weighted Average)	14,105	**$973**	$951	2.3%	**$958**	$943	1.6%

Apartment Expenses

Total apartment expenses for the year ended December 31, 2016, were $61.5 million, a 0.8% increase over 2015. The expense increase in the year is attributable to acquisitions and completed developments. Mitigating the increased costs are lower year-over-year fuel and contract service costs. Killam realized a 160 bps improvement in its apartment operating margin for the year as a result of a mild winter season, lower fuel pricing and consumption, operational efficiencies and the development and acquisition of newer and more efficient buildings.

Total same property expenses for the year ended December 31, 2016, were $59.5 million, a 1.6% decrease over 2015. This decrease is attributable to the ability to maintain and minimize total property operating costs, lower heating oil and natural gas consumption and pricing, improved operating efficiencies and only a modest increase in overall property taxes.

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,	**2016**	2015	% Change
Natural gas	**$5,357**	$6,230	(14.0%)
Electricity	**6,935**	7,009	(1.1%)
Water	**4,670**	4,809	(2.9%)
Oil	**1,038**	1,250	(17.0%)
Other	**35**	41	(14.6%)
Total utility and fuel expenses	**$18,035**	$19,339	(6.7%)

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

Utility and fuel expenses accounted for approximately 30% of Killam's total apartment same property operating expenses in 2016. Total utility and fuel expenses were 6.7% lower compared to 2015 due to warmer weather, lower commodity prices and investments in efficiencies. Killam's apartment properties are heated with a combination of natural gas (55%), electricity (35%), oil (8%) and steam (2%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam's exposure to the majority of the 4,900 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam's same property natural gas costs decreased by 14.0% compared to 2015. The decrease was attributable to lower consumption and average natural gas rates across Killam's portfolio as a result of a relatively mild winter. Killam's weighted average natural gas cost per gigajoule ("GJ") was down approximately 12% in New Brunswick and 30% in Ontario in 2016. The weighted average cost of gas per GJ was $15.96 in Nova Scotia, 5.7% lower than the 2015 weighted average cost of $16.93 per GJ. This decline in Nova Scotia was due to a $5 per GJ reduction in the delivery rate introduced in April 2016. The impact of these price savings were augmented by lower consumption attributable to a mild winter and improved efficiencies.

Heating oil costs decreased by 17.0% in 2016 compared to the prior year due to the lower world oil prices. Given lower oil prices, Killam switched back to oil from natural gas at its buildings with dual burner capabilities.

Electricity costs were down by 1.1% due to milder winter weather and energy efficiencies. The number of units that include unit electricity as a rental incentive remained fairly constant year-over-year. Killam prefers not to include electricity in rental rates, and rents are typically increased to offset this additional expense; however, in competitive markets some landlords include electricity in the rental rates. Killam does the same when the market conditions dictate.

Despite higher rates, water expense for same properties decreased by 2.9% for the year ended December 31, 2016. Killam has installed 3,723 low-flow toilets during 2016 and is realizing marked decreases in water consumption from the program. The total cost for the 2016 program was $1.3 million, with annualized savings of $0.4 million and payback period of an estimated 3.1 years.

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Halifax	**$59,060**	$57,148	3.3%	**(22,004)**	(22,470)	(2.1)%	**$37,056**	$34,678	6.9%
Moncton	**17,039**	16,928	0.7%	**(8,201)**	(8,349)	(1.8)%	**8,838**	8,579	3.0%
Fredericton	**14,863**	14,637	1.5%	**(6,343)**	(6,572)	(3.5)%	**8,520**	8,065	5.6%
Saint John	**9,912**	10,039	(1.3)%	**(5,309)**	(5,607)	(5.3)%	**4,603**	4,432	3.9%
Ontario	**22,194**	21,761	2.0%	**(8,577)**	(8,451)	1.5%	**13,617**	13,310	2.3%
St. John's	**9,890**	9,807	0.8%	**(3,240)**	(3,071)	5.5%	**6,650**	6,736	(1.3)%
Charlottetown	**10,548**	10,325	2.2%	**(4,130)**	(4,219)	(2.1)%	**6,418**	6,106	5.1%
Alberta	**2,668**	3,063	(12.9)%	**(879)**	(880)	(0.1)%	**1,789**	2,183	(18.0)%
Other	**2,110**	2,010	5.0%	**(843)**	(852)	(1.1)%	**1,267**	1,158	9.4%
	$148,284	$145,718	1.8%	**(59,526)**	(60,471)	(1.6)%	**$88,758**	$85,247	4.1%

As shown above, Killam generated positive NOI growth in the majority of its core markets in 2016, with the exception of St. John's and Alberta, which only account for 10% of the total same property NOI for the year. Overall, Killam generated apartment same property portfolio NOI growth of 4.1%.

Halifax

Halifax is Killam's largest rental market, representing 42% of apartment same property NOI for the year ended December 31, 2016. The Halifax same property apartment portfolio achieved 3.3% revenue growth in the year. Overall NOI growth in 2016 was a strong 6.9%, the highest NOI growth from any of Killam's core markets.

The 3.3% revenue increase was also the highest revenue growth from Killam's portfolio in 2016. Occupancy was up 120 bps and average rent was up 2.2%. An increase in commercial occupancy, increased parking revenues and a reduction in bad debts year-over-year also contributed to same property revenue growth. Total operating expenses decreased by 2.1% in the year. Savings generated from reduced water consumption, lower natural gas pricing and heat consumption due to milder weather, and lower garbage removal expense from recent contract negotiations offset increases in property taxes, insurance premiums and repairs and maintenance costs.

New Brunswick

Killam's three core markets in New Brunswick generated 25% of Killam's apartment same property NOI in 2016. In aggregate, the NB portfolio achieved 4.2% NOI growth for the year. The improvements were attributable to overall increased revenues, up 0.5% from 2015, and lower total operating expenses, down 3.3% for the year ended December 31, 2016, due largely to substantial savings in heating costs in Q1-2016.

Fredericton achieved the strongest revenue and NOI growth in NB in 2016. Revenue was up 1.5% and NOI was up 5.6% for the year. Top-line growth was primarily attributable to increased rents, up an average of 2.1%, and a 40 bps increase in occupancy for the year. Fredericton also benefited from a 3.5% reduction in total operating costs, due primarily to lower heating costs due to a milder winter in 2016 and lower property taxes following successful tax assessment appeals.

Moncton ranked second in NB in revenue and NOI growth in 2016, with a 0.7% increase in net revenue and a 3.0% increase in NOI. Moncton's average rents increased by 1.7% and apartment occupancy improved by 20 bps. These improvements were partially offset by higher rental incentives and lower commercial occupancy in 2016. Expenses decreased 1.8% from 2015 as lower natural gas costs, operating efficiencies, lower garbage removal costs and lower property tax expense from successful tax appeals offset increased insurance and electricity costs during the year.

Saint John recorded a 1.3% decrease in property revenue in 2016, but still realized a 3.9% increase in NOI due to 5.3% savings achieved in property operating expenses. A 130 bps decrease in occupancy for the year, along with the increased use of rental incentives, more than offset rental rate growth of 0.8%. The Saint John rental market has been showing signs of softness during the last two quarters. Killam has increased the use of incentive offerings and increased advertising efforts in response. Total operating expense savings were achieved from lower fuel and utility costs due to milder weather in 2016 and energy efficiency initiatives at various properties. As well, property tax savings from successful tax assessment appeals more than offset the increased insurance and repairs and maintenance costs.

Ontario

Killam's Ontario portfolio generated 15% of Killam's apartment same property NOI for the year ended December 31, 2016. The same property Ontario portfolio achieved 2.0% revenue growth and 2.3% NOI growth in 2016.

The top-line growth was realized from increased rents of 2.1%, a 10 bps gain in occupancy and a 30 bps improvement in bad debt expense. Total operating expenses increased by only 1.5% in 2016 as savings from lower water consumption and lower natural gas rates helped to offset increased contract services, repairs and maintenance and property tax expenses.

Newfoundland and Labrador

Killam's St. John's portfolio generated 7% of Killam's apartment same property NOI for the year ended December 31, 2016. Same property revenue for the St. John's portfolio increased by 0.8% while NOI declined by 1.3% due to higher operating expenses.

Despite softness in the economy and rental market in St. John's following lower oil prices, the portfolio continues to achieve revenue growth. A 2.4% increase in rental rates year-over-year was partially offset by a 120 bps decline in occupancy in 2016 compared to 2015. Total same property operating expenses increased by 5.5% in 2016, driven by higher insurance premiums and an 18% increase in property tax expense as a result of higher tax assessments. These tax assessments are completed in a 3-year cycle for the region and were effective January 1, 2016.

Prince Edward Island

Killam's Charlottetown portfolio represents 7% of apartment same property NOI. Charlottetown achieved 2.2% revenue growth for the year ended December 31, 2016. Combining net revenue gains with savings in property operating expenses, Charlottetown recorded 5.1% in NOI growth for 2016.

Revenue growth was attributable to increased rents, up 0.7%, a 30 bps decrease in rental incentive offerings and an 80 bps improvement in occupancy levels. Total operating expenses decreased 2.1% in 2016 as increases in insurance premiums and property tax expense were offset by lower oil prices and a milder winter year-over-year.

Alberta

Killam has a 50% interest in a 307-unit building in downtown Calgary that represents 2% of same property apartment NOI for 2016. Overall, Alberta recorded a 18.0% decline in NOI for the year ended December 31, 2016.

Killam's Calgary asset recorded a 12.9% decline in revenue year-over-year as the Alberta rental market continued to soften further. Average rental rates at this property have decreased 12.3% to $1,188. For 2016, occupancy was 86.8%, a 290 bps decrease over 2015. The property continues to focus on leasing and targeted marketing campaigns in this challenging market. Operating expenses were relatively stable, down only 0.1%.

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

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$14,715**	$14,323	2.7%	**$14,681**	$14,323	2.5%	**$34**	$—	NA
Property operating expenses									
Operating expenses	**(3,673)**	(3,385)	8.5%	**(3,621)**	(3,536)	2.4%	**(52)**	151	(134.4)%
Utility and fuel expenses	**(1,447)**	(1,468)	(1.4)%	**(1,481)**	(1,468)	0.9%	**34**	—	NA
Property taxes	**(608)**	(586)	3.8%	**(608)**	(586)	3.8%	**—**	—	NA
Total operating expenses	**(5,728)**	(5,439)	5.3%	**(5,710)**	(5,590)	2.1%	**(18)**	151	(111.9)%
NOI	**$8,987**	$8,884	1.2%	**$8,971**	$8,733	2.7%	**$16**	$151	(89.4)%
Operating margin %	**61.1%**	62.0%	(90) bps	**61.1%**	61.0%	10 bps	**47.1%**	NA	NA

Killam's MHC business accounted for 9% of NOI from property operations during the years ended December 31, 2016, and 2015. Killam's seven seasonal resorts contribute to the MHC segment NOI during the second and third quarters each year.

MHC same property revenue increased $0.4 million or 2.5% in 2016, compared to 2015. This was a result of an increase in the weighted average rent per site to $242, up from $236 in 2015. Occupancy increased to 97.8%, which was a 30 bps increase from 97.5% in 2015. As well, increased focus on the seasonal campsite rentals in 2016 increased seasonal and transient revenues by 4.4%.

Total same property expenses increased by 2.1%. A milder winter and spring in 2016 resulted in less snow hauling, and capital upgrades resulted in lower water consumption. This was offset by higher property taxes, repairs and maintenance, salaries and community events associated with Killam's tenant retention initiatives.

Overall, the MHC portfolio generated same property NOI growth of 2.7% for the year ended December 31, 2016.

Commercial Results

Killam has a commercial portfolio of four properties in Halifax, Nova Scotia, totaling 248,000 SF. The Brewery Market property contains 158,000 SF of retail and office space and is adjacent land that Killam is currently developing its 240-unit apartment building, The Alexander. The Medical Arts building on Spring Garden Road contains 18,000 SF of office space, and Killam plans to redevelop this property in the future.

Along with the 50% ownership of two commercial properties, including Killam's head office in Halifax, this commercial portfolio accounted for $2.1 million or 1.9% of Killam's total NOI in 2016, compared to $1.6 million or 1.7% for 2015. Overall occupancy of this commercial portfolio was 98.9% for 2016, an 80 bps increase from 98.1% in 2015. As well, included in the apartment segment is an additional 118,000 SF of ancillary commercial space in various residential properties across the portfolio.

PART IV

Other Income and Expenses

Other Income

For the years ended December 31,

	2016	2015	% Change
	$1,227	$1,495	(17.9)%

Other income includes property management fees, interest on bank account balances, interest on loans receivable and net revenue associated with the sale of homes in Killam’s MHC segment. The 17.9% decrease year-over-year relates to lower interest revenue earned, as a $4.0 million mezzanine loan was repaid in August 2016.

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

Financing Costs

For the years ended December 31,	2016	2015	% Change
Mortgage, loan and construction loan interest	**$30,919**	$31,808	(2.8%)
Interest on exchangeable units	**2,659**	—	NA
Amortization of fair value adjustments on assumed debt	**(415)**	(570)	(27.2%)
Amortization of loss on interest rate hedge	**59**	59	—%
Unrealized gain on derivative liability	**(297)**	—	NA
Convertible debenture interest	**4,178**	6,836	(38.9%)
Capitalized interest	**(910)**	(1,089)	(16.4%)
	$36,193	$37,044	(2.3%)

Financing costs decreased $0.9 million or 2.3% for the year ended December 31, 2016, compared to the year ended December 31, 2015. On conversion to the REIT effective January 1, 2016, Killam had an IFRS requirement to record distributions relating to exchangeable units as interest expense (see note 2 of consolidated financial statements). Excluding the expense associated with the exchangeable units, interest expense decreased 9.5%. This decrease was due primarily to the redemption of $57.5 million in convertible debentures on July 4, 2016, a change in Killam's accounting for the convertible debentures following the REIT conversion and lower interest rates on refinancings in both 2015 and 2016.

Mortgage and loan interest expense was $30.9 million for the year ended December 31, 2016, down from $31.8 million in 2015, a decrease of 2.8%. This decrease is attributable to mortgage refinancings at lower interest rates. The average interest rate on refinancings for 2016 was 2.34%, 186 bps lower than the average interest rate before refinancing.

Interest expense associated with the convertible debentures decreased by $2.7 million for the year ended December 31, 2016. The decrease was a result of the redemption of $57.5 million of convertible debentures, as well as a change in accounting treatment related to Killam's conversion to a REIT. Killam was required to fair value the convertible debentures at the time of conversion, and Killam elected to measure the convertible debentures at fair value at the end of each period. In 2016, interest expense was recorded based on the stated interest rate for each convertible debenture compared to the effective interest rate in 2015.

Capitalized interest decreased $0.2 million for the year ended December 31, 2016, compared to 2015. Capitalized interest will vary depending on how many development projects are ongoing and how far along they are in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt as at December 31, 2016, would affect financing costs by approximately $10.1 million per year. However, only $73.1 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase/(decrease) in interest rates, financing costs would increase/(decrease) by $0.7 million per year.

Depreciation Expense

For the years ended December 31,

	2016	2015	% Change
	$884	$802	10.2%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer software and equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase year-over-year was primarily due to increased costs associated with upgrades to Killam's accounting and property management software. The upgrades include an enhanced mobile platform, which will allow for improved operational efficiencies and enhanced leasing capabilities. The upgrade was completed in September 2016.

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

Amortization of Deferred Financing Costs

For the years ended December 31,

	2016	2015	% Change
	$1,505	$1,913	(21.3)%

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 decreased 21.3% for the year ended December 31, 2016, as a result of a change in accounting treatment related to Killam's convertible debentures upon conversion to the REIT. This change resulted in the write-off of the remaining deferred financing costs associated with the convertible debentures through retained earnings on January 1, 2016. This change was required as Killam elected to record the full outstanding amount of each convertible debenture at fair value for accounting purposes.

Administration Expenses

For the years ended December 31,

	2016	2015	% Change
Administration (including REIT conversion costs)	**$12,733**	$11,898	7.0%
REIT conversion costs	**(1,548)**	(1,654)	(6.4)%
Administration (excluding REIT conversion costs)	**$11,185**	$10,244	9.2%
As a percentage of total revenues	**6.3%**	6.1%	30 bps

Administration expenses include expenses that are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses. Administration expense for the year ended December 31, 2016 and 2015, includes one-time costs associated with the REIT conversion.

For the year ended December 31, 2016, total general and administrative costs, excluding REIT conversion costs, increased $0.9 million or 9.2% compared to the year ended December 31, 2015, primarily driven by an increase of $0.7 million due to higher non-cash unit-based compensation costs related to restricted trust units ("RTUs"). Vesting was accelerated for the RTU match component for certain executives as a result of the plan's retirement clause. The expense related to these units is therefore fully recognized in the performance period as no further service requirement exists. Previously, the match component of the RTU plan was expensed for all participants over three years. In 2017, Killam expects to manage general and administration expenses to approximately 6% of total revenues. The remaining variance relates to increased salary costs and increased advertising initiatives.

During 2016, Killam's Compensation Committee performed their periodic review of its incentive plan to consider alignment with industry best practices. The Committee engaged a compensation consultant and is in the process of implementing revisions to the incentive plan for the 2017 performance period.

Fair Value Adjustment on Investment Property

For the years ended December 31,

	2016	2015	% Change
	($3,749)	($6,103)	(38.6%)

Killam recorded a fair value loss of $3.7 million in 2016 compared to $6.1 million in 2015. The fair value loss is primarily attributable to a fair value loss on its 50% ownership of a property in Calgary, due to reduced revenue expectations in that market.

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

Fair Value Adjustment on Convertible Debentures

For the years ended December 31,

	2016	2015	% Change
	$1,118	$—	NA

In connection with Killam's conversion to a REIT and the IFRS requirements for convertible debentures redeemable into trust units, Killam has elected to record the full outstanding amount of its convertible debentures at fair value determined using the closing trading price. Changes in fair value are recognized in the consolidated statement of income and comprehensive income. For the year ended December 31, 2016, there was an unrealized gain of $1.1 million (December 31, 2015 - $nil) due to the change in market price for the remaining $46 million of convertible debentures outstanding. Prior to the conversion to a REIT, the convertible debentures were classified as other financial liabilities and recorded at amortized cost using the effective interest rate method, net of deferred financing costs.

Fair Value Adjustment on Unit-based Compensation

For the years ended December 31,

	2016	2015	% Change
	($826)	$—	NA

Killam’s RTU Plan gives members of the senior executive team and director level employees the right to receive a percentage of their annual bonus, and non-executive members of the Board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs in lieu of cash. The RTUs are intended to facilitate long-term ownership of trust units and align the interests of Trustees and senior management with those of Unitholders.

As a result of Killam being an open-ended mutual fund trust, whereby each Unitholder of trust units is entitled to redeem their units in accordance with the conditions specified in Killam’s DOT, under IFRS, the underlying trust units relating to the RTU awards are not classified as equity and are instead considered financial liabilities. As such, these RTU awards must be presented as liabilities and remeasured at fair value at each reporting date. For the year ended December 31, 2016, there was an an unrealized loss of $0.8 million (December 31, 2015 - $nil) due to the change in market price of the underlying trust units. Prior to Killam converting to a REIT, the related RTU expense was limited to the amortization of the fair value of the award over the applicable vesting period and was included in administration costs within the consolidated statement of income and comprehensive income.

Fair Value Adjustment on Exchangeable Units

For the years ended December 31,

	2016	2015	% Change
	($7,774)	$—	NA

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

In accordance with IFRS, Killam accounts for its exchangeable units as a financial liability and remeasures the liability at each reporting period, and includes this re-measurement in the consolidated statement of income and comprehensive income. For the year ended December 31, 2016, there was an unrealized loss on re-measurement of $7.8 million, due to changes in the market price of the underlying Killam trust units. A description of the key components of the re-measurement of exchangeable units is included in note 2 of Killam’s consolidated financial statements.

Deferred Tax Expense

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

Effective January 1, 2016, Killam recorded the derecognition of a portion of the deferred tax liability in the amount of $40.0 million to reflect the tax status of the Trust as a flow-through vehicle. In Q3-2016, Killam recorded an adjustment to the deferred tax liability of $1.6 million to reflect a change in allocation. For the year ended December 31, 2016, Killam recorded a net recovery deferred tax of $27.6 million related to the corporate subsidiary entity of the REIT.

PART V

Per Unit Calculations

As Killam is an open-ended mutual fund trust, Unitholders are entitled to redeem their trust units, subject to certain restrictions. The impact of this redemption feature causes Killam's trust units to be treated as financial liabilities under IFRS. Consequently, all per unit calculations are considered non-IFRS measures. The following table explains the number of units used in the calculation of non-IFRS financial measures on a per unit basis:

	Weighted Average Number of Units/Shares (000s)		**Outstanding Number of Units**
For the years ended December 31,	**2016**	2015	**2016**
Trust units/common shares	**63,467**	62,097	**67,870**
Exchangeable units(1)	**4,445**	—	**3,866**
Basic number of units/shares	**67,912**	62,097	**71,736**
Plus:			
Units under option plan	**—**	82	**—**
Units under restricted trust unit/restricted share unit plan(2)	**276**	181	**264**
Convertible debentures (3)	**5,331**	—	**—**
Dilutive number of units/shares	**73,519**	62,360	**72,000**

(1) See note 2 to the accompanying consolidated financial statements for details of the exchangeable units.

(2) See note 2 to the accompanying consolidated financial statements for details of Killam's RTU plan.

(3) The calculation of the diluted weighted average units outstanding includes the convertible debentures as they are dilutive for FFO for the year ended December 31, 2016. The convertible debentures are excluded for AFFO for the year ended December 31, 2016, and for both FFO and AFFO for December 31, 2015, as they are anti-dilutive.

Funds from Operations

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

For the years ended December 31,	**2016**	2015	% Change
Net income	**$71,439**	$35,800	99.6%
Fair value adjustment on convertible debentures	**(1,118)**	—	—%
Fair value adjustment on unit-based compensation	**826**	—	—%
Fair value adjustment on exchangeable units	**7,774**	—	—%
Fair value adjustment on investment properties	**3,749**	6,103	(38.6%)
Loss on disposition	**264**	109	142.2%
Non-controlling interest	**(531)**	(1,058)	(49.8%)
Deferred tax (recovery) expense	**(27,598)**	6,216	(544.0%)
Interest expense related to exchangeable units	**2,659**	—	—%
Unrealized gain on derivative liability	**(297)**	—	—%
Depreciation on owner-occupied building	**171**	192	(10.9%)
REIT conversion costs	**1,548**	1,654	(6.4%)
FFO	**$58,886**	$49,016	20.1%
FFO unit/share - basic	**$0.87**	$0.79	10.1%
FFO unit/share - diluted(1)	**$0.86**	$0.79	8.9%
FFO (including effect of debenture conversions for diluted calculation)	**$63,063**	—	—
Weighted average number of units/shares - basic (000s)	**67,912**	62,097	9.4%
Weighted average number of units/shares - diluted (000s)	**73,519**	62,360	17.9%

(1) The calculation of weighted average units outstanding for diluted FFO includes the convertible debentures for the year ended December 31, 2016, as they are dilutive, and excludes the convertible debentures for the year ended December 31, 2015, as they are anti-dilutive.

Killam earned FFO of $58.9 million, or $0.86 per unit (diluted) for the year ended December 31, 2016, compared to $49.0 million, or $0.79 per share (diluted), for the year ended December 31, 2015. The increase in FFO is attributable to contributions from acquisitions and completed developments ($3.0 million), same property NOI growth of 4.0% ($3.7 million), interest expense savings on refinancings at lower interest rates ($1.6 million), interest and deferred financing expense savings due to the change in accounting treatment of the convertible debentures on conversion to the REIT ($1.1 million), interest expense savings on the redemption of the 5.65% convertible debentures ($1.6 million), as well as the early pay-out of a head lease ($0.4 million). These increases were offset by an increase in administration expense ($0.9 million) due mainly to accelerated vesting of RTUs for certain participants, as a result of the RTU plan's retirement clause, and reduction in corporate income ($0.4 million). FFO per unit was impacted by a 9.4% increase in the number of weighted average units outstanding.

FFO have been adjusted for costs incurred for the years ended December 31, 2016, and 2015 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.

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio. 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 34.

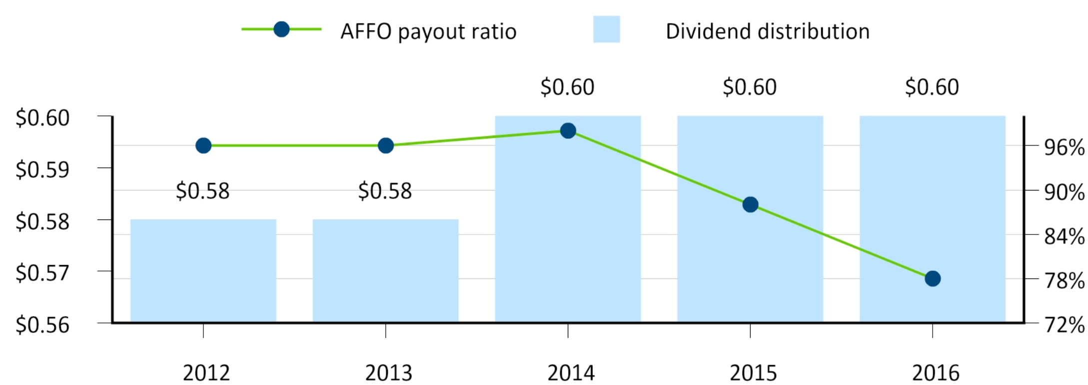
In order to provide investors and other stakeholders with information to assist in assessing Killam's payout ratio, Management has calculated AFFO using $450 per apartment unit for maintenance capital expenditures, which is in the range for AFFO calculations for the multi-family sector. The MHC industry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

For the years ended December 31,	**2016**	2015	% Change
FFO	**$58,886**	$49,016	20.1%
Maintenance Capital Expenditures			
Apartments	**(6,023)**	(5,861)	2.8%
MHCs	**(516)**	(516)	—%
AFFO	**$52,347**	$42,639	22.8%
AFFO per unit/share - basic	**$0.77**	$0.69	11.6%
AFFO per unit/share - diluted(1)	**$0.77**	$0.68	13.2%
AFFO payout ratio (2)	**78%**	88%	(1,000) bps
Weighted average number of units/shares - basic (000s)	**67,912**	62,097	9.4%
Weighted average number of units/shares - diluted (000s)	**68,188**	62,360	9.3%

(1) The calculation of weighted average units/shares outstanding for diluted AFFO excludes the convertible debentures for the years ended December 31, 2016, and 2015 as they are anti-dilutive.

(2) Based on Killam's annualized distribution/dividend of $0.60 for the years ended December 31, 2016, and 2015.

Killam's Annual Dividend Distribution & AFFO Payout Ratio



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

Cash Generated from Operating Activities to AFFO Reconciliation

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

For the years ended December 31,	**2016**	2015	% Change
Cash generated from operating activities	**$63,584**	$50,947	24.8%
Adjustments:			
Net change in non-cash operating activities	**(4,963)**	312	(1,690.7)%
Non-controlling interest	**(531)**	(1,058)	(49.8)%
Non-cash compensation expense	**(896)**	(316)	183.5%
Interest expense related to exchangeable units	**2,659**	—	—
Unrealized gain on derivative liability	**(297)**	—	—
REIT conversion costs	**1,548**	1,654	(6.4)%
Depreciation and amortization (net of depreciation on owner-occupied building)	**(2,220)**	(2,523)	(12.0)%
Provision for maintenance property capital investments	**(6,537)**	(6,377)	2.5%
AFFO	**$52,347**	$42,639	22.8%

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

For the years ended December 31,	**2016**	2015	% Change
Distributions declared on trust units/common shares	**$38,328**	$37,488	2.2%
Distributions declared on exchangeable units	**2,659**	—	— %
Distributions declared on awards outstanding under RTU/RSU plan	**114**	106	7.5%
Total distributions declared	**$41,101**	$37,594	9.3%
Less:			
Distributions on trust units reinvested	**(6,849)**	(7,299)	(6.2)%
Distributions on RTU/RSUs reinvested	**(114)**	(106)	7.5%
Net distributions paid	**$34,138**	$30,189	13.1%
Percentage of distributions reinvested	**16.9%**	19.7%	

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

PART VI

Investment Properties

As at December 31,

	2016	2015	% Change
Investment properties	**$1,887,302**	$1,794,580	5.2%
Investment properties under construction ("IPUC")	**55,507**	45,676	21.5%
	$1,942,809	$1,840,256	5.6%

Continuity of Investment Properties

For the years ended December 31,

	2016	2015	% Change
Balance, beginning of year	**$1,794,580**	$1,693,055	6.0%
Acquisition of properties(1)	**48,214**	41,924	15.0%
Disposition of properties	**(8)**	—	— %
Transfer to IPUC	**—**	(2,300	(100.0)%
Transfer from IPUC	**15,490**	36,147	(57.1)%
Capital expenditures	**32,775**	31,857	2.9 %
Fair value adjustment - Apartments	**(9,188)**	(6,837	34.4 %
Fair value adjustment - MHCs	**5,896**	734	703.3 %
Fair value adjustment - Other	**(457)**	—	— %
Balance, end of year	**$1,887,302**	$1,794,580	5.2%

(1) The acquisition of the remaining 51% interest in Garden Park Apartments in June 2016 is not reflected in the acquisition of properties in the table above since the property was already recorded at 100% as Killam had control over the property.

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

Capitalization Rates

	December 31, 2016			December 31, 2015		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.49%**	4.12%	8.00%	5.52%
MHCs	**5.75%**	**8.00%**	**6.81%**	5.75%	8.00%	6.82%

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

2016 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price[1]
Apartments					
Kanata Lakes III[2]	Ottawa	10-Jun-16	2015	173	$31,123
270 Parkside Drive	Fredericton	17-Jun-16	1979	28	1,770
Garden Park Apartments[3]	Halifax	30-Jun-16	1979	128	23,724
960/970/980 Cheapside Street	London	22-Dec 16	1960	113	10,250
298 Fairview Avenue & 1447 Trafalgar Street	London	22-Dec-16	1960/1965	40	3,150
Other					
Vacant Land	Halifax	2-Feb-16			340
Vacant Land[4]	Halifax	24-Nov-16			1,160
Total Acquisitions				**482**	**$71,517**

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in a 173-unit building, which includes 2,712 SF of commercial space and a 25% interest in a shared clubhouse. This building is part of a five-building complex. Killam and its 50/50 partner now own three of the buildings and have the two remaining buildings under contract with closings scheduled for Q1-2017.

(3) Purchase price represents Killam's acquisition of the remaining 51.02% interest in Garden Park Apartments. Post acquisition, Killam has a 100% interest in the 246-unit building, which includes 8,159 SF of commercial space.

(4) Purchase price represents Killam's acquisition of remaining 50% interest in vacant land adjacent to the Brewery Market and The Alexander development.

Investment Properties Under Construction

For the years ended December 31,

	2016	2015	% Change
Balance, beginning of period	**$45,676**	$40,840	11.8 %
Capital expenditures	**24,411**	20,764	17.6%
Interest capitalized	**910**	1,089	(16.4)%
Land acquisitions	—	17,973	(100.0)%
Land dispositions	—	(1,143)	(100.0)%
Transfer from investment properties	—	(36,147)	(100.0)%
Transfer to investment properties	**(15,490)**	2,300	(773.5)%
Balance, end of period	**$55,507**	$45,676	21.5%

Killam currently has two projects under development. Killam has continued to expand its development program as it has recently been able to generate yields in the range of 75-100 bps higher than available on the acquisition of similar quality assets. Killam's new developments typically have higher operating margins, in the range of 70% as compared to 50%-60% on older stock, and also require a lower annual capital spend. Killam's development program also enables quality control during construction and also allows Killam to maximize its return on excess land within the portfolio.

Killam completed construction of the 142-unit Southport development, located in downtown Halifax, on September 1, 2016. Killam owns a 50% interest in the project, representing 70 rental units and 1,880 SF of commercial space. The remaining 72 units are condo units. Killam's construction cost for the development was $14.7 million ($210,000 per unit) resulting in an all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets. Southport's lease-up exceeded Management's expectations and was fully leased within three months of opening. Killam did not provide any rental incentives or discounts as part of the lease-up and also earned full parking rates.

Killam and its 50% partner began construction in downtown Halifax on a 240-unit building, The Alexander, late in the third quarter of 2015 and the project is expected to be completed in Q1-2018. The cost to develop is approximately $70.2 million ($290,000 per unit) resulting in an expected all-cash yield of approximately 5.5%, an approximate 75 bps premium over the yield anticipated on acquisitions of similar quality assets. As of December 31, 2016, Killam had invested $11.5 million in the project, representing its 50% equity interest. Construction financing was obtained for the remainder of the project costs and the first loan draw took place in November 2016. As Killam has control over the development for accounting purposes, 100% of the costs are included in IPUC.

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

During Q3-2016 Killam commenced construction on a 93-unit, seven-story development in Cambridge, ON. The development is adjacent Killam's 122-unit building, Saginaw Gardens, which was completed in June 2015. The new building will include underground parking, a guest suite, fitness facility and tenant lounge. The units are expected to be approximately 30 SF larger than Saginaw Gardens. The project is expected to cost approximately $25.0 million ($269,000 per unit) resulting in an all-cash yield of approximately 5.4%, an approximate 65 bps premium over the yield anticipated on acquisitions of similar quality assets.

During Q4-2016, Killam acquired the remaining 50% interest in land adjacent to The Alexander development for $1.16 million. Killam now has 100% ownership over the 42-unit development project.

As noted below, Killam has a robust development pipeline. Future developments that may begin in late 2017 or early 2018 include Carlton Towers, an 18-storey, 104-unit development adjacent Killam's Spring Garden Terrace apartments in downtown Halifax. Killam is also in the design and approval stage for its Silver Spear II development on excess land adjacent its 199-unit building in Mississauga, ON. Killam will have a 50% ownership in the 12-storey, 128-unit development.

Killam has the following land available for future development:

Property	Location	Development Potential (# of Units)	Status
Silver Spear(1)	Mississauga, ON	64	In design and approval process
Spring Garden Terrace Land	Halifax, NS	104	Approved development agreement
The Governor	Halifax, NS	42	As of right
Carlton Houses	Halifax, NS	70	Future development
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
1335 Hollis Street	Halifax, NS	30	Future development
Block 4	St. John's, NL	80	As of right
Topsail Road	St. John's, NL	225	Approved development agreement
Grid 5 vacant land(1)	Calgary, AB	198	Future development
Total Development Opportunities		**1,013**	

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2016, Killam invested a total of $32.8 million in its portfolio, compared to $31.9 million for the year ended December 31, 2015.

For the years ended December 31,	**2016**	2015	% Change
Apartments	**$30,139**	$28,511	5.7%
MHCs	**2,098**	2,285	(8.2)%
Commercial	**538**	1,061	(49.3)%
	$32,775	$31,857	2.9%

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

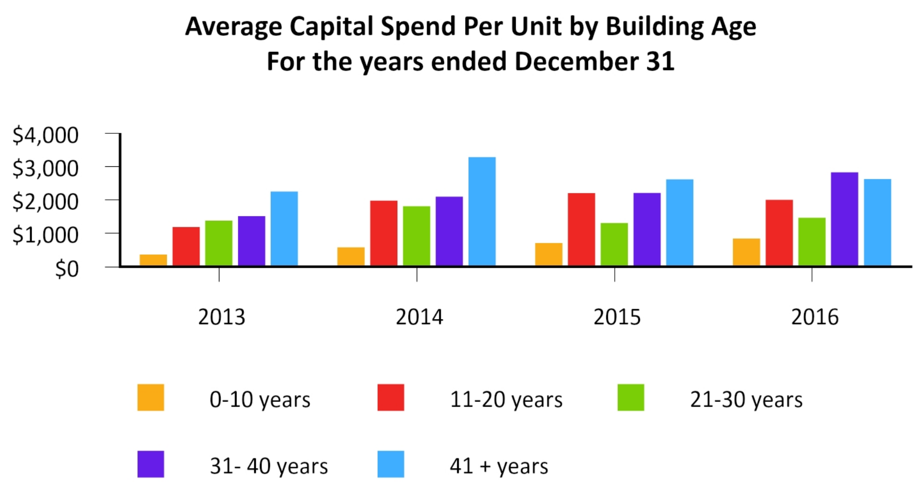
Apartments - Capital Spend

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

For the years ended December 31,

	2016	2015	% Change
Building improvements	**$17,103**	$16,052	6.5%
Suite renovations	**10,335**	9,701	6.5%
Appliances	**1,219**	944	29.1%
Boilers and heating equipment	**821**	1,335	(38.5)%
Other	**367**	210	74.8%
Equipment	**227**	218	4.1%
Parking lots	**33**	40	(17.5)%
Land improvements	**34**	11	209.1%
Total capital spend	**$30,139**	$28,511	5.7%
Average number of units outstanding	**13,371**	13,171	1.5%
Capital spend - $ per unit	**$2,254**	$2,165	4.1 %

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



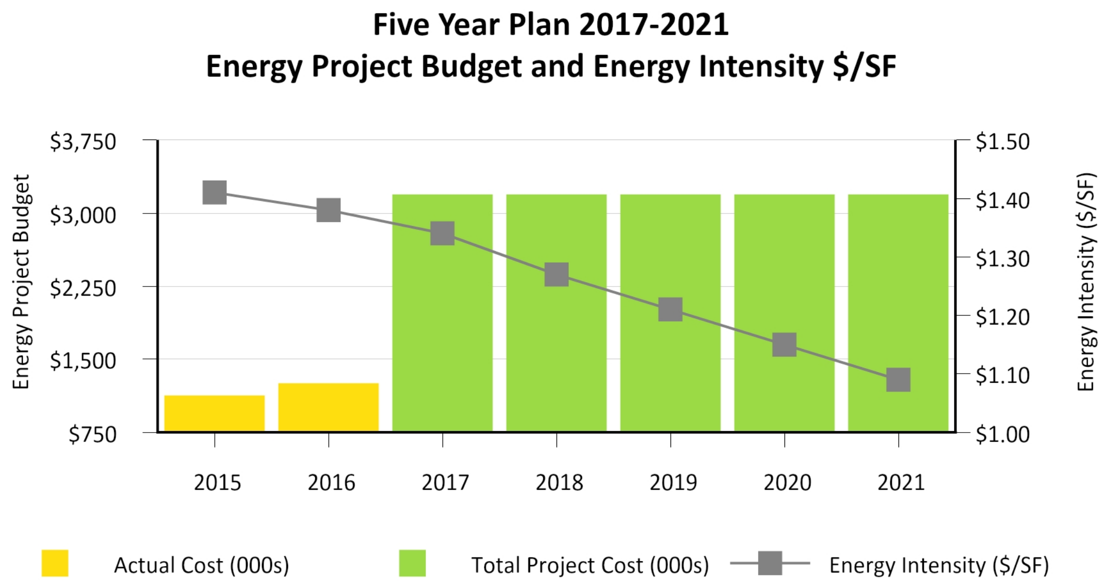
As the above chart highlights, the capital spend per unit is less for newer (built in the past 10 years) properties, averaging $846 per unit in 2016, compared to $2,620 per unit for buildings over 40 years old. Killam's focus on development and acquiring newer properties results in a lower capital spend per unit versus acquiring older properties. Twenty-six percent of Killam's apartments, as a percentage of anticipated 2017 NOI, have been built in the past ten years.

Killam invested $2,254 per unit for the year ended December 31, 2016, compared to $2,165 per unit for year ended December 31, 2015. Of the $30.1 million capital investment made in the apartment segment, approximately 57% was invested in building improvements including common area renovations and energy efficiency investments to increase the quality of Killam's portfolio.

Killam has continued to complete energy efficiency projects across its portfolio. These value enhancing upgrades are investments that are designed to decrease the energy intensity of the portfolio. In 2016, approximately $1.6 million was invested in ultra low-flow toilets (estimated $0.5 million annualized savings with a 2.9 year payback), common area lighting retrofits (estimated $0.1 million in annualized savings with a 2.4 year payback) and the implementation of various condensed gas boiler controls and upgrades.

Killam's 2017-2021 energy strategy has identified over $25 million in potential efficiency related opportunities with an average payback of four years. This comprises over 700 projects with an estimated annual savings up to $7 million. At a 5% average cap-rate, these savings could increase the net asset value of Killam's portfolio by $140 million.

As shown in the following chart, Killam has committed to doubling its energy investment in 2017, and in each of the following four years, to over $3 million annually. This will allow Killam to decrease its energy intensity from its current $1.40 per SF to $1.10 per SF, a 23% decrease, by the end of 2021. Killam's energy intensity measures all energy sources (including water) used within its properties, which is converted to one common measurement of dollars per SF. This $0.30 decline is an estimated $4.3 million in annual energy costs, which will more than offset rising energy rates and other operating pressures.



Approximately 34% of the apartment capital investment in 2016 was invested in suite renovations. Killam continues to focus on unit upgrades to maximize occupancy and rental increases.

Killam also continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. As an example, Garden Park Apartments in Halifax, the property that Killam now owns 100%, was identified as a property with potential for repositioning and rental growth. In 2016, Killam completed 43 unit renovations at this property with capital spending averaging $15,000 per unit turn, which includes new flooring, kitchen and bathroom upgrades. These upgrades have achieved rental increases of approximately 22%, or $190 per month, and an average return on investment of 16%. Killam expects to complete an additional 40-60 unit upgrades over the course of the next 24 months as turnover permits.

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

Killam expects to invest between $33-35 million during 2017 on capital investments across its apartment portfolio.

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

MHCs - Capital Spend

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

For the years ended December 31,

	2016	2015	% Change
Water and sewer upgrades	**$993**	$1,236	(19.7)%
Site expansion and land improvements	**512**	261	96.2%
Other	**438**	410	6.8%
Roads and paving	**127**	302	(57.9)%
Equipment	**28**	76	(63.2)%
Total capital spend - MHCs	**$2,098**	$2,285	(8.2)%
Average number of units outstanding	**5,165**	5,165	—%
Capital spend - $ per site	**$406**	$442	(8.1)%

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

The reduction in capital spend for the year ended December 31, 2016, compared to 2015 is based on timing of projects.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest between $1.0-$3.0 million during 2017 on capital investments across its MHC portfolio.

Loan Receivable

On July 5, 2016, Killam received full repayment of the $4.0 million loan receivable outstanding. The mezzanine loan was issued in May 2014 to a third-party developer for the construction of a multi-family residential property and earned interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly.

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity to fund major property improvements and property maintenance, 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 annual mortgage refinancings; (iii) mortgage debt secured by investment properties; (iv) secured revolving demand 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 as summarized below:

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

(ii) Killam has a $30 million revolving demand credit facility to be used for Killam's acquisition and development program, as well as general business purposes. There is currently no balance drawn on the credit facility.

(iii) Killam's available credit facilities and cash on hand provide Killam with approximately $45 million of capital for future acquisitions and developments. Based on 60% mortgage debt on acquisitions, the capital is expected to support future acquisitions of approximately $112 million.

(iv) A combination of the retained portion of its annual FFO and AFFO, mortgage refinancings, and the available borrowing capacity of its revolving demand credit facilities is expected to be sufficient to fund ongoing property capital investments, principal repayments and developments.

(v) Killam is well positioned to meet its mortgage renewals and refinancing goals for 2017 due to the continued availability of CMHC insured financing. Management does not anticipate any difficulties in completing the renewal of mortgages maturing during 2017 of approximately $71.5 million, which have effective interest rates of approximately 3.69%.

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

Killam is in compliance with all financial covenants contained in the DOT and 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, 2016 was 53.5%.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at,	**December 31, 2016**	December 31, 2015	Change
Weighted average years to debt maturity (years)	**4.3**	4.2	0.1
Gross mortgage, loan and vendor debt as a percentage of total assets	**51.2%**	51.1%	10 bps
Total debt as a percentage of total assets	**53.5%**	56.4%	(290) bps
Interest coverage	**2.74x**	2.34x	40 bps
Debt service coverage	**1.43x**	1.35x	8 bps
Debt to EBITDA	**11.14x**	11.73x	(59) bps
Weighted average mortgage interest rate	**3.01%**	3.27%	(26) bps
Weighted average interest rate of total debt	**3.11%**	3.60%	(49) bps

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 the vendor financing is secured by a general corporate guarantee.

Killam's December 31, 2016, weighted average interest rate on mortgages improved to 3.01% from 3.27% as at December 31, 2015, as a result of refinancing at lower interest rates during the year. This trend is expected to continue over the next 12 months with $71.5 million of mortgage balances maturing at rates above current mortgage interest rates.

Refinancings

For the year ended December 31, 2016, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		**Mortgage Debt on Refinancing**		**Weighted Average Term**	**Net Proceeds**
Apartments	$117,144	4.18%	$179,384	2.30%	6.7 years	$62,240
MHCs	2,903	5.07%	7,251	3.29%	5.0 years	4,348
	$120,047	**4.20%**	**$186,635**	**2.34%**	**6.5 years**	**$66,588**

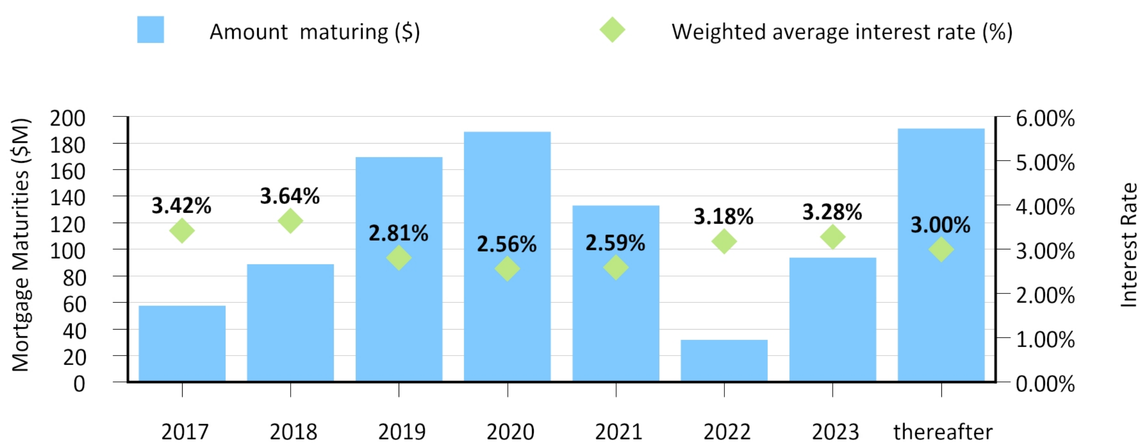
Dollar amounts in thousands of Canadian dollars (except as otherwise noted)

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

	Apartments			MHC		Total	
Year of Maturity	Balance December 31, 2016	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2016	Weighted Avg Int. Rate %	Balance December 31, 2016	Weighted Avg Int. Rate %
2017	$57,370	3.42%	43.3%	$15,715	4.66%	$73,085	3.69%
2018	88,597	3.64%	40.6%	11,629	4.33%	100,226	3.72%
2019	169,192	2.81%	96.6%	18,886	3.85%	188,078	2.91%
2020	188,414	2.56%	57.4%	6,960	3.52%	195,374	2.59%
2021	132,755	2.59%	84.3%	7,145	3.30%	139,900	2.62%
2022	31,760	3.18%	70.2%	—	—	31,760	3.18%
2023	93,562	3.28%	84.4%	—	—	93,562	3.28%
Thereafter	190,724	3.00%	100.0%	—	—	190,724	3.00%
	$952,374	2.94%	77.3%	$60,335	4.05%	$1,012,710	3.01%

(1) Excludes $16.2 million related to demand loans classified as current mortgage debt on the December 31, 2016, consolidated financial statements.

Apartment Mortgages Maturities by Year



As at December 31, 2016, approximately 77% of Killam's apartment mortgages were CMHC-insured (73% of total mortgages as MHC mortgages are not eligible for CMHC insurance) (December 31, 2015 – 73% and 69%). The weighted average interest rate on the CMHC-insured mortgages was 2.80% as at December 31, 2016 (December 31, 2015 – 3.01%).

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

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

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2017 and 2018:

2017 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	13	$7,411	$56,352
MHCs with debt maturing	9	2,787	15,151
	22	$10,198	$71,503

2018 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	19	$9,523	$84,093
MHCs with debt maturing	9	802	10,604
	28	$10,325	$94,697

Future Contractual Debt Obligations

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

For the year ending December 31,	Mortgage and Loans Payable	Construction Loans	Convertible Debentures	Total
2017	$111,862	$9,719	$—	$121,581
2018	125,005	8,790	46,000	179,795
2019	196,479	—	—	196,479
2020	193,097	—	—	193,097
2021	131,931	—	—	131,931
Thereafter	261,741	—	—	261,741
	$1,020,115	**$18,509**	**$46,000**	**$1,084,624**

Convertible Debentures

On July 4, 2016, Killam completed the redemption of the $57.5 million, 5.65%, convertible unsecured debentures.

Killam’s remaining $46.0 million convertible unsecured subordinated debentures mature on June 30, 2018, bear interest at 5.45% and are convertible, at the holders’ option, to trust units at a price of $14.60. As of December 31, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of trust units obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the trust units for the preceding 20 days (ending five days preceding the fixed date for redemption or maturing). Management may redeem the remaining convertible debentures with equity in the future and thereby further reduce Killam’s debt levels. Replacing the convertible debentures with equity would reduce Killam's debt levels further, to below 52%.

Construction Loans

As at December 31, 2016, Killam had access to two floating rate non-revolving demand construction loans for the purpose of financing development projects for $10.1 and $51.8 million. The $51.8 million construction loan relates to a joint development project where Killam has a 50% interest. Payments are made monthly on an interest only basis. The construction loans have interest rates of prime plus 0.625% - 0.75%.

As at December 31, 2016, $18.5 million (December 31, 2015 - $4.1 million) was drawn on the construction loans at a weighted average interest rate of 3.39% (December 31, 2015 - 3.45%). The construction loan related to the Southport development project for $9.7 million is expected to be repaid in full and replaced with a conventional mortgage in the first quarter of 2017. The construction loan related to the Alexander development project is expected to be replaced with a conventional mortgage once construction is completed and rental targets are achieved.

Credit Facilities

On July 20, 2016, Killam increased its $2.0 million revolving demand facility to $30.0 million. This facility can be used for Killam's acquisition program and general business purposes. The interest rate on this debt is prime plus 75 bps on prime rate advances or 175 bps over banker's acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At year-end 2016, Killam has assets with a carrying value of $46.4 million pledged to the line and a balance outstanding of $nil. The agreement includes certain covenants and undertakings with which Killam is in compliance.

Killam also has a $1.5 million revolving demand facility that can be used for Killam's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2016, Killam had assets with a carrying value of $1.8 million pledged as collateral and letters of credit totaling $1.2 million outstanding against the facility (December 31, 2015 - $1.5 million). The agreement includes certain covenants and undertakings, with which Killam is in compliance.

Unitholders' Equity

Unitholders' equity represents the issued and outstanding trust units, including any units issued in connection with unit-based incentive plans, as they have claims similar or identical to those of the trust units. Unitholders' equity excludes the exchangeable units.

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

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

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

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, 2016, no Unitholders redeemed units.

PART VII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	**$44,137**	**$45,078**	**$43,847**	**$42,207**	$42,433	$43,193	$41,452	$39,536
NOI	**$26,372**	**$28,350**	**$27,270**	**$23,430**	$25,361	$27,178	$25,196	$20,655
Net income	**$4,638**	**$17,966**	**$3,666**	**$45,169**	$8,069	$11,620	$8,942	$7,169
Earnings per share - diluted[(1)]	**$—**	**$—**	**$—**	**$—**	$0.12	$0.17	$0.14	$0.11
FFO	**$15,223**	**$17,021**	**$15,133**	**$11,509**	$12,403	$14,779	$12,912	$8,922
FFO per unit/share - diluted	**$0.21**	**$0.24**	**$0.23**	**$0.18**	$0.20	$0.24	$0.21	$0.15
AFFO per unit/share - diluted	**$0.19**	**$0.21**	**$0.20**	**$0.16**	$0.17	$0.21	$0.18	$0.12
Weighted average units/shares - diluted (000s)	**75,022**	**75,045**	**73,361**	**63,184**	62,951	70,104	62,360	61,035

(1) Upon conversion to a REIT, Killam is no longer required to disclose earnings per share.

Killam's total property revenue for the three months ended December 31, 2016, was $44.1 million, a 4.0% increase in revenue over the same period of 2015. The growth was generated through revenue from acquisitions and developments, as well as increased same property revenue. Total property expenses increased 4.1% in Q4-2016 compared to Q4-2015 as a result of expenses associated with the addition of new acquisitions and completed developments.

Q4 Same Property NOI

For the three months ended December 31,

	Total Portfolio			Apartments			MHCs		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Property revenue	**$40,728**	$39,998	1.8%	**$37,425**	$36,767	1.8%	**$3,303**	$3,231	2.2%
Property operating expenses									
Operating expenses	**(6,904)**	(6,493)	6.3 %	**(5,973)**	(5,667)	5.4 %	**(931)**	(826)	12.7 %
Utility and fuel expenses	**(5,052)**	(5,205)	(2.9)%	**(4,722)**	(4,893)	(3.5)%	**(330)**	(312)	5.8 %
Property taxes	**(4,615)**	(4,575)	0.9 %	**(4,453)**	(4,427)	0.6 %	**(162)**	(148)	9.5 %
Total property expenses	**(16,571)**	(16,273)	1.8 %	**(15,148)**	(14,987)	1.1 %	**(1,423)**	(1,286)	10.7 %
NOI	**$24,157**	$23,725	1.8%	**$22,277**	$21,780	2.3%	**$1,880**	$1,945	(3.3)%
Operating margin	**59.3%**	59.3%	—	**59.5%**	59.2%	30 bps	**56.9%**	60.2%	(330) bps

Apartment Same Property

Killam’s same property apartment portfolio realized NOI growth of 2.3% for Q4-2016 due to a 1.8% increase in net revenues along with a modest increase in total property operating expenses of 1.1%. Net apartment revenue growth of 1.8%, or $0.7 million, quarter-over-quarter is the result of increased rental rates of 1.6% and a 40 bps increase in occupancy. The same property portfolio achieved 96.1% occupancy during the fourth quarter of 2016.

Operating expenses increased 5.4% in the fourth quarter due to higher contract service costs, increased salaries and additional advertising spend. Contract services increased as a result of higher snow removal contract pricing in certain regions for the 2016-17 winter season and early winter weather that required additional hauling in parts of Newfoundland and Ontario. Salary costs increased as Management rolled out a new scorecard compensation program for the majority of property-level employees, adjusting the timing of salary costs quarter-over-quarter. Higher advertising costs related to an increase in community events, as a part of Killam's tenant retention program.

Utility and fuel expenses decreased 3.5% in Q4-2016 compared to Q4-2015. Natural gas expense savings were realized due to warmer weather and overall lower variable natural gas pricing predominately in Nova Scotia and Ontario. Water expense decreased by 2.7% despite pricing increases quarter-over-quarter as Killam achieved water consumption savings from its low-flow toilet installations across many properties.

Property taxes increased a modest 0.6% due to successful tax appeals offsetting rising property tax assessments and rates.

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

Q4-2016 Occupancy by Region

	Total Occupancy			Same Property Occupancy		
For the three months ended December 31,	**2016**	2015	Change (bps)	**2016**	2015	Change (bps)
Halifax, NS	**96.4%**	96.0%	40	**96.4%**	96.0%	40
Moncton, NB	**95.4%**	93.9%	150	**95.4%**	93.9%	150
Fredericton, NB	**95.2%**	95.1%	10	**95.2%**	95.1%	10
Saint John, NB	**92.5%**	95.6%	(310)	**93.1%**	96.1%	(300)
St. John's, NL	**94.6%**	96.2%	(160)	**94.2%**	95.7%	(150)
Charlottetown, PE	**99.4%**	98.8%	60	**99.4%**	98.8%	60
Ontario	**96.6%**	95.8%	80	**96.9%**	96.8%	10
Alberta	**90.1%**	77.9%	1,220	**90.1%**	77.9%	1,220
Other Atlantic	**98.2%**	97.5%	70	**98.2%**	97.5%	70
Total Apartment (Weighted Average)	**95.9%**	95.6%	30	**96.1%**	95.7%	40

Killam realized stronger occupancy in Halifax, Moncton, Alberta, Charlottetown, Fredericton, and Ontario in Q4-2016, increasing same property apartment occupancy 40 bps in the fourth quarter to 96.1% compared to 95.7% in Q4-2015. Although overall occupancy for Alberta was lower for the year, Q4-2016 occupancy was much stronger than Q4-2015 with a 1,220 increase to 90.1%. Both the Saint John and St. John's markets have softened quarter-over-quarter and increased vacancy was realized in both markets.

Q4-2016 Apartment NOI by Region

For the three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
Halifax	**$14,936**	$14,552	2.6%	**($5,551)**	($5,718)	(2.9)%	**$9,385**	$8,834	6.2%
Moncton	**4,309**	4,223	2.0%	**(2,107)**	(2,067)	1.9%	**2,202**	2,156	2.1%
Fredericton	**3,763**	3,710	1.4%	**(1,620)**	(1,529)	6.0%	**2,143**	2,181	(1.7)%
Saint John	**2,479**	2,568	(3.5)%	**(1,350)**	(1,354)	(0.3)%	**1,129**	1,214	(7.0)%
Ontario	**5,608**	5,472	2.5%	**(2,161)**	(2,088)	3.5%	**3,447**	3,384	1.9%
St. John's	**2,475**	2,441	1.4%	**(845)**	(773)	9.3%	**1,630**	1,668	(2.3)%
Charlottetown	**2,666**	2,635	1.2%	**(1,082)**	(1,022)	5.9%	**1,584**	1,613	(1.8)%
Alberta	**657**	656	0.2%	**(222)**	(221)	0.5%	**435**	435	—%
Other	**532**	510	4.3%	**(210)**	(215)	(2.3)%	**322**	295	9.2%
	$37,425	$36,767	1.8%	**($15,148)**	($14,987)	1.1%	**$22,277**	$21,780	2.3%

Halifax was the leader in Q4-2016, recording 6.2% growth in NOI. This market had strong rental rate growth of 2.2% and occupancy improvements of 40 bps for the quarter, combined with operational efficiencies and lower natural gas costs. Moncton and Ontario also posted positive same property results for Q4-2016 with rental rate growth, occupancy improvement and minimal expense growth.

Despite a 2.4% increase in rental rates in St. John's, occupancy declined 150 bps, lowering net revenue gains to 1.4% for the quarter. Along with St. John's, Fredericton and Charlottetown also realized modest net revenue growth (1.4% and 1.2%) in Q4-2016. Combined with higher operating expenses, in particular, higher contract service costs, insurance premiums and property taxes, these regions recorded NOI declines in the range of 1.7% - 2.3%.

Saint John's occupancy dropped 300 bps for the quarter, resulting in a net revenue decline of 3.5%. Despite flat operating expenses quarter-over-quarter, Saint John realized a 7.0% decline in NOI in Q4-2016.

Alberta achieved the same NOI in Q4-2016 and Q4-2015. Revenues were relatively flat as decreases in rental rates of 12.2% were offset by a 1,220 bps increase is occupancy. Operating costs remained flat with operational efficiencies mitigating the rising property tax expense in the quarter.

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

MHC Same Property

The MHC same property portfolio recorded a 3.3% decline in NOI in Q4-2016. The portfolio continues to generate solid revenue growth, up 2.2% from Q4-2015, driven by increased rental rates of 2.8% and a 30 bps occupancy improvement quarter-over-quarter. Total same property expenses increased 10.7%, or $137 thousand, due to higher water consumption at three of the communities, timing of repairs and maintenance, and increased property tax costs.

Q4 FFO and AFFO

For the three months ended December 31,	**2016**	2015	% Change
Net income	**$4,638**	$8,069	(42.5)%
Fair value adjustments	**1,657**	7,651	(78.3)%
Non-controlling interest	**7**	(264)	(102.7)%
Deferred tax expense (recovery)	**8,467**	(4,577)	(285.0)%
Interest expense related to exchangeable units	**580**	—	NA
Unrealized loss on derivative liability	**(412)**	—	NA
Depreciation on owner-occupied building	**46**	47	(2.1)%
REIT conversion costs	**240**	1,477	(83.8)%
FFO	**$15,223**	$12,403	22.7%
FFO unit/share - diluted	**$0.21**	$0.20	5.0%
AFFO per unit/share - diluted	**$0.19**	$0.17	11.8%
AFFO payout ratio - diluted	**79%**	87%	(800) bps

FFO was $15.2 million in the fourth quarter, up 22.7% from $12.4 million in the fourth quarter of 2015. FFO per unit was $0.21 in Q4-2016, a 5% increase over the same period in 2015. This increase was related to increased earnings from the same property portfolio ($0.7 million), acquisitions and developments ($0.8 million), lower administrative costs ($0.3 million), and interest expense savings on the redemption of the 5.65% convertible debentures ($1.0 million), offset by a 19.2% increase in the weighted average units outstanding.

Selected Consolidated Financial Information

For the years ended December 31,	**2016**	2015	2014
Property revenue	**$175,269**	$166,614	$147,507
Net income	**$71,439**	$35,800	$32,667
Earnings per share - diluted[1]	**$—**	$0.55	$0.53
FFO	**$58,886**	$49,016	$40,162
FFO per unit/share - diluted	**$0.86**	$0.79	$0.72
Investment properties	**$1,942,809**	$1,840,256	$1,733,895
Total assets	**$1,987,633**	$1,876,276	$1,775,234
Total liabilities	**$1,237,167**	$1,190,948	$1,112,551
Distribution/dividend per unit/share	**$0.60**	$0.60	$0.60

(1) Upon conversion to a REIT, Killam is no longer required to disclose earnings per share.

PART VII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. Real estate investments are generally subject to varying degrees of risk, depending on the nature of the property. 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 the 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 with both its geographic diversification and investments in both 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, 2016, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $16.7 million and two revolving demand facilities. These loans have an interest rate of prime plus 1.0%-2.0%. Killam also has two construction loans with a total balance drawn of $18.5 million. The construction loans have interest rates of prime plus 0.625% - 0.75%, and consequently, Killam is exposed to short-term interest rate risk on these loans.

Liquidity Risk

Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program and/or refinance its debt obligations as they mature. Management manages Killam's 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 structures its financings so as to stagger the maturities of its debt, thereby minimizing Killam's exposure to liquidity risk in any one year. In addition, Killam's apartments qualify for CMHC insured debt, reducing the refinancing risk on mortgage maturities. 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 increased competition from the addition of new rental units in Killam's core markets. Numerous other 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 more 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 their lease term commitments. Killam mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing, 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. None of Killam's tenants account for more than 1% of tenant receivables.

Cyber Security Risk

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of Killam's information 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 Killam's business relationships with its vendors and tenants and disclosure of confidential vendor or tenant information. Killam has implemented processes, procedures and controls to help 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 minimizes its exposure to development risk by limiting the amount of development underway at any one time to less than 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 customarily carried for similar companies. 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 that 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. Utility and energy expenses, mainly consisting of natural gas, oil, water and electricity charges, have been subject to considerable price fluctuations over the past several years. 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. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however, Killam remains exposed to price volatility. 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 the 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* (“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 bythe 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 are income and what portion are 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 six properties, including the Trust’s interest in five properties that are subject to joint control and are joint operations with KingSett and AIMCo. In addition, during 2015, Killam entered into a joint development agreement with another company for the development of a 240-unit mixed-use building in downtown Halifax. 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.

Related Party Transactions

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and Trustee of Killam. In addition, the property manager for the commercial complex is controlled by the executive and Trustee of Killam and is paid an industry standard property management fee of 4.5%. Occasionally, Killam will also pay market leasing placement fees or project management fees, to the company controlled by an executive and director of Killam. Killam paid $nil (2015 - $45,000) in project management fees related to leasehold improvements for a new commercial tenant.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, for $22.3 million, from Halkirk Properties Limited ("Halkirk"), a company that is partially owned by a Trustee of Killam. Killam also acquired a 50% interest in a corporation that owns vacant land adjacent to the Brewery Market for future development for $5.2 million. The remaining 50% is also owned by Halkirk.

During the third quarter of 2015, Killam and Halkirk began development of a 240-unit building on the vacant land adjacent to the Brewery Market. Construction of the development is managed by Killam, and the cost of construction will be funded 50/50 by each partner.

During the fourth quarter of 2016, Killam acquired the remaining 50% interest in a portion of vacant land held in the corporation from Halkirk in exchange for $1.16 million in Killam trust units, as required per the original purchase and sale contract entered into during 2015.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgment in Applying Accounting Policies

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

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

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

(iii) Financial instruments
The Trust's accounting policies relating to financial instruments are described in note 2(m). 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 6. 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 6 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 19.

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 9 Financial Instruments ("IFRS 9")
In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Killam plans to adopt the new standard on the effective date. During 2016, Killam performed a high level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to Killam in the future. Overall, Killam expects no significant impact on its statement of financial position.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Killam is in the process of assessing the impact IFRS 15 may have on future financial statements and plans to adopt the new standard on the required effective date; however, Killam does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

IAS 40, Investment Properties ("IAS 40")
During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing IAS 40 requirements. The amendment requires that an asset be transferred to, or from investment property when, and 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 intentions 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 earlier adoption permitted. These amendments are not expected to have any significant impact on Killam's consolidated financial statements.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. 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 earlier adoption permitted so long as IFRS 15 has been adopted by Killam. Killam will perform a detailed analysis which considers any leases that would be affected by this and the impact it may have on the 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, 2016, 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.

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 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 of the financial year ended December 31, 2016, the certifying Officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying Officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2016, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying Officers have evaluated whether there were any changes to the ICFR during the year ended December 31, 2016, that have materially affected or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

On January 16, 2017, Killam acquired Spruce Grove Lane Apartments in Calgary. The property consists of 66 townhouse-style apartments. The acquisition cost was $12.8 million ($195,000 per unit). This acquisition increases Killam's Calgary portfolio to 373 rental units.

On January 18, 2017, Killam announced a distribution of $0.05 per unit, payable on February 15, 2017, to Unitholders of record on January 31, 2017.

On February 14, 2017, the Board of Trustees approved a 3.3% increase to Killam's annual distribution, to $0.62 per unit from $0.60 per unit. The monthly distribution will be $0.05167 per unit, up from $0.05 per unit. The increase will become effective for the March 2017 distribution, to be paid in April 2017.