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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $2.1 billion portfolio of apartments and manufactured home community ("MHC") properties. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010 and made its first investment in Alberta ("AB") in 2014. Killam broke ground on its first development in 2010 and has completed eight projects to date with a further three projects currently under construction.

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

1) increase earnings from the existing portfolio;

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

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

The apartment business is Killam's largest and accounted for 91% of Killam's net operating income ("NOI") for the six months ended June 30, 2017. As at June 30, 2017, Killam's apartment portfolio consisted of 14,287 units, including 1,245 units jointly-owned with institutional parters. Killam's 181 apartment properties are located predominantly in Atlantic Canada's six largest urban centres - Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown, and in Ontario (including Ottawa, London, Toronto and Cambridge), and Calgary, Alberta. Killam is Atlantic Canada's largest residential landlord, with a 13.5% share of multi-family rental units in its core markets. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments and will also invest strategically in Atlantic Canada to maintain its market presence.

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 lots to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 8% of Killam's NOI for the first six months of 2017. Killam also owns commercial properties that accounted for approximately 1% of Killam's NOI for the three and six months ended June 30, 2017.

Basis of Presentation

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

The discussions in this MD&A are based on information available as at August 9, 2017. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

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

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

As at June 30, 2017, Killam was in compliance with all investment guidelines and operating policies.

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income plus depreciation on owner-occupied building, fair value losses, interest expense related to exchangeable units, loss on disposition, deferred tax expense, unrealized loss on derivative liability and REIT conversion costs, less fair value gains, deferred tax recovery, unrealized gain on derivative liability and non-controlling interest. FFO 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 $970 per apartment unit per annum and $225 per MHC site per annum for maintenance capital costs, representing a three-year rolling historical average capital spend to maintain and sustain Killam's properties. AFFO are calculated in accordance with the REALpac definition, most recently updated in February 2017.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gain or loss on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, adjusted for interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, adjusted for interest expense related to exchangeable units and principal mortgage repayments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2017 and 2016 (97.1% of the portfolio based on the June 30, 2017 unit count).

PART II

Key Performance Indicators

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

1) FFO per Unit – A standard measure of earnings for real estate entities. Management is focused on growing FFO per unit.
2) Payout Ratio – Killam monitors its AFFO payout ratio and targets improved payout ratios going forward. This ratio is not meant to be a measure of the sustainability of distributions. Although Killam expects to continue to sustain and grow distributions, the amount of distributions will depend on debt repayments and refinancings, capital investments, and other factors that may be beyond the control of the REIT.
3) Rental Increases – Management expects to increase average annual rental rates and tracks the average rate increases.
4) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rents. This measure is a percentage based on vacancy cost divided by gross potential residential rent (in dollars) of total stabilized properties for the quarter.
5) Same Property NOI – This measure considers Killam's ability to increase the same property NOI, removing the impact of acquisitions, dispositions, developments and other non-same property operating adjustments.
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 stipulate that overall indebtedness is not to exceed 70% of total assets. Debt to total assets is calculated by dividing total interest bearing debt by total assets.
8) Weighted Average Years to Debt Maturity – Management monitors the average number of years to maturity on its 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.

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

Financial and Operational Highlights

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

	Three months ended June 30,			Six months ended June 30,		
Operating Performance (1)	**2017**	2016	Change (2)	**2017**	2016	Change (2)
Property revenue	**$45,898**	$43,847	4.7%	**$90,203**	$86,054	4.8%
Net operating income ("NOI")	**$28,785**	$27,270	5.6%	**$53,727**	$50,700	6.0%
Net income	**$34,611**	$3,666	844.1%	**$52,260**	$48,833	7.0%
FFO (1)	**$18,173**	$15,133	20.1%	**$31,841**	$26,642	19.5%
FFO per unit (diluted)	**$0.23**	$0.23	—%	**$0.42**	$0.41	2.4%
AFFO per unit (diluted)(3)	**$0.19**	$0.18	5.6%	**$0.32**	$0.30	6.7%
Weighted average number of units outstanding (diluted) (000's)	**78,755**	73,217	7.6%	**77,569**	71,858	7.9%
Distributions paid per unit	**$0.16**	$0.15	6.7%	**$0.31**	$0.30	3.3%
AFFO payout ratio (diluted) - rolling twelve months (3)	**89%**	99%	(1,000) bps			
Portfolio Performance						
Same property NOI	**$26,635**	$25,848	3.0%	**$49,707**	$48,530	2.4%
Same property NOI margin	**63.0%**	62.4%	60 bps	**59.7 %**	59.3 %	40 bps
Same property apartment weighted average rental increase (4)	**1.6%**	1.3%	30 bps			
Same property apartment occupancy	**96.1%**	95.7%	40 bps			

As at	**June 30, 2017**	December 31, 2016	Change
Leverage Ratios			
Total debt to total assets	**50.4%**	53.5%	(310) bps
Weighted average mortgage interest rate	**2.94%**	3.01%	(7) bps
Weighted average years to debt maturity	**4.2**	4.3	(0.1) years
Debt service coverage (1)	**1.47x**	1.43x	4 bps
Interest coverage (1)	**2.97x**	2.74x	23 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) AFFO calculation was revised in 2017 based on the issuance of the February 2017 REALpac white paper on AFFO. Prior period balances have been restated to conform to the current period calculation. Refer to Part V of the MD&A for additional disclosure.

(4) Quarter-over-quarter, as at June 30.

Summary of Q2-2017 Results and Operations

FFO Growth of 20% Offset 19% Increase in REIT Units
Killam generated FFO of $18.2 million in Q2-2017, a 20.1% increase compared to Q2-2016, due primarily to lower interest expenses following redemption of the convertible debentures in July 2016 ($57.5 million) and April 2017 ($46.0 million), contributions from developments and acquisitions and a 3.0% increase in same property NOI. FFO per unit of $0.23 was consistent with Q2-2016 as the growth in FFO was offset by a 19% increase in the weighted average number of units outstanding following equity issuances in June 2016 and March 2017 (totaling $175 million) to redeem $103.5 million of convertible debentures to delever the balance sheet and fund acquisitions and developments.

Strengthened Balance Sheet
Following the April 2017 $46.0 million convertible debenture redemption, the debt to total assets ratio was reduced to 50.4% at June 30, 2017, from 53.5% at December 31, 2016, approaching Killam's target leverage ratio of below 50%. Interest coverage increased to 2.97x as at June 30, 2017, compared to 2.74x at December 31, 2016, and 2.48x at June 30, 2016, as a result of lower debt levels and NOI growth.

Higher Rents and Improved Occupancy Drive Same Property Revenue Growth
Same property revenue increased 2.0% compared to Q2-2016 as a result of a 40 bps increase in average occupancy and a 1.6% increase in the average rental rate for the apartment portfolio, as well as 3.5% top-line growth for the MHC portfolio. Revenue growth was strong in the Maritimes, particularly in Moncton, Fredericton, Charlottetown and Halifax, where revenue increased by 3.9%, 3.8%, 2.7% and 2.3%, respectively. Strong results in NS, NB and PEI offset modest quarter-over-quarter revenue reductions in Alberta, Ontario and St. John's. The Ontario market remains strong; however, same property results were impacted by the expiry of a rental guarantee at the Kanata Lakes properties following the acquisition of the last two buildings in the complex in March 2017. In the resource driven markets of Alberta and St. John's, same property revenues were 0.4% and 1.1% lower than the same period in 2016.

Same Property NOI growth of 3.0% Due to Rental Growth and Utility Savings
Killam's same property expenses increased by only 30 bps for the three months ended June 30, 2017, compared to Q2-2016, contributing to the 3.0% increase in same property NOI for the period. A 4.3% increase in property taxes due to higher assessments and an increase in insurance premiums were almost fully offset by reduced utility costs due to lower gas prices in NS and lower water costs due to reduced consumption following the installation of additional low-flow water fixtures across the portfolio over the past year.

Lower Interest Rates Contributed to Earnings Growth
Killam benefited from lower interest rates on mortgages refinanced during 2016 and the first half of 2017, contributing to a 4.7% reduction in same property mortgage interest expense compared to Q2-2016. During Q2-2017, Killam refinanced $37.0 million of maturing mortgages with $50.2 million of new debt at a weighted average interest rate of 2.17%, 148 basis points lower than the weighted average rate of the maturing debt.

Portfolio Growth from Acquisitions and Developments
Killam invested $12.1 million in land for development in Ottawa and Edmonton in the quarter. The Ottawa land acquisition represents a 50% interest in a 7.1 acre development site with zoning approval for four residential towers containing an aggregate of 840 units. Development of the first tower is currently underway. The Edmonton site is located in the western part of the city and supports development of approximately 190 units.

During Q2-2017 Killam acquired a 6,000 square foot ("SF") commercial property located adjacent to the Brewery Market and The Alexander development, consolidating ownership of this strategic block. Additionally, Killam committed to purchase a newly developed 134-unit apartment complex in Halifax for $31.6 million during Q2-2017. This acquisition closed on July 4, 2017.

Construction progressed on schedule at The Alexander development in Halifax, the Saginaw Park project in Cambridge and the Gloucester in Ottawa during the second quarter. The Alexander is currently 40% preleased with the first residents slated to move into the 55-unit podium during October 2017. Construction of the project's high-rise tower is expected to be complete in Q1-2018. Active preleasing of Saginaw Park began in late July 2017 as the development is expected to be completed in Q2-2018.

As previously disclosed, Killam disposed of two properties in Ottawa in April 2017. Net proceeds of $9.1 million were redeployed in the acquisition of the Halifax apartments during July 2017.

Outlook

Increased Earnings from Killam's Same Property Portfolio

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

Investments in energy initiatives and operational efficiencies should continue 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 on track to invest approximately $3.5 million this year. 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.

On May 18, 2017, the Government of Ontario enacted rent control legislation for properties built after 1991, limiting rental increases to 1.5% for 2017. On June 23, 2017, the Government of Ontario passed further legislation capping rental increases at 1.8% for 2018. Killam will continue to focus on increasing rental rates as units turn to achieve above guideline rental growth in the province.

Acquisitions Increase Geographic Diversification

Management continues to evaluate acquisition opportunities in Alberta, Ontario and Atlantic Canada, with a focus on increasing its presence in Alberta and Ontario. Subsequent to quarter end, Killam acquired 134 newly constructed units in Halifax and agreed to purchase 296 units of new construction in Edmonton. These transactions will add approximately $100 million to the REIT's asset base and further diversify the portfolio geographically.

Developments to Contribute to FFO and NAV Growth

Killam is an experienced developer, having completed over $130 million in projects during the past five years. Developments will continue to be an important component of Killam's growth strategy. Targeting a yield on development of 5.0% to 6.0%, approximately 75-150 bps higher than the anticipated cap-rate value on completion, Management expects developments to be accretive to net asset value ("NAV") per unit. Killam expects to add an additional $133 million of apartments to the portfolio through the developments currently underway in Halifax, Cambridge and Ottawa over the next three years. With much of the equity already invested in these projects, the cash flow to complete these developments will be funded predominantly through construction financing. These developments are expected to add $0.04 to FFO per unit once occupied. These projects 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 this MD&A.

Lower Interest Rates on Refinancings

Management expects to refinance near term maturities at lower interest rates, creating interest expense savings. Killam has approximately $96.5 million of apartment mortgages maturing through to the end of 2018 at a weighted average interest rate of 3.47%, approximately 90 bps and 50 bps higher than prevailing 5 and 10-year CMHC-insured rates. $24.9 million of MHC mortgages are also maturing through to the end of 2018 at a weighted average interest rate of 4.53%. Assuming weighted average interest rates of 2.8% and 3.5% on apartment and MHC mortgages, over the next 18 months, interest expense savings of approximately $0.9 million are expected on the refinance of maturing mortgages. However, Killam expects to up-finance these maturities, generating approximately $40 million of incremental cash flow, leading to an increase in total interest expense.

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

2017 Strategic Targets

Growth in Same Property NOI	
2017 Target	Same property NOI growth of 1% to 3%.
2017 Performance to-date	Same property NOI grew by 2.4% over the first six months of 2017 due to rental rate increases, higher occupancy and utility costs savings. Killam is forecasting NOI growth of approximately 2%, the mid-point of its target range for 2017, based on results for the six months ended June 30, 2017, and projections for the balance of the year.
Expanded Portfolio through Accretive Acquisitions	
2017 Target	A minimum of $75 million of acquisitions.
2017 Performance to-date	Killam completed $79.8 million in acquisitions during the first half of 2017, including $12.1 million of land for development.
	Following the end of Q2-2017, Killam invested $31.6 million in Halifax and agreed to purchase $67.5 million of properties in Edmonton. Upon close of these transactions, Killam will have added $178.9 million to the portfolio in 2017. In addition, Killam disposed of two Ottawa properties in April for net proceeds of $9.1 million. A summary of the acquisitions is included in Part VI of the MD&A.
Geographic Diversification	
2017 Target	At least 75% of acquisitions made outside Atlantic Canada and to have over 23% of 2017 NOI earned outside Atlantic Canada.
2017 Performance to-date	Approximately 79% ($141.6 million of the total $178.9 million) of completed and committed acquisitions are located outside Atlantic Canada. Following these acquisitions, Killam expects to generate approximately 23% of NOI outside of Atlantic Canada in 2017 compared to 21.3% in 2016.
Development of High-Quality Properties	
2017 Target	To remain on schedule to complete the 240-unit Alexander development by Q1-2018 and the 93-unit Saginaw development completed by Q2-2018.
2017 Performance to-date	The Alexander, Saginaw and Gloucester developments remain on schedule and within 3% of original budget.
Strengthened Balance Sheet	
2017 Target	Further reduce debt as a percentage of assets.
2017 Performance to-date	Debt as a percentage of total assets was 50.4% at June 30, 2017, compared to 53.5% at December 31, 2016, primarily as a result of the April 2017 redemption of the $46.0 million, 5.45% convertible debentures.

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at June 30, 2017:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,165	59	$19,504	36.3 %
Sydney	139	2	$617	1.1 %
	5,304	61	$20,121	37.4 %
New Brunswick				
Moncton	1,629	31	$4,100	7.6 %
Fredericton	1,422	21	$4,279	8.0 %
Saint John	1,202	14	$2,458	4.6 %
Miramichi	96	1	$282	0.5 %
	4,349	67	$11,119	20.7 %
Ontario (3)				
Ottawa	1,064	9	$3,273	6.1 %
London	417	4	$2,266	4.2 %
Toronto	378	2	$1,739	3.2 %
Cambridge	347	3	$2,050	3.8 %
	2,206	18	$9,328	17.3 %
Newfoundland & Labrador				
St. John's	915	12	$3,603	6.7 %
Grand Falls	148	2	$422	0.8 %
	1,063	14	$4,025	7.5 %
Prince Edward Island				
Charlottetown	906	17	$2,931	5.5 %
Summerside	86	2	$256	0.5 %
	992	19	$3,187	6.0 %
Alberta (3)				
Calgary	373	2	$946	1.8 %
Total Apartments	**14,287**	**181**	**$48,726**	**90.7 %**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,626	16	$2,158	4.0 %
Ontario	2,145	16	$1,851	3.4 %
New Brunswick	224	1	($24)	— %
Newfoundland & Labrador	170	2	$167	0.3 %
	5,165	**35**	**$4,152**	**7.7 %**

Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($)	NOI (% of Total)
Halifax, NS	254,000	5	$849	1.6 %
Total Portfolio			**$53,727**	**100.0 %**

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

(2) For the six months ended June 30, 2017.

(3) Killam owns and manages six buildings in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all seven properties. Killam's proportionate ownership interest represents 623 units of the 1,245 units in these properties.

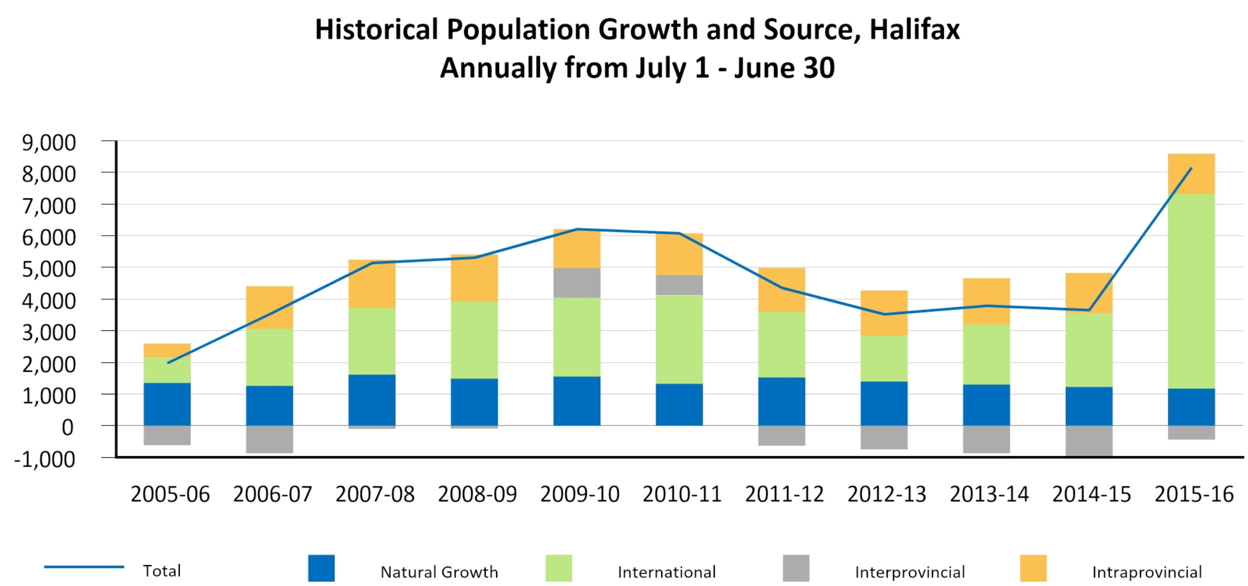
Core Market Update

Halifax

36% of Killam's total NOI is generated from its Halifax apartment portfolio. The city's rental market totals 46,097 units, accounting for 47.1% of the rental universe in Atlantic Canada as measured by the Canada Mortgage and Housing Corporation ("CMHC"). Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the region's economic hub, generating 56% of Nova Scotia's GDP and housing 45% 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 has approximately 36,000 students, including 6,000 international students. Halifax's employment base is 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 Forces Base by number of personnel and the Department of National Defence is the city's largest single employer.

Halifax has experienced improved occupancy and growing rental rates due to economic and population growth and demographic trends as baby boomers shift to apartment living from home ownership. International and intraprovincial migration have also contributed to demand for apartments in the city. Halifax experienced a higher than normal increase in population last year due in part to the large influx of Syrian refugees.

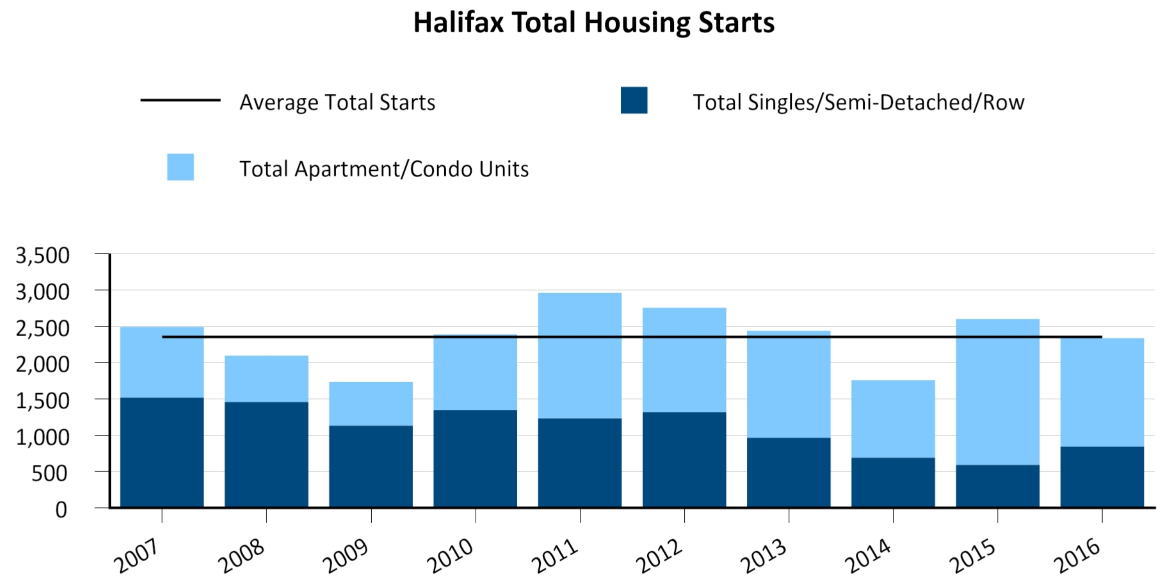
The following chart summarizes population growth by source from 2005 to 2016:



Source: Statistics Canada

Halifax's population is expected to continue to grow in the coming years due to international immigration and urbanization from rural areas of Nova Scotia as younger people move in search of employment and seniors move closer to amenities in the city. Irving Shipyard's $25 billion shipbuilding contract is expected to have positive long term implications for Halifax and Atlantic Canada and large construction projects in the city, as well as steady growth in the service sector, will also contribute to Halifax's economic growth.

In response to demand, there has been a shift in the mix of new housing construction. While construction of single family homes has traditionally exceeded multi-family starts, multi-family construction has outpaced single family for each of the past five years. In 2016, there were 1,462 apartment and condo unit starts compared to 843 single family, semi-detached and row housing starts, as per CMHC's Starts and Completions Survey. This trend has continued in the first six months of 2017, with 917 apartment and condo unit starts versus 373 single family, semi-detached and row housing starts in the first five months of 2017, compared to 611 apartment and condo starts and 328 single family, semi-detached and row housing starts in the same period of 2016. The following graph summarizes Halifax's housing start activity from 2007 to 2016, as reported by CMHC:



Source: CMHC

Despite the increase in multi-family construction, these units are expected to be absorbed by the growing population. CMHC's most recent Rental Market Outlook forecasts vacancy to increase by 50 bps to 3.2% in 2017 as new supply is absorbed by the market.

New Brunswick
21% of Killam's NOI is generated in New Brunswick's three major urban centres - Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university. 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 significant investments in the energy sector in the mid-2000s, the city had seen fewer projects in recent years; however, new investments are underway in the forestry sector that have the potential to generate significant economic growth for the city and the province.

CMHC reported improved occupancy in Fredericton and Moncton in its Fall 2016 Rental Market Report and stable occupancy in Saint John, consistent with Killam's experience in these cities. Stronger occupancy in Moncton and Fredericton was primarily due to intraprovincial and international migration and demand from downsizing boomers. Moncton experienced the largest improvement in occupancy according to CMHC, with vacancy falling to 6.0% in 2016. In its fourth quarter 2016 Housing Market Outlook report, CMHC reported that it expects a net migrant inflow for New Brunswick of 3,300 people between 2016 and 2018. With only 310 apartment unit starts in 2016 and 175 unit starts in the first six months of 2017, vacancy rates are expected to decline further as growth out paces new supply. Occupancy in all of Killam's NB markets is ahead of prior year; however, rental rates are moderately lower in Moncton and Saint John.

Newfoundland and Labrador
7% of Killam's apartment NOI is generated in St. John's. Following a decade of rapid growth fueled by offshore oil investments, the city is adjusting to the impact of lower oil prices. CMHC reported vacancy of 7.9% in 2016, a 300 bps increase over the prior year due primarily to the impact of lower offshore oil activity. In its fourth quarter 2016 Housing Market Outlook report, CMHC forecasted a further GDP decline for Newfoundland and Labrador in 2017 before a return to positive economic growth in 2018. Apartment occupancy rates and average rents are expected to track broader economic trends in the region. Rental rates have grown in Killam's St. John's properties; however, occupancy is lower than its peak.

Prince Edward Island
Killam has an 18% share of the Charlottetown market, the provincial capital and economic center of Prince Edward Island. The Charlottetown market accounted for 6% of Killam's total NOI in the first six months of 2017. Demographics and international immigration are driving strong demand for rental units. As a proportion of its population, Prince Edward Island had amongst the highest rates of international immigration in Canada over the past year. Consequently, CMHC reported vacancy of 1.7% in October 2016 compared to 4.2% in October 2015. In its fourth quarter 2016 Housing Market Outlook report, CMHC reported that it expects a net migrant inflow for Prince Edward Island of 4,700 between 2016-2018. With little new construction in the region, occupancy and rental rates should further improve. Killam's occupancy in PEI is near 100% and rental rate growth has been strong over the past year.

Ontario

Killam's Ontario apartment portfolio generated 17% of NOI in the first half of 2017. The Ontario rental market is strong, with CMHC reporting a second year of 3.0% increases in average rents for the overall Ontario rental market and a 30 bps point reduction in vacancy. CMHC highlights three of Killam's four Ontario markets, Toronto, London and Ottawa, as the most significant contributers to the decline in the provincial vacancy rate. The strength of the Ontario rental market is attributable to broader economic growth, high levels of international immigration and a widening gap between the costs of homeownership and renting. CMHC projects that vacancy rates will continue to edge lower in 2017 in most urban centres, driven by higher housing prices, international migration and an aging population. Killam has seen strong rental rate growth in Ontario; however, occupancy has been impacted primarily by the expiration of a rental guarantee at its Kanata Lakes properties following the acquisition of the last two buildings in March 2017.

On May 18, 2017, the Government of Ontario passed the Rental Fairness Act, expanding rent control to properties built after 1991. For 2017, rental increases on existing leases are limited to 1.5% with future rental rate increases pegged to inflation. On June 23, 2017, the rental increase ceiling was set at 1.8% for 2018. Landlords are expected to continue to increase rents to market on unit turns and the legislation is not expected to have a significant impact on Killam's investments in the province.

Alberta

2% of Killam's NOI is earned in Alberta through its 50% interest in a Calgary high-rise apartment building; and the 66-unit low-rise complex acquired in January 2017. The Alberta rental market has softened over the past three years as migration slowed due to rising unemployment following lower crude oil prices. CMHC reported a residential vacancy rate of 7.0% in October 2016, compared to 5.3% in October 2015 in Calgary largely due to economic weakness and a rise in new supply; however, vacancy is forecasted to fall in 2017 and 2018, though remaining above historical levels. Residential leasing activity has improved over the first six months of 2017 and occupancy is up significantly at Killam's Calgary properties.

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

PART III

Q2-2017 Financial Overview
Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$45,898**	$43,847	4.7%	**$42,275**	$41,443	2.0%	**$3,623**	$2,404	50.7%
Property operating expenses									
Operating expenses	**7,106**	6,866	3.5%	**6,400**	6,351	0.8%	**706**	515	37.1%
Utility and fuel expenses	**4,506**	4,630	(2.7)%	**4,226**	4,438	(4.8)%	**280**	192	45.8%
Property taxes	**5,501**	5,081	8.3%	**5,014**	4,806	4.3%	**487**	275	77.1%
Total operating expenses	**$17,113**	$16,577	3.2%	**$15,640**	$15,595	0.3%	**$1,473**	$982	50.0%
NOI	**$28,785**	$27,270	5.6%	**$26,635**	$25,848	3.0%	**$2,150**	$1,422	51.2%
Operating margin %	**62.7%**	62.2%	50 bps	**63.0%**	62.4%	60 bps	**59.3%**	59.2%	10 bps

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$90,203**	$86,054	4.8%	**$83,303**	$81,901	1.7%	**$6,900**	$4,153	66.1%
Property operating expenses									
Operating expenses	**14,783**	13,912	6.3%	**13,463**	12,906	4.3 %	**1,320**	1,006	31.2%
Utility and fuel expenses	**10,785**	11,341	(4.9)%	**10,199**	10,880	(6.3)%	**586**	461	27.1%
Property taxes	**10,908**	10,101	8.0%	**9,934**	9,585	3.6%	**974**	516	88.8%
Total operating expenses	**$36,476**	$35,354	3.2%	**$33,596**	$33,371	0.7 %	**$2,880**	$1,983	45.2%
NOI	**$53,727**	$50,700	6.0%	**$49,707**	$48,530	2.4%	**$4,020**	$2,170	85.3%
Operating margin %	**59.6%**	58.9%	70 bps	**59.7%**	59.3%	40 bps	**58.3%**	52.3%	600 bps

Same property results include 97.1% of Killam's portfolio owned during the comparable 2017 and 2016 periods. Non-same property NOI consists of properties acquired and developments completed in 2016 and 2017, properties sold, and other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items.

Same property revenue grew by 2.0% and 1.7% for the three and six months ended June 30, 2017, as compared to the same periods in 2016 due to higher rental rates and improved occupancy as a result of strong market fundamentals, particularly in Halifax. Total same property operating expenses increased a modest 0.3% and 0.7% for the three and six months ended June 30, 2017, as lower utility costs offset increased property tax and insurance expenses. Overall, same property NOI grew by 3.0% and 2.4% for the three and six months ended June 30, 2017, as compared to 2016 and Killam's operating margin increased by 60 bps and 40 bps.

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

Apartment Results

For the three months ended June 30,

	Total			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$40,864**	$38,850	5.2%	**$38,385**	$37,684	1.9%	**$2,479**	$1,166	112.6%
Property operating expenses									
Operating expenses	**5,898**	5,697	3.5%	**5,549**	5,499	0.9%	**349**	198	76.3%
Utility and fuel expenses	**4,078**	4,165	(2.1)%	**3,917**	4,110	(4.7)%	**161**	55	192.7%
Property taxes	**5,132**	4,706	9.1%	**4,867**	4,659	4.5%	**265**	47	463.8%
Total operating expenses	**$15,108**	$14,568	3.7%	**$14,333**	$14,268	0.5%	**$775**	$300	158.3%
NOI	**$25,756**	$24,282	6.1%	**$24,052**	$23,416	2.7%	**$1,704**	$866	96.8%
Operating margin %	**63.0%**	62.5%	50 bps	**62.7%**	62.1%	60 bps	**68.7%**	74.3%	(560) bps

For the six months ended June 30,

	Total			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$81,135**	$77,013	5.4%	**$76,495**	$75,294	1.6%	**$4,640**	$1,719	169.9%
Property operating expenses									
Operating expenses	**12,415**	11,644	6.6%	**11,799**	11,259	4.8 %	**616**	385	60.0%
Utility and fuel expenses	**9,834**	10,364	(5.1)%	**9,512**	10,211	(6.8)%	**322**	153	110.5%
Property taxes	**10,160**	9,385	8.3%	**9,630**	9,285	3.7%	**530**	100	430.0%
Total operating expenses	**$32,409**	$31,393	3.2 %	**$30,941**	$30,755	0.6 %	**$1,468**	$638	130.1%
NOI	**$48,726**	$45,620	6.8%	**$45,554**	$44,539	2.3%	**$3,172**	$1,081	193.4%
Operating margin %	**60.1%**	59.2%	90 bps	**59.6%**	59.2%	40 bps	**68.4%**	62.9%	550 bps

Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2017, was $40.9 million and $81.1 million, increases of 5.2% and 5.4% over the same periods in 2016. Revenue growth was due to a 30 bps increase in occupancy, increased rental rates and the incremental contributions from additions to the Calgary, Halifax and Ottawa portfolios.

Same property apartment revenue increased 1.9% and 1.6% for the three and six months ended June 30, 2017, with strong leasing activity contributing to a 40 bps improvement in same property occupancy and a 1.6% increase in average rental rates. Rental incentives of 70 bps and 80 bps of revenue, for the three and six months ended June 30, 2017, were largely consistent with incentives of 80 bps of revenue for each of the three and six-month periods ended June 30, 2016.

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

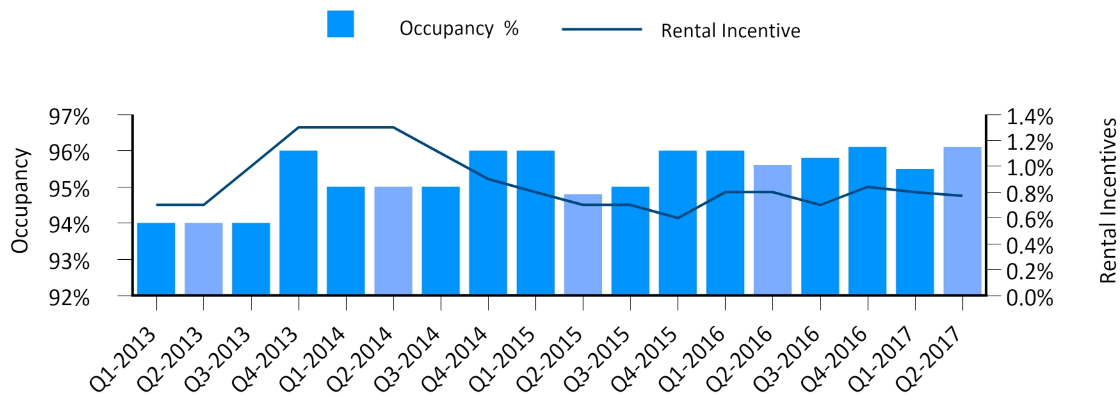
		Total Occupancy			Same Property Occupancy		
Three months ended June 30,	# of Units	**2017**	2016	Change (bps)	**2017**	2016	Change (bps)
Halifax, NS	5,165	**96.4%**	95.7%	70	**96.3%**	95.7%	60
Moncton, NB	1,629	**96.2%**	95.1%	110	**96.2%**	95.1%	110
Fredericton, NB	1,422	**95.7%**	94.6%	110	**95.7%**	94.6%	110
Saint John, NB	1,202	**94.5%**	92.0%	250	**94.5%**	92.0%	250
St. John's, NL	915	**94.0%**	94.9%	(90)	**94.0%**	94.9%	(90)
Charlottetown, PE	906	**99.1%**	98.4%	70	**99.1%**	98.4%	70
Ontario	2,206	**95.2%**	97.7%	(250)	**95.7%**	98.3%	(260)
Alberta	373	**89.4%**	84.9%	450	**96.2%**	84.9%	1,130
Other Atlantic locations	469	**96.7%**	98.2%	(150)	**96.7%**	98.2%	(150)
Total Apartments (weighted average)	14,287	**95.9%**	95.6%	30	**96.1%**	95.7%	40

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

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

For discussion on changes in occupancy levels during the three and six month-periods ended June 30, 2017, refer to page 17 of the MD&A under section "Apartment Same Property NOI by Region".

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



Average Rent Analysis by Core Market

As at June 30,		Average Rent			Same Property Average Rent		
	# of Units	**2017**	2016	% Change	**2017**	2016	% Change
Halifax, NS	5,165	**$998**	$972	2.7%	**$993**	$972	2.2%
Moncton, NB	1,629	**$831**	$836	(0.6)%	**$831**	$836	(0.6)%
Fredericton, NB	1,422	**$923**	$902	2.3%	**$926**	$904	2.4%
Saint John, NB	1,202	**$785**	$788	(0.4)%	**$785**	$788	(0.4)%
St. John's, NL	915	**$969**	$955	1.5%	**$969**	$955	1.5%
Charlottetown, PE	906	**$917**	$902	1.7%	**$917**	$902	1.7%
Ontario	2,206	**$1,386**	$1,353	2.4%	**$1,349**	$1,314	2.7%
Alberta	373	**$1,140**	$1,232	(7.5)%	**$1,141**	$1,232	(7.4)%
Other Atlantic	469	**$867**	$845	2.6%	**$867**	$845	2.6%
Total Apartments (weighted average)	14,287	**$991**	$963	2.9%	**$974**	$959	1.6%

Same Property Rental Increases - Renewal versus Turn

Killam turns approximately 35% of its units each year. Upon turn, Killam will typically generate rental increases by raising rents to market rates and by investing capital as necessary to improve apartment units. The following chart details the average rental increases realized upon turns and lease renewals for each for the twelve month-periods ended June 30, 2017, and 2016, on a same properties basis:

	Same Property Rental Increases		
For the 12 months ended June 30,	**2017**	2016	Change (bps)
Upon lease renewal	**1.0%**	1.0%	—
Upon unit turn	**2.6%**	1.9%	70
Average rental increase	**1.6%**	1.3%	30

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

Apartment Expenses

Total same property expenses for the three and six months ended June 30, 2017, increased 0.5% and 0.6% as savings in fuel costs due to lower prices in NS and lower water consumption from the low-flow toilet installation program were more than offset by higher insurance premiums, increased snow removal costs due to precipitation levels in 2017 and higher property taxes due to increased assessments.

Apartment Utility and Fuel Expenses - Same Property

	Three months ended June 30,			**Six months ended June 30,**		
	2017	2016	% Change	**2017**	2016	% Change
Natural gas	**$989**	$1,087	(9.0%)	**$2,899**	$3,457	(16.1%)
Electricity	**1,585**	1,562	1.5%	**3,733**	3,727	0.2%
Water	**1,106**	1,210	(8.6%)	**2,187**	2,386	(8.3%)
Oil	**230**	242	(5.0%)	**679**	623	9.0%
Other	**7**	9	(22.2%)	**14**	18	(22.2%)
Total utility and fuel expenses	**$3,917**	$4,110	(4.7%)	**$9,512**	$10,211	(6.8%)

Killam’s apartments are heated with natural gas (56%), electricity (35%), oil (8%) and steam (1%). Electricity costs relate primarily to common areas as unit electricity costs are typically paid by tenants, reducing Killam’s exposure to the majority of the 4,600 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 27% of Killam’s total apartment same property operating expenses in Q2-2017 and 30% for the year-to-date period. Total utility and fuel expenses were 4.7% and 6.8% less than the comparative three and six-month periods in 2016 due to lower commodity prices in Nova Scotia and lower consumption as a result of water saving and energy efficiency device installations.

Same property natural gas costs decreased by 9.0% compared to Q2-2016 and 16.1% in the year-to-date period ended June 30, 2017, as compared to the prior year. The reductions in the Q2-2017 periods were primarily attributable to lower distribution and commodity prices in Nova Scotia, where prices were 21% lower than the prior year, partially offset by higher natural gas prices in other regions.

Electricity costs increased by 1.5% for the quarter and 0.2% for the first six months of the year as compared to the same periods in 2016 primarily due to higher rates.

Despite higher rates, water expense for same properties decreased by 8.6% and 8.3% for the three and six months ended June 30, 2017, compared to the same periods in 2016. Killam has installed 8,300 low-flow toilets over the past two years, saving an estimated 400 million litres of water annually across the portfolio, generating approximately $1.0 million annually of water cost savings.

Heating oil costs were 5.0% lower than Q2-2016 due primarily to the 153-unit Saint John property with dual-fuel capability, burning natural gas in 2017 compared to oil in 2016. Heating oil costs increased by 9.0% year-to-date 2017 compared to 2016 as higher commodity prices in the first quarter of 2017, more than offset the reduction in the second quarter.

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

Apartment Same Property NOI by Region

Three months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Halifax	**$15,038**	$14,701	2.3%	**($5,358)**	($5,288)	1.3%	**$9,680**	$9,413	2.8%
Ontario	**5,646**	5,689	(0.8)%	**(1,933)**	(1,965)	(1.6)%	**3,713**	3,724	(0.3)%
Moncton	**4,205**	4,047	3.9%	**(1,932)**	(1,896)	1.9%	**2,273**	2,151	5.7%
Fredericton	**3,827**	3,688	3.8%	**(1,575)**	(1,512)	4.2%	**2,252**	2,176	3.5%
St. John's	**2,528**	2,537	(0.4)%	**(707)**	(770)	(8.2)%	**1,821**	1,767	3.1%
Charlottetown	**2,486**	2,420	2.7%	**(908)**	(919)	(1.2)%	**1,578**	1,501	5.1%
Saint John	**2,721**	2,665	2.1%	**(1,310)**	(1,289)	1.6%	**1,411**	1,376	2.5%
Alberta	**659**	666	(1.1)%	**(186)**	(179)	3.9%	**473**	487	(2.9)%
Other Atlantic locations	**1,275**	1,271	0.3%	**(424)**	(450)	(5.8)%	**851**	821	3.7%
	$38,385	$37,684	1.9%	**($14,333)**	($14,268)	0.5%	**$24,052**	$23,416	2.7%

Six months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Halifax	**$30,008**	$29,432	2.0%	**($11,323)**	($11,683)	(3.1)%	**$18,685**	$17,749	5.3%
Ontario	**11,343**	11,331	0.1%	**(4,167)**	(4,078)	2.2%	**7,176**	7,253	(1.1)%
Moncton	**8,276**	8,035	3.0%	**(4,177)**	(3,970)	5.2%	**4,099**	4,065	0.8%
Fredericton	**7,598**	7,389	2.8%	**(3,391)**	(3,234)	4.9%	**4,207**	4,155	1.3%
St. John's	**5,085**	5,087	0.0%	**(1,562)**	(1,578)	(1.0)%	**3,523**	3,509	0.4%
Charlottetown	**4,973**	4,826	3.0%	**(2,043)**	(1,945)	5.0%	**2,930**	2,881	1.7%
Saint John	**5,371**	5,349	0.4%	**(2,913)**	(2,905)	0.3%	**2,458**	2,444	0.6%
Alberta	**1,293**	1,326	(2.5)%	**(395)**	(362)	9.1%	**898**	964	(6.8)%
Other Atlantic locations	**2,548**	2,519	1.2%	**(970)**	(1,000)	(3.0)%	**1,578**	1,519	3.9%
	$76,495	$75,294	1.6%	**($30,941)**	($30,755)	0.6%	**$45,554**	$44,539	2.3%

Halifax

Halifax is Killam's largest rental market, accounting for 41% of apartment same property NOI for the six months ended June 30, 2017. Same property apartment revenue increased by 2.3% and 2.0% for the three and six months ended June 30, 2017, compared to the same periods in 2016, due to a 60 bps increase in average occupancy and a 2.2% increase in average rent, compared to June 2016. Rental incentives, as a percentage of residential rents, were 36 bps lower than Q2-2016 and 38 bps lower than year-to-date 2016, also contributing to same property revenue growth.

Operating expenses increased by 1.3% as compared to Q2-2016 as higher snow removal and insurance costs, and increased property taxes more than offset the benefit of lower natural gas prices in the province. Operating expenses for the six months ended June 30, 2017, were 3.1% less than those in the first six months of 2016 primarily due to the impact of a 33% reduction in delivered natural gas prices during the winter heating season, as well as the aforementioned operating, utility and property tax expense trends.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for 24% of apartment same property NOI for the six months ended June 30, 2017. Revenues increased by 3.4% and 2.3% for the three and six months ended June 30, 2017, as occupancy growth in all markets and rental rate growth in Fredericton more than offset softer average rents in Moncton and Saint John.

Operating expenses for the province increased by 2.6% and 3.6% for the three and six months ended June 30, 2017, as compared to 2016 largely due to higher property taxes and insurance premiums. In total, the NB portfolio achieved 4.1% NOI growth in the quarter and 0.9% growth year-to-date, as compared to the same periods in 2016.

Ontario

Killam's Ontario portfolio generated 16% of Killam's apartment same property NOI for the six months ended June 30, 2017. Same property revenue increased by 0.1% for the six months ended June 30, 2017; however, same property revenues for Q2-2017 were 0.8% lower than the same period in 2016. The reduction is primarily attributable to the expiry of rental guarantees associated with the Kanata Lakes assets following the acquisition of the last two buildings at the property in March 2017. The expiry of the rental guarantee is not expected to have a negative impact going forward. Killam assumed responsibility for leasing the 739-unit Kanata Lakes portfolio in April 2017 and expects the buildings to be fully leased by the latter part of the year; the complex is currently 96.4% occupied. Additionally, Killam experienced a year over year increase in vacancy at three other Ontario properties. Killam has seen very strong leasing activity in Killam's southwestern Ontario and Toronto properties. Total operating expenses for the three months ended June 30, 2017, were 1.6% lower than the same period in 2016 due primarily to lower utility expenses. For the six months ended June 30, 2017, operating expenses were 2.2% higher than the same period in 2016 as higher property taxes more than offset utility savings. In aggregate, same property NOI was 0.3% and 1.1% lower for the three and six-month periods ended June 30, 2017, as compared to the same periods in 2016.

Newfoundland and Labrador

Killam's St. John's properties accounted for 8% of Killam's apartment same property NOI year-to-date in 2017. Same property revenue decreased 0.4% for the three months ended June 30, 2017, as compared to 2016 and revenue for the six months ended June 30, 2017, was consistent with the prior year. Occupancy has been impacted by softness in the economy with some renters returning to the secondary rental market, partially offsetting higher rental rates. Total same property operating expenses were 8.2% and 1.1% lower than the three and six months ended June 30, 2016, primarily due to the internalization of property management on April 1, 2017. Killam historically engaged a third party to operate the St. John's properties. Killam anticipates annualized NOI savings of $0.2 million from this change.

Prince Edward Island

Killam's Charlottetown portfolio accounts for 6% of apartment same property NOI. Charlottetown achieved 2.7% and 3.0% revenue growth for the three and six months ended June 30, 2017, as compared to the same periods in 2016 due to improved rental rates and occupancy; apartment construction has not kept pace with population growth fueled by international immigration. Total operating expenses declined by 1.2% in Q2-2017 compared to Q2-2016 primarily due to lower property taxes as a result of a reassessment. Operating expenses for the six-month period ending June 30, 2017, were 5.0% higher than the same period in 2016 as Q1-2017 had higher heating oil expenses due to colder weather, higher insurance premiums and additional spend on snow removal due to the volume of precipitation.

Alberta

Killam has a 50% interest in a 307-unit building in downtown Calgary that accounted for 2% of apartment same property NOI. Killam's Calgary high-rise recorded a 1.1% decline in revenue quarter-over-quarter and 2.5% reduction in revenue year-to-date. Despite the decline, Killam has seen a marked improvement in the performance of the asset, with occupancy increasing by 1,130 bps to 96.2% in Q2-2017 compared to 84.9% in Q2-2016. Same property operating expenses increased by 3.9% and 9.1% for the three and six months ended June 30, 2017, as compared to the same periods in 2016 due primarily to higher natural gas costs. Killam recently secured a tenant for approximately 75% of the ancillary commercial space in this building, who started contributing rental income in July 2017.

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

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$3,890**	$3,759	3.5%	**$3,890**	$3,759	3.5%	**$—**	$—	— %
Property operating expenses									
Operating expenses	**852**	837	1.8%	**852**	851	0.1%	**—**	(14)	(100.0)%
Utility and fuel expenses	**309**	328	(5.8)%	**309**	328	(5.8)%	**—**	—	— %
Property taxes	**147**	147	—%	**147**	147	—%	**—**	—	— %
Total operating expenses	**$1,308**	$1,312	(0.3)%	**$1,308**	$1,326	(1.4)%	**$—**	$(14)	(100.0)%
NOI	**$2,582**	$2,447	5.5%	**$2,582**	$2,433	6.1%	**$—**	$14	(100.0)%
Operating margin %	**66.4%**	65.1%	130 bps	**66.4%**	64.7%	170 bps	**—%**	—%	—

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2017	2016	% Change	**2017**	2016	% Change	**2017**	2016	% Change
Property revenue	**$6,808**	$6,608	3.0%	**$6,808**	$6,606	3.1%	**$—**	$2	(100.0)%
Property operating expenses									
Operating expenses	**1,665**	1,632	2.0%	**1,664**	1,647	1.0 %	**1**	(15)	(106.7)%
Utility and fuel expenses	**687**	668	2.8%	**687**	668	2.8 %	**—**	—	— %
Property taxes	**304**	300	1.3%	**304**	300	1.3 %	**—**	—	— %
Total operating expenses	**$2,656**	$2,600	2.2%	**$2,655**	$2,615	1.5 %	**$1**	$(15)	(106.7)%
NOI	**$4,152**	$4,008	3.6%	**$4,153**	$3,991	4.1%	**($1)**	$17	(105.9)%
Operating margin %	**61.0%**	60.7%	30 bps	**61.0%**	60.4%	60 bps	**—%**	—%	—

The MHC business generated 7.7% of Killam's NOI for the three and six months ended June 30, 2017, and 2016.

MHC same property revenue increased 3.5% and 3.1%, for the three and six months ended June 30, 2017, compared to the same periods in 2016. Period over period revenues increased as average rent per site rose to $245, up 2.9% from $238 in Q2-2016 due to inflationary rental rate increases in permanent parks and strong growth in seasonal communities. Occupancy increased to 97.7% in Q2-2017, a 20 bps increase from Q2-2016.

Total same property expenses fell by 1.4% in Q2-2017 as compared to Q2-2016 primarily due to a one time utility charge to install cable in a park in 2016. Operating expenses for the six months ended June 30, 2017, were 1.5% higher than those for the same period in 2016 primarily due to higher snow removal expenses in the first quarter. Overall, the MHC portfolio generated same property NOI growth of 6.1% and 4.1% for the three and six months ended June 30, 2017, as compared to 2016.

Commercial Results

Killam's commercial property portfolio consists of five properties in Halifax, Nova Scotia, totaling 254,000 SF of leaseable space. The Brewery Market property contains 158,000 SF of retail and office space, and a parcel of adjacent land that is currently being developed into Killam's The Alexander, a 240-unit apartment building. During the quarter, a commercial property adjacent to the Brewery Market and The Alexander development was acquired. This building adds 6,000 SF of commercial space to the portfolio and consolidates Killam's ownership of this block. The Medical Arts building contains 18,000 SF of office space and Killam plans to redevelop this property in the future. Killam also holds a 50% interest in two commercial buildings in north-end Halifax, one of which is Killam's head office. Included in the apartment segment is 118,000 SF of ancillary commercial space in various residential properties across the portfolio.

Killam's commercial property portfolio accounted for $1.6 million, or 1.6%, of Killam's total NOI for the first six months of 2017. Occupancy was 97.8% for the three and six months ended June 30, 2017, compared to 98.8% for the comparable prior year periods.

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

PART IV

Other Income and Expenses

Other Income

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
	$217	$410	(47.1)%	**$402**	$699	(42.5)%

Other income includes property management fees, interest on bank account balances, interest on loans receivable and net revenue associated with the sale of homes in Killam's MHC segment. The 47.1% and 42.5% reductions, quarter-over-quarter and for the comparative six-month period, are primarily due to lower interest income as prior period results included income from a $4.0 million mezzanine loan that was repaid to Killam in Q2-2016.

Financing Costs

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Mortgage, loan and construction loan interest	**$8,031**	$7,770	3.4%	**$15,934**	$15,542	2.5%
Interest on exchangeable units	**599**	705	(15.0%)	**1,185**	1,416	(16.3%)
Amortization of fair value adjustments on assumed debt	**(164)**	(122)	34.4%	**(231)**	(267)	(13.5%)
Amortization of loss on interest rate hedge	**15**	15	—%	**30**	30	—%
Unrealized (gain) loss on derivative liability	**(147)**	131	(212.2%)	**(121)**	131	(192.4%)
Convertible debenture interest	**81**	1,441	(94.4%)	**715**	2,892	(75.3%)
Capitalized interest	**(394)**	(240)	64.2%	**(723)**	(464)	55.8%
	$8,021	$9,700	(17.3%)	**$16,789**	$19,280	(12.9%)

Financing costs decreased $1.7 million or 17.3% and $2.5 million or 12.9% for the three and six months ended June 30, 2017, as compared to the same periods in 2016.

Mortgage and loan interest expense was $8.0 million in Q2-2017, consistent with $7.8 million in Q2-2016, while year-to-date mortgage and loan interest expense increased $0.1 million or 2.5%. This increase is attributable to an additional $75.6 million in mortgage and construction loans payable compared to June 30, 2016, offset partially by mortgage refinancings at lower interest rates. The average interest rate on refinancings year-to-date was 2.20%, 135 bps lower than the average interest rate on expiring debt.

Interest expense associated with the convertible debentures decreased by $1.4 million and $2.1 million for the three and six months ended June 30, 2017, compared to the same periods in 2016 due to the redemption of $57.5 million and $46 million of convertible debentures in July 2016 and April 2017.

Capitalized interest increased $0.2 million and $0.3 million for the three and six months ended June 30, 2017, as compared to the same periods in 2016. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering maturity dates. Additionally, Killam may enter into forward interest rate hedges. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt as at June 30, 2017, would impact financing costs by $10.6 million per year; however, only $69.7 million (or 6.6%) of Killam's fixed mortgage and vendor debt mature in the next twelve months. If maturing mortgages are refinanced on similar terms, with the exception of a 100 bps increase/(decrease) in interest rates, financing costs would increase/(decrease) by $0.7 million per year.

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

Depreciation Expense

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
	$191	$219	(12.8)%	**$356**	$427	(16.6)%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer software and equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The reduction in depreciation expense for the three and six months ended June 30, 2017, compared to the same periods in 2016, was primarily due to costs associated with upgrades to Killam's accounting and property management software in 2016.

Amortization of Deferred Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
	$441	$369	19.5%	**$845**	$733	15.3%

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

Deferred financing amortization costs increased 19.5% and 15.3% for the three and six months ended June 30, 2017, following $186.6 million of mortgage financing in 2016, as well as financing costs associated with property acquisitions over the past twelve months.

Administration Expenses

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Administration (including REIT conversion costs)	**$2,755**	$3,069	(10.2)%	**$5,675**	$6,667	(14.9)%
REIT conversion costs	**(82)**	(200)	(59.0)%	**(236)**	(1,250)	(81.1)%
Administration (excluding REIT conversion costs)	**$2,673**	$2,869	(6.8)%	**$5,439**	$5,417	0.4%
As a percentage of total revenues	**5.8%**	6.5%		**6.0%**	6.3%	

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 expenses for the three and six months ended June 30, 2017, and 2016, include one-time costs associated with the REIT conversion.

During the second quarter of 2017, total administration expenses excluding REIT conversion costs decreased $0.2 million or 6.8% compared to the same period in 2016 primarily due to the timing of non-cash unit-based compensation costs related to restricted trust units ("RTUs"). Management has targeted annualized administrative costs of approximately 6.0% of total revenues for 2017.

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

Fair Value Adjustments

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Investment properties	**$22,173**	($2,032)	1,191.2%	**$32,718**	($2,032)	(1,710.1)%
Convertible debentures	**221**	(1,151)	119.2%	**690**	762	9.4%
Unit-based compensation	**(35)**	(948)	(96.3)%	**(322)**	(1,160)	(72.2)%
Exchangeable units	**(232)**	(4,609)	(95.0)%	**(3,093)**	(10,782)	(71.3)%
	$22,127	($8,740)	(353.2)%	**$29,993**	($13,212)	(327.0)%

Killam recorded a fair value gain on investment properties of $22.2 million in Q2-2017 as a result of cap-rate compression at certain properties in Halifax and Moncton. The weighted average cap-rate for Killam's Halifax properties compressed 16 basis points to 5.35% at June 30, 2017, compared to 5.51% at December 31, 2016, reflecting lower cap-rates on Killam's larger properties. The average cap-rate for Moncton also fell 12 basis points over the past six months for the same reason. The year-to-date fair value adjustment of $32.7 million reflects the fair value gains associated with the Kanata portfolio recorded in the first quarter of 2017, as well as the aforementioned changes in Halifax and Moncton.

For the three months ended June 30, 2017, there was an unrealized gain of $0.2 million on the outstanding convertible debentures, (three months ended June 31, 2016 - $1.2 million loss) due to the change in the market price of the instruments. Killam redeemed all outstanding convertible debentures on April 13, 2017.

Killam's RTU plan gives certain members of management the right to receive a percentage of their variable compensation, and non-executive members of the Board of Trustees the right to receive a percentage of their annual retainer, in the form of RTUs. The RTUs are intended to align the interests of Management and the Trustees with those of unitholders. For the three and six months ended June 30, 2017, there was an an unrealized loss of $35 thousand and $0.3 million (three and six months ended June 30, 2016 - $0.9 million and $1.2 million) due to the change in the market price of the underlying Killam trust units.

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. For the three and six months ended June 30, 2017, there was an unrealized loss on remeasurement of $0.2 million and $3.1 million (three and six months ended June 30, 2016 - $4.6 million and $10.8 million) due to changes in the market price of Killam's trust units.

Deferred Tax Expense

Killam converted to a real estate investment trust effective January 1, 2016, and as such qualifies as a REIT pursuant to the 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. Killam is classified as a flow-through vehicle; therefore, only deferred taxes of Killam's corporate subsidiaries are recorded. If Killam fails to distribute the required amount of income to unitholders or if Killam fails to qualify as a REIT under the Tax Act, substantial adverse tax consequences may occur. Management operates Killam in a manner that enables Killam to continually qualify as a REIT and expects to distribute all of its taxable income to unitholders, and therefore is entitled to deduct such distributions for income tax purposes.

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

PART V

Per Unit Calculations

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

	Weighted Average Number of Units (000's)						Outstanding Number of Units as at June 30,
	Three months ended June 30,			Six months ended June 30,			
	2017	2016	% Change	**2017**	2016	% Change	**2017**
Trust units	**74,284**	60,928	21.9 %	**71,756**	59,567	20.5 %	**74,395**
Exchangeable units	**3,863**	4,703	(17.9)%	**3,865**	4,718	(18.1)%	**3,863**
Basic number of units	**78,147**	65,631	19.1 %	**75,621**	64,285	17.6 %	**78,258**
Plus:							
Units under restricted trust unit plan	**193**	144	34.0 %	**172**	131	31.3 %	**466**
Convertible debentures	**415**	7,442	(94.4)%	**1,776**	7,442	(76.1)%	—
Dilutive number of units	**78,755**	73,217	7.6 %	**77,569**	71,858	7.9 %	**78,724**

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

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition with the exception of the add-back of REIT conversion costs as REALpac does not address this specific type of adjustment. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the three and six months ended June 30, 2017, and 2016, are calculated as follows:

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Net income	**$34,611**	$3,666	844.1%	**$52,260**	$48,833	7.0%
Fair value adjustments	**(22,127)**	8,740	(353.2%)	**(29,993)**	13,212	(327.0%)
Loss on disposition	**238**	291	(18.1%)	**238**	265	(10.1%)
Non-controlling interest	**(4)**	(271)	(98.5%)	**(6)**	(525)	(98.9%)
Deferred tax expense (recovery)	**4,872**	1,626	199.6%	**7,959**	(38,018)	(120.9%)
Interest expense related to exchangeable units	**599**	705	(15.0%)	**1,185**	1,416	(16.3%)
Unrealized gain on derivative liability	**(147)**	131	(15.0%)	**(121)**	131	(15.0%)
Depreciation on owner-occupied building	**49**	45	8.9%	**83**	78	6.4%
REIT conversion costs	**82**	200	0.0%	**236**	1,250	(81.1%)
FFO	**$18,173**	$15,133	20.1%	**$31,841**	$26,642	19.5%
FFO unit - basic	**$0.23**	$0.23	—%	**$0.42**	$0.41	2.4%
FFO unit - diluted	**$0.23**	$0.23	—%	**$0.42**	$0.41	2.4%
Weighted average units - basic (000's)	**78,147**	65,631	19.1%	**75,621**	64,285	17.6%
Weighted average number of units - diluted (000's)	**78,755**	73,217	7.6%	**77,569**	71,858	7.9%

Killam generated FFO of $18.2 million, or $0.23 per unit (diluted) for the three months ended June 30, 2017, compared to $15.1 million, or $0.23 per unit (diluted) for the three months ended June 30, 2016. The increase in FFO is attributable to interest expense savings on the redemption of the convertible debentures ($1.4 million), contributions from acquisitions and recently completed developments ($0.9 million), same property NOI growth ($0.8 million), interest expense savings on refinancings at lower interest rates ($0.4 million) and lower administration costs ($0.2 million) due to a reduction in variable compensation, partially offset by recognition of revenue from the early pay-out of a head lease for the commercial space at Grid 5 in Calgary ($0.5 million) in Q2-2016, lower interest revenue ($0.1 million) and a 19.1% increase in the number of weighted average number of units outstanding from the equity raise completed in June 2016 and March 2017.

Killam earned FFO of $31.8 million, or $0.42 per unit (diluted) for the six months ended June 30, 2017, compared to $26.6 million or $0.41 per unit (diluted) for the same six-month period in the prior year. The 10.3% increase in FFO is attributable to interest expense savings on the redemption of the convertible debentures ($2.2 million), contributions from acquisitions and completed developments ($1.9 million), same property NOI growth of 2.4% ($1.1 million) and interest expense savings on refinancings ($0.8 million). These increases were offset by the early pay-out of a head lease revenue recognized in 2016 ($0.5 million) and an 17.6% increase in the weighted average number of units outstanding.

FFO have been adjusted for costs incurred for the three and six months ended June 30, 2017, and 2016 to complete the conversion from a corporation to a REIT effective January 1, 2016. REIT costs incurred during 2017 relate to professional services to support tax requirements following the conversion to a REIT. These costs were unique to Killam's corporate structure and therefore have been removed for FFO purposes.

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

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to assess FFO after taking into consideration capital spent to maintain the earning capacity of a portfolio. AFFO may not be comparable to similar measures presented by other real estate trusts or companies. Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining 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 30 and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 32 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO

In Q1-2017, REALpac issued "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS", updating their guidance on maintenance capital expenditures ("maintenance capex") to be used in the calculation of AFFO, AFFO per unit and AFFO payout ratio. Killam has elected to adopt a maintenance reserve based on a three-year historical average of the capital spent to maintain and sustain Killam's properties, an approach endorsed by REALPac. The following table details Killam's capital investments attributable to value enhancing and maintenance projects for each of the past three years:

Maintenance Capex Reserve - Apartments

	2016	2015	2014
Total Capital Investments	$30,139	$28,511	$30,096
Value-enhancing Capital Spend			
Building	(6,571)	(6,036)	(7,058)
Suite upgrades	(9,597)	(9,162)	(9,138)
Equipment & other	(919)	(1,133)	(379)
	(17,087)	(16,331)	(16,575)
Maintenance Capex	**$13,052**	**$12,180**	**$13,521**
Maintenance capex - % of total capital	43%	45%	45%
# of units (1)	13,617	13,279	13,025
Maintenance capex per unit	$959	$917	$1,038
Maintenance Capex - Three-year average		**$971**	

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

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

Maintenance capex includes all structural work and suite renovation spend required to maintain current revenues. On a per unit basis, maintenance capex has ranged from $917 to $1,038 in the past three years, averaging $971 per unit over this period. Based on this average, Management will use $970 for its maintenance capex reserve for 2017. Although the timing of capex spend fluctuates, Killam will deduct this reserve equally throughout the year (25% or $243 per unit per quarter).

The allocations above were the result of a detailed review of Killam's historical capital spend. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program, with approximately 45% of annual capital spend attributable to maintaining and sustaining properties.

Maintenance Capex Reserve - MHCs

The capital investment specific to the MHC portfolio was also reviewed for the three years ending December 31, 2016, and categorized into value-enhancing and maintenance capex spend. Value-enhancing capital spend includes site expansions, land improvements and NOI enhancing water and sewer upgrades. Maintenance capex includes capital spend related to roads and paving, as well as the majority of water and sewer spent to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from $178 to $243 in the past three years. Management will use $225 per MHC site for Killam's maintenance capex reserve for 2017. Although the timing of capex spend fluctuates, Killam will deduct this reserve equally throughout the year (25% or $56.25 per site per quarter).

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

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

	Three months ended June 30,			Six months ended June 30,		
	2017	2016[3]	% Change	**2017**	2016[3]	% Change
FFO	**$18,173**	$15,133	20.1%	**$31,841**	$26,640	19.5%
Maintenance Capital Expenditures						
Apartments	**(3,314)**	(3,242)	2.2%	**(6,639)**	(6,430)	3.3%
MHCs	**(290)**	(291)	(0.3%)	**(580)**	(581)	(0.2%)
AFFO	**$14,569**	$11,600	25.6%	**$24,622**	$19,629	25.4%
AFFO per unit - basic	**$0.19**	$0.18	5.6%	**$0.33**	$0.31	6.5%
AFFO per unit - diluted[1]	**$0.19**	$0.18	5.6%	**$0.32**	$0.30	6.7%
AFFO payout ratio - diluted	**84%**	85%	(100) bps	**95%**	99%	(400) bps
AFFO payout ratio - rolling 12 months[2]	**89%**	99%	(1,000) bps	—	—	—
Weighted average number of units - basic (000's)	**78,147**	65,631	19.1%	**75,621**	64,285	17.6%
Weighted average number of units - diluted (000's)	**78,339**	65,775	19.1%	**75,793**	64,416	17.7%

(1) The calculation of weighted average number of units outstanding for diluted AFFO excludes the convertible debentures for the three and six months ended June 30, 2017, and 2016, as they are anti-dilutive.

(2) Based on Killam's annual distribution of $0.6021 for the 12-month period ended June 30, 2017, and $0.60 for the 12-month period ended June 30, 2016.

(3) AFFO, AFFO per unit and AFFO payout ratio for the three and six months ended June 30, 2016, have been adjusted to reflect the change in the calculation of maintenance capex in accordance with the REALpac AFFO white paper.

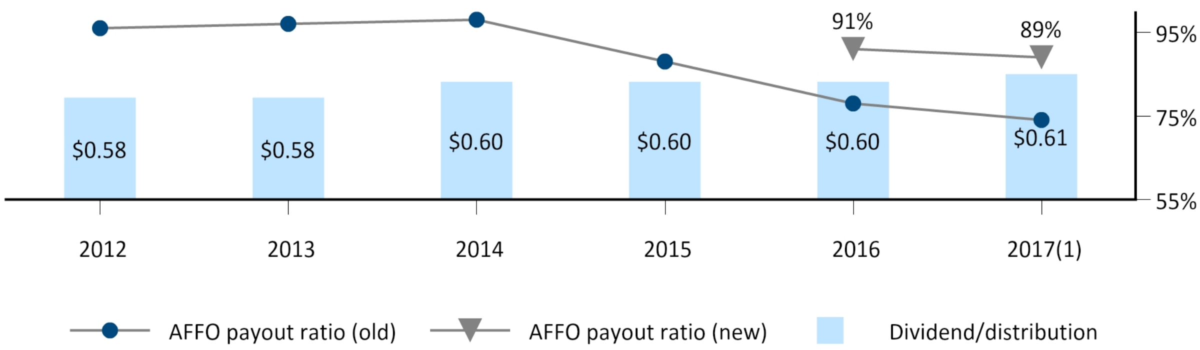
The AFFO payout ratio of 84% for the three months ended June 30, 2017, has improved 100 bps from the payout ratio of 85% for the three months ended June 30, 2016 due primarily to FFO growth. A lower payout ratio, compared to the rolling 12-month payout ratio in the second quarter corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to lower operating margins attributable to higher heating costs in the winter months and lower contributions from the seasonal MHCs, as these properties do not operate during the first quarter. The year-to-date AFFO payout ratio of 95% has improved 300 bps from the payout ratio of 99% for the six months ended June 30, 2016, due to a 20% increase in AFFO driven by increased interest expense savings, same property NOI growth and contributions from acquisitions and developments, partially offset by the impact of unit issuances in June 2016 and March 2017 to redeem Killam's convertible debentures and fund developments and acquisitions.

Killam’s Board of Trustees ("Board") evaluates the Trust’s payout ratio quarterly. The Board has not established an AFFO payout target. The Trust’s 12-month rolling payout ratio ended June 30, 2017, was 89%, a 900 bps improvement from the 12-month rolling payout ratio ended June 30, 2016, of 99%.

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

The graph below highlights Killam's AFFO payout ratio using the higher per unit reserve of $970 per apartment unit and $225 per MHC site for 2016 and the rolling 12-month period ended June 30, 2017, compared to $450 per apartment and $100 per MHC site, previously disclosed.

Killam's Annual Dividend/Distribution & AFFO Payout Ratio



(1) Rolling 12-month payout based on Killam's monthly distribution of $0.05 per month for 8 months and $0.05167 per month for four month.

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.

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Cash generated from operating activities	**$15,432**	$9,365	64.8 %	**$31,443**	$22,651	38.8 %
Adjustments:						
Net change in non-cash operating activities	**3,166**	6,419	(50.7)%	**704**	3,845	(81.7)%
Non-controlling interest	**(4)**	(271)	(98.5)%	**(6)**	(525)	(98.9)%
Non-cash compensation expense	**(372)**	(874)	(57.4)%	**(482)**	(1,044)	(53.8)%
Interest expense related to exchangeable units	**599**	705	(15.0)%	**1,185**	1,416	(16.3)%
Unrealized (gain)/loss on derivative liability	**(147)**	131	(212.2)%	**(121)**	131	(192.4)%
REIT conversion costs	**82**	200	(59.0)%	**236**	1,250	(81.1)%
Depreciation and amortization	**(583)**	(543)	7.4 %	**(1,118)**	(1,084)	3.1 %
Provision for maintenance property capital investments	**(3,604)**	(3,533)	2.0 %	**(7,219)**	(7,011)	3.0 %
AFFO	**$14,569**	$11,599	25.6 %	**$24,622**	$19,629	25.4 %

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

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

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Distributions declared on trust units	**$11,601**	$9,224	25.8%	**$22,304**	$18,011	23.8%
Distributions declared on exchangeable units	**599**	705	(15.0)%	**1,185**	1,416	(16.3)%
Distributions declared on awards outstanding under RTU plan	**56**	43	30.2%	**102**	77	32.5%
Total distributions declared	**12,256**	9,972	22.9 %	**23,591**	19,504	21.0%
Less:						
Distributions on trust units reinvested	**(2,784)**	(1,700)	63.8 %	**(5,222)**	(3,424)	52.5 %
Distributions on RTUs reinvested	**(56)**	(43)	30.2%	**(102)**	(77)	32.5%
Net distributions paid	**$9,416**	$8,229	14.4%	**$18,267**	$16,003	14.1%
Percentage of distributions reinvested	**23.2%**	17.5%		**22.6%**	18.0%	

Cash Flows from Operating Activities and Distributions Declared

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Net income	**$34,611**	$3,666	**$52,260**	$48,833
Cash flow from operating activities	**$15,432**	$9,365	**$31,443**	$22,651
Total distributions declared	**$12,256**	$9,972	**$23,591**	$19,504
Net distributions paid	**$9,416**	$8,229	**$18,267**	$16,003
Excess (deficiency) of net income over total distributions declared	**$22,355**	($6,306)	**$28,669**	$29,329
Excess (deficiency) of net income over net distributions paid	**$25,195**	($4,563)	**$33,993**	$32,830
Excess of cash flow from operating activities over total distributions declared	**$3,176**	($607)	**$7,852**	$3,147
Excess of cash flow from operating activities over net distributions paid	**$6,016**	$1,136	**$13,176**	$6,648

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

PART VI

Investment Properties

As at	June 30, 2017	December 31, 2016	% Change
Investment properties	**$1,983,069**	$1,887,302	5.1%
Investment properties under construction ("IPUC")	**92,958**	55,507	67.5%
	$2,076,027	$1,942,809	6.9%

Continuity of Investment Properties

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Balance, beginning of period	**$1,950,478**	$1,799,368	8.4%	**$1,887,302**	$1,794,580	5.2%
Acquisition of properties	**4,105**	33,620	(87.8)%	**68,234**	33,984	100.8%
Disposition of properties	**(24)**	—	— %	**(24)**	(8)	200.0 %
Transfer to assets held for sale	**—**	—	— %	**(16,592)**	—	— %
Capital expenditures	**6,337**	8,896	(28.8)%	**11,432**	13,328	(14.2)%
Fair value adjustment - Apartments	**22,676**	(1,048)	(2,263.7)%	**33,220**	(1,048)	(3,269.8)%
Fair value adjustment - MHCs	**(214)**	(348)	(38.5)%	**(214)**	(348)	(38.5)%
Fair value adjustment - Other	**(289)**	(636)	(54.6)%	**(289)**	(636)	(54.6)%
Balance, end of period	**$1,983,069**	$1,839,852	7.8%	**$1,983,069**	$1,839,852	7.8%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at June 30, 2017, December 31, 2016, and June 30, 2016, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	June 30, 2017			December 31, 2016			June 30, 2016		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**4.12%**	**8.00%**	**5.35%**	4.12%	8.00%	5.49%	4.12%	8.00%	5.51%
MHCs	**5.75%**	**8.00%**	**6.79%**	5.75%	8.00%	6.81%	5.75%	8.00%	6.82%

2017 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(1)
Apartments					
Spruce Grove	Calgary	16-Jan-17	1978	66	$12,800
Southport condominium units	Halifax	16-Feb-17	2016	5	1,070
Kanata Lakes IV & V (2)	Ottawa	01-Mar-17	2016	134	49,240
Other				205	$63,110
Vacant Land	Edmonton	13-Apr-17 / 23-Jun-17			4,050
1459 Hollis Street(3)	Halifax	19-Apr-17			4,600
Gloucester - Land(4)	Ottawa	21-Apr-17			8,000
Total Acquisitions					$79,760

(1) Purchase price does not include transaction costs.

(2) Purchase price represents 50% ownership in two buildings with a cumulative total of 268-units; as well as a 35% interest in a shared clubhouse. This building is part of a five-building complex; following this acquisition Killam and its 50/50 partner own the entire complex.

(3) 1459 Hollis Street is a commercial property that includes $0.85 million in value attributable to adjacent development projects.

(4) Purchase price represents 50% interest in a multi-phase development site project.

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

Investment Properties Under Construction

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Balance, beginning of period	**$61,741**	$49,779	24.0%	**$55,507**	$45,676	21.5%
Capital expenditures	**18,773**	5,338	251.7%	**24,678**	9,216	167.8 %
Interest capitalized	**394**	239	64.9%	**723**	464	55.8 %
Acquisitions	**12,050**	—	—	**12,050**	—	—
Balance, end of period	**$92,958**	$55,356	67.9%	**$92,958**	$55,356	67.9%

The Alexander
Killam and its 50% partner began construction in downtown Halifax on a 240-unit building, "The Alexander", in late 2015. This project is scheduled to be completed in Q1-2018. The cost to develop is approximately $72 million ($288,000 per residential unit), resulting in an expected all-cash yield of approximately 5.4%, an approximate 75 bps premium over the yield anticipated on the acquisition of a similar quality asset. As at June 30, 2017, Killam had invested $23.1 million in the project, representing its 50% equity interest. Construction financing is in place for the remaining project costs. As Killam has control over the development for accounting purposes, 100% of the costs ($46.3 million) are included in IPUC. Following completion of construction and the achievement of certain leasing conditions, Killam has a commitment in place to purchase the other 50% interest in this development.

Saginaw Park
During 2016, Killam commenced construction on the 93-unit, seven-story Saginaw Park development in Cambridge, ON. The development is adjacent to Killam's 122-unit building, Saginaw Gardens, which was completed in June 2015. The new building includes underground parking, a guest suite, fitness facility and tenant lounge. The units are expected to be approximately 30 SF larger than Saginaw Gardens, averaging 1,030 SF. The project budget is $25.3 million ($272,000 per unit), resulting in an all-cash yield of approximately 5.4%, approximately a 90 bps premium over the yield anticipated on the acquisition of a similar quality asset. As at June 30, 2017, Killam has invested $15.2 million in the project. Killam has obtained construction financing for the remainder of the project, and the first loan draw took place in April 2017.

Gloucester City Centre
On April 24, 2017, Killam and RioCan REIT ("RioCan") announced the formation of a joint venture to develop a residential rental community at Gloucester City Centre in Ottawa, with Killam acquiring a 50% interest in a 7.1 acre development site for $8.0 million ($16 million at 100%). Post-acquisition, Killam and RioCan each now own a 50% interest in the land and will participate on the same basis in the costs to develop the project. RioCan will act as the development manager and upon completion, Killam will act as the residential property manager. The site has zoning approval for four residential towers with an aggregate total of 840 units. The first phase of the development, a 217,000 SF, 23-storey tower containing approximately 222 units, is currently in progress.

This leading edge development will maximize efficiency with the incorporation of a geothermal energy system for the building's heating and cooling. Site work has commenced and occupancy is anticipated for mid-2019. Located adjacent to RioCan's Silver City Gloucester retail centre and Ottawa's Light Rail Transit, the development has access to many retail, entertainment and transit options.

Edmonton Development
In April and June 2017, Killam acquired land for development in Edmonton for $4.1 million. The land is located in a newly built subdivision of Cameron Heights, and Killam is in the design and approval process to construct two apartment buildings in the range of 190 units.

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

Killam has a robust development pipeline. 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 as well as the Silver Spear II development on land adjacent to the existing 199-unit building in Mississauga, ON. Killam will have a 50% ownership in this 12-storey, 128-unit development.

Based on the three developments underway Killam forecasts adding approximately $133 million of new developments to its portfolio during the next three years.

As at August 9, 2017, 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
Carlton Terrace	Halifax, NS	104	Approved development agreement
The Governor	Halifax, NS	48	As of right
Cameron Heights	Edmonton, AB	190	In design and approval process
Grid 5 vacant land(1)	Calgary, AB	199	Future development
Topsail Road	St. John's, NL	225	Approved development agreement
Medical Arts (Spring Garden)	Halifax, NS	200	Future development
Block 4	St. John's, NL	80	As of right
Carlton Houses	Halifax, NS	70	Future development
Gloucester Phase 2 - 4(1)	Ottawa, ON	309	Future development
Total Development Opportunities		**1,489**	

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

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the three and six months ended June 30, 2017, Killam invested a total of $6.3 million and $11.4 million, in its portfolio compared to $8.9 million and $13.3 million for the three and six months ended June 30, 2016.

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Apartments	**$5,514**	$8,176	(32.6)%	**$10,297**	$12,356	(16.7)%
MHCs	**747**	532	40.4 %	**949**	602	57.6 %
Commercial	**79**	188	(58.0)%	**186**	370	(49.7)%
	$6,340	$8,896	(28.7)%	**$11,432**	$13,328	(14.2)%

Apartments - Capital Spend

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

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Building improvements	**$2,312**	$4,805	(51.9)%	**$3,699**	$6,433	(42.5)%
Suite renovations	**2,405**	2,767	(13.1)%	**4,763**	4,845	(1.7)%
Appliances	**334**	291	14.8%	**714**	474	50.6%
Boilers and heating equipment	**390**	177	120.3%	**914**	306	198.7%
Other	**35**	77	(54.5)%	**96**	158	(39.2)%
Equipment	**37**	39	(5.1)%	**110**	119	(7.6)%
Parking lots	**1**	2	(50.0)%	**1**	3	(66.7)%
Land improvements	**—**	18	(100.0)%	**—**	18	(100.0)%
Total capital spend	**$5,514**	$8,176	(32.6)%	**$10,297**	$12,356	(16.7)%
Average number of units outstanding	**14,282**	13,723	4.1%	**14,181**	13,702	3.5%
Capital spend - $ per unit	**$386**	$596	(35.2)%	**$726**	$902	(19.5)%

Annual capital investment includes a mix of maintenance capex and value-enhancing upgrades. Maintenance capex relates to investments that are not expected to lead to an increase in the NOI or efficiency of a building; however, these investments are expected to extend the life of a building. Examples of maintenance capex include roof and building envelope repairs, and are in addition to 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, for example, unit and common area upgrades and energy and water saving investments. Killam's AFFO discussion on page 25 provides additional disclosure on the allocation between maintenance capex and value-enhancing capex.

Suite Renovations

Approximately 43% and 46% of apartment capital investments for the three and six months ended June 30, 2017, was attributable to suite renovations. Killam continues to focus on unit upgrades to maximize occupancy and rental increases. 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 impact capital requirements.

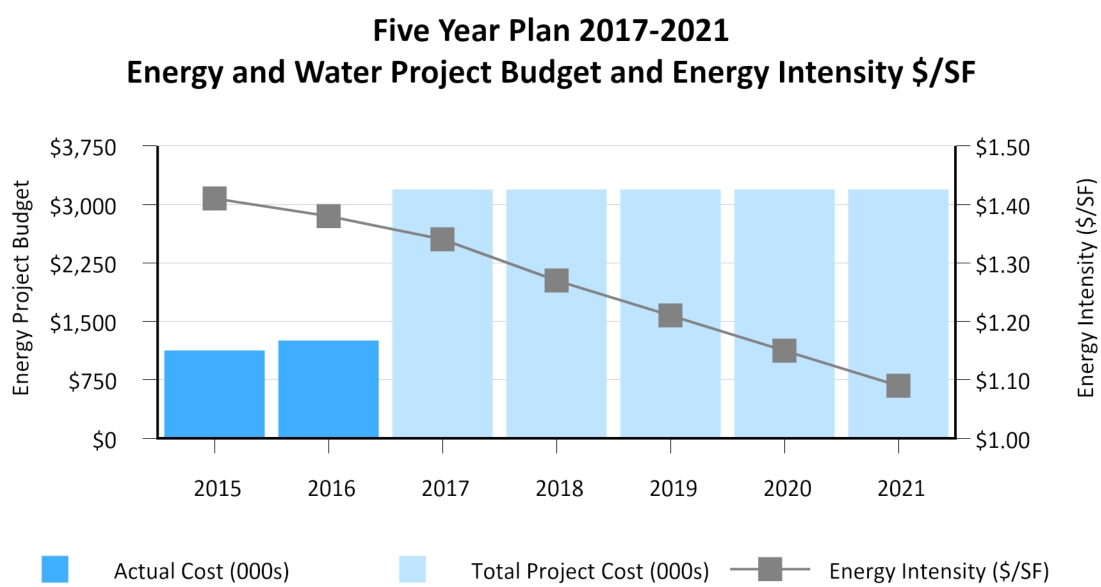
Killam expects to invest between $33 and $35 million during 2017 on capital investments across its apartment portfolio compared to approximately $30 million in 2016.

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

Energy Efficiencies

Following a comprehensive evaluation in 2016, Killam identified approximately 700 energy efficiency projects across the portfolio, focusing on initiatives to reduce the use of water, heating fuels and electricity. The total investment for these projects is $25 million and once complete, aggregate annual savings of $7 million are expected. At a 5% average cap-rate, these savings could increase the net asset value of Killam's portfolio by $140 million.

These projects should allow Killam to decrease energy intensity from its current $1.40 per square foot to $1.10 per square foot, a 23% reduction by the end of 2021. Intensity measures all energy sources (including water) used within a property, converted to a single common measurement of dollars per SF. This $0.30 decline is an estimated $4.3 million in annual energy costs, which should more than offset rising energy rates and other operating pressures.



Management plans to invest approximately $3.5 million in these projects during 2017 and has committed $2.7 million in the first six months of the year to ultra low-flow toilet, lighting and heating efficiency projects (i.e., gas boiler controls and upgrades). These projects are estimated to generate $0.7 million in annualized savings with an average payback period of 4.0 years. By the end of 2017, Killam expects to have invested $5.1 million, or approximately 20% of its energy efficiency plan.

MHCs - Capital Spend

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

	Three months ended June 30,			Six months ended June 30,		
	2017	2016	% Change	**2017**	2016	% Change
Water and sewer upgrades	**$317**	$137	131.4 %	**$403**	$217	85.7 %
Site expansion and land improvements	**60**	206	(70.9)%	**92**	211	(56.4)%
Other	**315**	101	211.9 %	**399**	139	187.1 %
Roads and paving	**44**	84	(47.6)%	**44**	11	300.0 %
Equipment	**11**	4	175.0 %	**11**	24	(54.2)%
Total capital spend - MHCs	**$747**	$532	40.4 %	**$949**	$602	57.6 %
Average number of units outstanding	**5,165**	5,165	—%	**5,165**	5,165	—%
Capital spend - $ per site	**$145**	$103	40.8 %	**$184**	$117	57.3 %

Management expects to invest between $300 and $500 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and community enhancements, such as the addition of playgrounds. A portion of MHC capital may be recovered through the above guideline increases in the provinces with rent control, leading to increased NOI from the investments.

Total capital spend during the three and six months ended June 30, 2017, was $0.7 million and $0.9 million, up from $0.5 million and $0.6 million in the same periods of 2016. The increase in capital spend is due to the 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 $2.5 and $3.0 million during 2017 on capital investments across its MHC portfolio compared to $2.0 million in 2016.

Liquidity and Capital Resources

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

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

(ii) $30 million revolving demand credit facility plus cash on hand supports acquisitions of approximately $100 million.

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

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of the assets of Killam as shown on the most recent consolidated statement of financial position and (ii) the historical cost of the assets of Killam. Killam's total debt as a percentage of assets as at June 30, 2017, was 50.4%.

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

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at	**June 30, 2017**	December 31, 2016	Change
Weighted average years to debt maturity	**4.2**	4.3	(0.1) years
Gross mortgage, loan and vendor debt as a percentage of total assets	**50.4%**	51.2%	(80) bps
Total debt as a percentage of total assets	**50.4%**	53.5%	(310) bps
Interest coverage - rolling twelve months	**2.97x**	2.74x	23 bps
Debt service coverage - rolling twelve months	**1.47x**	1.43x	4 bps
Weighted average mortgage interest rate	**2.94%**	3.01%	(7) bps
Weighted average interest rate of total debt	**2.94%**	3.11%	(17) 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 weighted average interest rate on mortgages as at June 30, 2017 improved to 2.94% from 3.01% as at December 31, 2016, as a result of refinancing at lower interest rates during the period. This trend is expected to continue over the remainder of 2017 with $30.1 million of mortgage balances maturing.

Total debt as a percentage of total assets has decreased 310 bps to 50.4% from December 31, 2016 largely due to the redemption of the convertible debentures. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps increase in the weighted average cap-rate as at June 30, 2017 would have increased the ratio of debt as a percentage of total assets by 80 bps.

Refinancings

For the six months ended June 30, 2017, Killam refinanced the following mortgages:

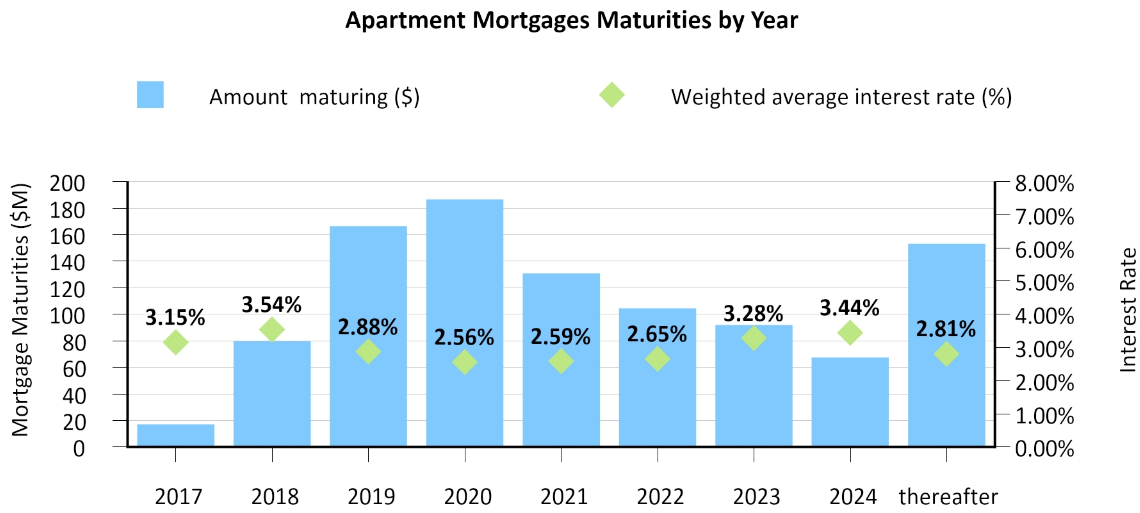
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$39,399	3.54%	$55,868	2.16%	5.0 years	$16,469
MHCs	1,667	4.46%	2,191	3.12%	5.0 years	524
	$41,066	3.58%	$58,059	2.20%	5.0 years	$16,993

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

	Apartments			MHC		Total	
Year of Maturity	Balance June 30, 2017	Weighted Avg Int. Rate %	% CMHC Insured	Balance June 30, 2017	Weighted Avg Int. Rate %	Balance June 30, 2017 (1)	Weighted Avg Int. Rate %
2017	$17,026	3.15%	29.9%	$13,625	4.69%	$30,651	3.83%
2018	79,523	3.54%	32.7%	11,294	4.33%	90,816	3.64%
2019	172,197	2.88%	93.9%	18,527	3.85%	190,724	2.97%
2020	186,382	2.56%	57.1%	6,826	3.52%	193,208	2.60%
2021	130,560	2.59%	84.3%	7,024	3.29%	137,584	2.62%
2022	104,428	2.65%	68.8%	2,191	3.12%	106,619	2.66%
2023	91,958	3.28%	84.4%	—	—	91,958	3.28%
Thereafter	220,396	3.00%	100.0%	—	—	220,396	3.00%
	$1,002,470	2.88%	77.7%	$59,487	4.00%	$1,061,956	2.94%

(1) Excludes $7.4 million in variable rate demand loans secured by development property, which is classified as mortgages and loans payable on the June 30, 2017 condensed consolidated interim financial statements.

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



As at June 30, 2017, approximately 78% of Killam's apartment mortgages were CMHC-insured (73% of total mortgages as MHC mortgages are not eligible for CMHC insurance) (December 31, 2016 – 77% and 73%). The weighted average interest rate on the CMHC-insured mortgages was 2.73% as at June 30, 2017 (December 31, 2016 – 2.80%).

Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both 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 and therefore are able to lend at more favorable rates.

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

Remaining 2017 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	4	$2,675	$16,933
MHCs with debt maturing	7	2,527	13,159
	11	$5,202	$30,092

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

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

Future Contractual Debt Obligations

As at June 30, 2017, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending June 30,	Mortgage and loans payable	Construction loans	Total
2018	$110,156	$16,442	$126,598
2019	177,607	5,963	183,570
2020	188,601	—	188,601
2021	142,543	—	142,543
2022	164,396	—	164,396
Thereafter	286,060	—	286,060
	$1,069,363	$22,405	$1,091,768

Convertible Debentures

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

Construction Loans

As at June 30, 2017, Killam had access to two floating rate, non-revolving demand construction loans including a $51.8 million construction loan commitment related to The Alexander where Killam has a 50% ownership interest and a $18.8 million construction loan commitment related to the Saginaw Park development project. Payments are to be made monthly on an interest only basis. The construction loans bear interest at rates of prime plus 0.625%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages.

As at June 30, 2017, $22.4 million (December 31, 2016 - $18.5 million) was drawn on The Alexander and Saginaw Park construction loans, at a weighted average interest rate of 3.33% (December 31, 2016 - 3.39%).

Credit Facilities

Killam has two credit facilities with major financial institutions:

1) A $30.0 million revolving demand facility that can be used for acquisitions and general business purposes. The interest rate on the facility 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. As at June 30, 2017, Killam has assets with a carrying value of $46.3 million pledged to the line and a balance outstanding of $nil. The agreement includes certain covenants and undertakings with which Killam is in compliance as at June 30, 2017.

2) A $1.5 million revolving demand facility that can be used for acquisitions and 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 June 30 2017, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2016 - $1.6 million) and letters of credit totaling $1.2 million outstanding against the facility (December 31, 2016 - $1.2 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at June 30, 2017.

Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three and six months ended June 30, 2017, no unitholders redeemed units.

PART VII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the Management's Discussion and Analysis of Killam's 2016 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2016, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2017.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. Significant areas of judgment, estimates and assumptions are set out in note 3 to the consolidated financial statements found in Killam's 2016 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

Disclosure Controls, Procedures and Internal Controls

Management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that Killam's disclosure controls and, procedures and internal controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within Killam have been detected. During the most recent interim period, there have been no significant changes to Killam's disclosure controls and, procedures or internal controls.

Related Party Transactions

For the three and six months ended June 30, 2017, Killam paid a commercial leasing placement fee to a property management company controlled by an executive and Trustee of Killam, in the amount of $17 thousand (for the three and six months ended June 30, 2016 - $nil).

During the three and six months ended June 30, 2017, Killam paid a sales commission, totaling $0.3 million, to a property management company that is 50% owned by an executive and Trustee of Killam (for the three and six months ended June 30, 2016 - $nil).

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

Subsequent Events

On July 4, 2017, Killam acquired a two-building, 134-unit property located in Halifax, Nova Scotia. The purchase price of $31.6 million was funded with two assumed mortgages of $10.8 million and $11.7 million with interest rates of 1.8% and 1.98%, and the balance with cash on hand.

On July 18, 2017, Killam announced a distribution of $0.05167 per unit, payable on August 15, 2017, to unitholders of record on July 31, 2017.

Subsequent to June 30, 2017, Killam agreed to acquire 296 units in two properties in Edmonton, Alberta. The purchase price of $67.5 million is expected to be satisfied with cash and new CMHC 10-year mortgage debt. The first property, consisting of 124 units, is scheduled to close August 18, 2017, and the remaining property, consisting of 172 units, is scheduled to close in Q4-2017.