



**KILLAM APARTMENT REIT
ANNUAL REPORT 2018**



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PROFILE

Killam Apartment REIT (Killam) is a growth-oriented real estate investment trust owning, operating and developing multi-family apartments and manufactured home communities (MHCs). Killam's real estate portfolio is located in Atlantic Canada, Ontario and Alberta.

MISSION

To have caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home.

CORE VALUES

- Build Community
- Do the Right Thing
- Creative Solutions
- Curb Appeal
- Strong Customer Relationships

STRATEGY

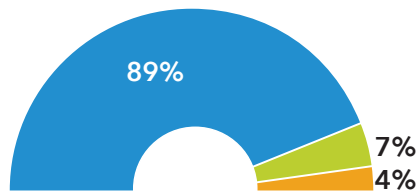
Killam's strategy to maximize its value and long-term profitability is focused on three priorities:

- Increasing earnings from its existing portfolio,
- Expanding the portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer properties, and
- Developing high-quality properties in its core markets.

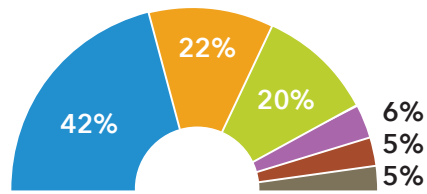


On the cover:
Saginaw Park, Cambridge, ON

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Net Operating Income by Segment
APARTMENTS | MHCs | COMMERCIAL



Net Operating Income by Province
NS | ON | NB | NL | PE | AB

2018 Highlights

16.6%

Total Unitholder Return

3.6%

Increase in Same Property Revenue

\$315M

in Acquisitions Completed

4.4%

Growth in FFO per Unit

4.8%

Increase in Same Property Net Operating Income

\$53M

Invested in Developments

3.2%

Distribution Increase

49.8%

Debt as a Percentage of Total Assets as at December 31, 2018

\$135M

Fair Value Gains on Investment Properties



Saginaw Park, Cambridge, ON

(Value in thousands, except per unit amount and portfolio information)

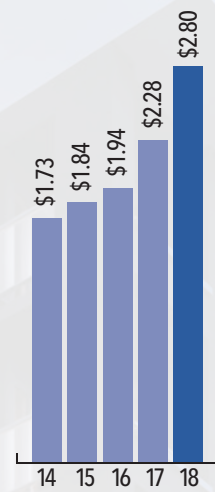
As at and for the years ended	2018	2017	2016
Operations			
Property revenue	\$215,959	\$187,377	\$175,269
Net operating income	\$135,712	\$115,220	\$105,424
Net income	\$175,171	\$104,760	\$71,439
Funds from operations (FFO) ⁽¹⁾	\$81,808	\$69,873	\$58,886
FFO per unit (diluted)	\$0.94	\$0.90	\$0.86
Adjusted funds from operations (AFFO) ⁽²⁾	\$66,275	\$55,982	\$44,746
AFFO per unit/share (diluted)	\$0.76	\$0.72	\$0.66
Distributions declared per unit	\$0.64	\$0.62	\$0.60
AFFO payout ratio	84%	86%	91%
Financial Position			
Total assets	\$2,824,406	\$2,311,210	\$1,987,929
Total liabilities	\$1,655,456	\$1,343,488	\$1,237,463
Total equity	\$1,168,950	\$967,722	\$750,466
Units outstanding ⁽³⁾	90,212	84,428	71,736
Total debt as a percent of total assets	49.8%	48.7%	53.5%
Interest coverage ratio	3.22x	3.13x	2.70x
Normalized Debt to EBITDA	10.62x	10.50x	10.51x
Portfolio Information			
Apartment units	15,883	14,983	14,105
MHC sites	5,427	5,165	5,165
Average rent per apartment unit	\$1,076	\$1,017	\$973
Average rent per MHC site	\$254	\$248	\$242

(1) FFO, and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, REIT conversion costs and non-controlling interest. A reconciliation between net income and FFO is included on page 54 of this annual report.

(2) Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures, commercial leasing costs and straight-line commercial rents. A reconciliation from FFO to AFFO is included on page 56, and the calculation of the maintenance capex reserve is included on page 55.

(3) Units outstanding at December 31 2018, include 86,058,671 REIT units and 4,153,520 exchangeable units.

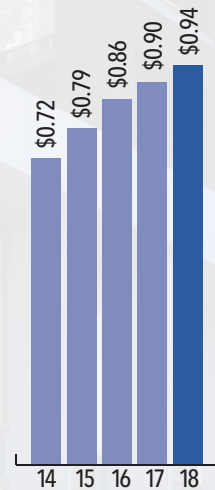
Frontier, Ottawa, ON



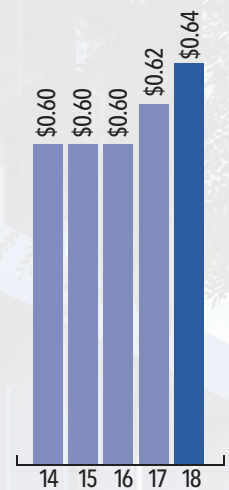
Value of Real Estate Portfolio (\$ billions)



Operating Margin



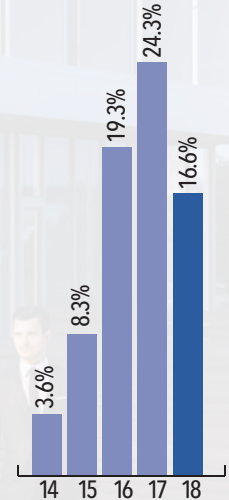
Funds from Operations per Unit (diluted)



Distribution per Unit



Debt as a % of Total Assets



Total Unitholder Return

2018 Performance Summary

	2018 Target	2018 Performance	2019 Target	Longer-term Target
Growth in Same Property NOI	Same property NOI growth of 3% to 5%.	Target met. Same property NOI grew by 4.8%.	Same property NOI growth of 3% to 5%.	Same property NOI growth averaging over 3%.
Expanded Portfolio	A minimum of \$225 million of acquisitions.	Target exceeded. Killam completed \$315 million of acquisitions in 2018.	Grow the portfolio to more than \$3.0 billion by the end of 2019, with a minimum acquisition target of \$100 million.	Grow the portfolio to more than \$3.5 billion by 2021.
Geographic Diversification	At least 75% of acquisitions made outside Atlantic Canada and earn at least 26% of 2018 NOI outside Atlantic Canada.	Target partially met. 66% of 2018 acquisitions were outside Atlantic Canada. 27% of 2018 NOI was generated by properties in Alberta and Ontario.	At least 30% of 2019 NOI generated outside Atlantic Canada.	More than 35% of NOI generated outside Atlantic Canada by 2021.
Development of High-Quality Properties	Complete the Alexander and Saginaw developments, and break ground on one additional development project.	Target met. The Alexander and Saginaw developments were completed and leased-up in 2018. The 78-unit Shorefront development in PEI broke ground in Q4-2018.	Complete the Frontier development in Ottawa, break ground on the Silver Spear development in Mississauga and begin one additional development project.	Create a minimum of \$20 million of value from developments completed between 2019 through 2021.
Strengthened Balance Sheet	Maintain debt as a percentage of total assets ratio below 52%.	Target exceeded. Debt as a percentage of total assets was 49.8% at December 31, 2018.	Maintain debt as a percentage of total assets ratio below 49%.	Reduce debt total as a percentage of assets to below 45% by the end of 2021.

Dear Unitholders,

I am pleased to report that 2018 was another successful year for Killam. We earned a record \$175 million in net income and \$81 million in funds from operations (FFO). On a per unit basis, FFO was \$0.94 per unit, up 4.4% from \$0.90 generated in 2017. The value of Killam's real estate portfolio increased substantially in 2018, ending the year at \$2.8 billion, up 22% from December 31, 2017. This increase was attributable to \$315 million of acquisitions and \$135 million of fair value gains to our investment properties.



In addition, apartment fundamentals in Canada remain strong and we have been successful in translating this strength into increased rental rates and higher occupancy. It is rewarding to see the positive momentum we have achieved translate into strong unitholders' returns, including a 16.6% total return in 2018, and an average total return of 14.4% over the last five years.

Achieving strong, organic NOI growth

Our portfolio performed very well in 2018, achieving the highest occupancy in Killam's history and the highest average rental rate growth since 2012. Overall, revenue from our same property portfolio increased 3.6%, driving a 4.8% increase in same property net operating income (NOI) and reaching the upper range of our expectations for the year. These results reflect the commitment and dedication of our employees, who work hard every day to provide Killam tenants with exceptional service and ensure our properties look and perform their best.

Killam's NOI is increasingly diversified as we execute our geographic diversification strategy. In 2018, 27% of NOI was generated outside Atlantic Canada, up from 12% in 2013. We are on our way to achieving our target of generating 35% of NOI outside Atlantic Canada by 2021. Our strong operating platform supports a diversified portfolio, and our expansion in Ontario and Alberta increases our access to two of Canada's largest rental markets.

We are rolling out initiatives to maximize earnings from our existing portfolio, including investing in suite repositionings and energy initiatives. We accelerated our suite repositioning program in 2018 to \$3 million, renovating 167 units during the year at an average cost of \$22,000 per unit. This is an increase from \$1 million invested to upgrade 47 units in 2017. The demand has been strong for these upgraded units, and with an average monthly rental increase of \$253, translated into a return on investment of 14% in the year. We are ramping up this program even further in 2019 with a target of 300 repositioned units. Killam's opportunity to drive revenue, NOI and net asset value growth from this program is expansive, as we have identified 3,000 additional units for future repositionings. Our property management teams have embraced this program. They are actively identifying units to reposition, and are proudly – and quickly – renting them once upgrades are completed.

Apartment fundamentals in Canada remain strong and we have been successful in translating this strength into increased rental rates and higher occupancy.

In conjunction with driving revenue growth, we are also actively managing expenses to optimize net operating income. Killam is currently in year three of a five-year \$25 million energy efficiency plan focused on water and energy savings, including the installation of ultralow flow toilets, LED lighting retrofits and heating system upgrades. These projects help mitigate the impact of expense increases from rising energy rates and other inflationary pressures. To date, we have invested approximately \$10 million in energy projects and achieved a 20% return, essentially a five-year payback. In 2019 we expect to complete over 120 projects totalling \$5 million, and generate an estimated \$1.1 million in annualized savings. We are confident these initiatives will continue to drive revenue and NOI growth across the portfolio, improve operating margins and lead to a higher valued portfolio.

Acquiring newly constructed, quality assets and increasing our development pipeline

We invested \$315 million in acquisitions last year, making 2018 a record year for acquisitions for Killam. In line with our strategic priorities, we acquired \$210 million of newly constructed apartments located in Calgary, Edmonton, Ottawa, Charlottetown and Halifax, adding approximately 750 apartment units to our portfolio. We also invested \$78 million in Westmount Place, a large office and commercial complex in Waterloo with significant future multi-family development potential. As well, we purchased a small manufactured home community in Nova Scotia and a seasonal resort in Ontario, the first acquisitions in our manufactured home business in a number of years.

This increase was attributable to \$315 million of acquisitions and \$135 million of fair value gains to our investment properties.

Acquisitions in 2018 also included \$28 million of land for future development, resulting in a doubling of our development pipeline. We currently have future development opportunities totalling close to 2,800 apartment units, 70% of which are in Ontario and Alberta. This development pipeline provides long-term supply to fuel our value-creating development program. Our largest future development opportunity is a five-phase 800-unit apartment development in

Waterloo, adjacent to Westmount Place, as noted above.

Building high-quality properties

Killam completed two developments in 2018: Saginaw Park, a 94-unit property located in Cambridge, Ontario, and The Alexander, a 240-unit joint development in Halifax. Both properties were fully leased by year-end and contributed \$8 million in fair value gains. We acquired the remaining 50% ownership interest in The Alexander in December 2018 and are pleased to now have full ownership of this new landmark on Halifax's waterfront.

At year-end we had two developments underway and expect to break ground on two additional developments during 2019. The Frontier, a 228-unit building located in Ottawa, is expected to be completed during the second quarter of 2019. The second development underway is Shorefront, a 78-unit building on the Charlottetown waterfront expected to be completed in 2020. Charlottetown has been one of the strongest rental markets in Canada over the last few years with high population growth fuelled by immigration, driving vacancy levels below 1%. We look forward to adding Shorefront to our Charlottetown portfolio.

Embracing change and business transformation

Digital transformation and technology are disrupting the residential sector and we are working diligently to address the evolving demands from our connected consumers. We recognize the changes technology brings to our business, and in response Killam is investing in technology in order to enhance our operating and financial platforms to maximize growth and earnings. We strive to have leading-edge processes to best serve and engage our residents, prospective tenants, employees and suppliers.

Killam has invested in a new customer relationship management (CRM) platform, automating and fully integrating our online leasing, marketing and customer relationship processes. We are on track to complete the rollout of the new CRM system by the end of the first quarter. This tool will provide the ability to deliver the high-quality service that our prospects and tenants have come to expect as we maximize rental opportunities and further reduce vacancy. This system will offer prospective tenants the ability to book appointments and complete applications online from anywhere. With data entry being driven by our prospective tenants, our leasing teams will be better able to focus on delivering exceptional customer service. As well, having real-time access to data will be key to ensuring we can rapidly analyze our markets and better enable us to make informed and timely operating decisions. When data analytics are combined with external benchmarks, we understand our business better.

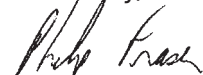
During the February 2019 Board of Trustees meeting, our Board approved a 3.1% increase to Killam's distribution to \$0.66 per unit, up from \$0.64 per unit.

Increasing Killam's distribution

During the February 2019 Board of Trustees meeting, our Board approved a 3.1% increase to Killam's distribution to \$0.66 per unit, up from \$0.64 per unit. This marks the third annual distribution increase in a row, reflecting the strength of Killam's results and the Board's outlook. We are confident in Killam's future. We remain committed to our strategy and our core values. We will continue to invest in our team and our assets, and strengthen Killam overall to ensure long-term success.

Thank you for your interest and investment in Killam. I invite you to attend Killam's annual unitholders' meeting on May 17th, 2019, at 9:30 AM Atlantic Time at the Delta Beausejour in Moncton, New Brunswick, either in person or via webcast. I look forward to providing progress updates on our strategic initiatives over the coming months.

Yours truly,



Philip Fraser

President & CEO

Growth Strategy Increasing Earnings from the Existing Portfolio

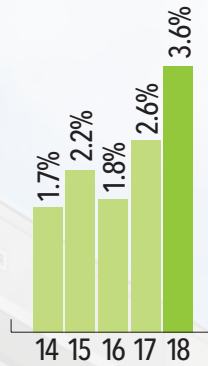
Increasing earnings from the existing portfolio is key to creating long-term value. During 2018 we achieved 4.8% NOI growth from our same property portfolio, which includes those properties we've owned for more than two years. Strong market fundamentals combined with the implementation of initiatives to further drive same property earnings are driving record-high occupancy levels and solid rental rate growth. Value-driving initiatives in 2018 include tripling our capital investment in apartment upgrades, increasing our investment in energy initiatives and beginning the rollout of an automated customer relations management platform to maximize our leasing program. We are excited by the opportunities ahead as we continue to invest in our team, our properties, technology and our customer experience.



Innovation Drive, Halifax, NS

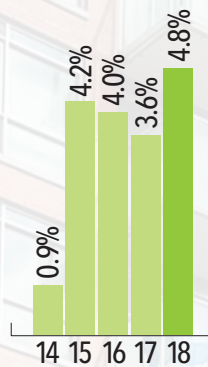


Queen and Ossington, Toronto, ON



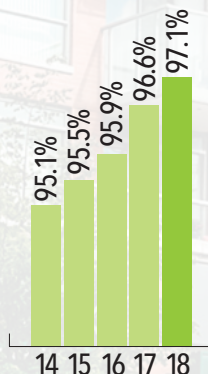
Same Property Revenue Growth

Same property revenue was up 3.6% in 2018 due to higher occupancy and a 2.7% increase in the average rental rate for the apartment portfolio, as well as 2.8% top-line growth within the MHC portfolio. A 43% reduction in rental incentives also contributed to strong top-line growth.



Same Property Net Operating Income Growth

Same property NOI was up 4.8% in 2018 due to strong revenue growth and only moderate expense growth, which was up 1.6% during the year. Killam also achieved a record-high operating margin in 2018, with the same property portfolio delivering an operating margin of 62.8%, up from 61.5% in 2017.



Same Property Apartment Occupancy

Killam's same property apartment portfolio achieved a record-high 97.1% occupancy in 2018. Occupancy levels were particularly strong in the Maritimes and Ontario due to immigration and demographics.

Growth Strategy Acquisitions

Acquisitions have always been an important part of Killam's growth strategy, and in 2018 Killam acquired the most properties in its history with the addition of \$315 million of assets. Killam purchased apartments totalling \$210 million, adding 750 units to its portfolio across Calgary, Edmonton, Halifax, London and Ottawa. Killam also acquired Westmount Place, a large office and commercial complex in Waterloo, for \$78 million, which has significant future multi-family development potential. Almost 70% of the capital deployed for acquisitions in 2018 was in Alberta and Ontario as Killam executed its strategy to increase the percentage of NOI generated outside Atlantic Canada. Killam successfully increased its portfolio of new properties with its 2018 acquisitions.

Westmount Place

Killam acquired Westmount Place in Waterloo, Ontario for \$78 million in March 2018. In addition to the 297,000-square-foot grocery-anchored commercial and office complex, the acquisition included 88,000 square feet of land for future residential development. Combined with the purchase of three adjacent parcels of land, Killam expects to construct up to 800 apartment units over a five-phase development. Westmount Place includes all the key elements Killam looks for when acquiring multi-family development sites – a great neighbourhood with a large employment base, which is close to transit, shopping and entertainment.



Rendering of potential multi-family development beside Westmount Place, Waterloo.



The Vibe Lofts

Killam expanded its Edmonton portfolio in 2018 with the purchase of The Vibe Lofts, a new 178-unit apartment building located in downtown Edmonton. Killam also grew its portfolio in Calgary in 2018 with the purchase of the Treo, two new four-storey apartment buildings in Calgary's Sherwood neighbourhood. Killam's Alberta portfolio now totals 1,005 apartment units.



The Killick

The 110-unit Killick was added to Killam's Halifax portfolio in February 2018. Located on the Dartmouth waterfront, this newly constructed apartment building offers striking views of the Halifax waterfront and is the only rental building in a new four-building complex, with the others being condos.



151 Greenbank

Killam expanded its Ottawa portfolio in September 2018 with the purchase of 151 Greenbank Road, a new 60-unit apartment building in its initial lease-up. Ottawa is home to Killam's largest apartment portfolio outside Atlantic Canada, with ten properties totaling 1,124 apartment units.

Growth Strategy Developments

Developing high-quality properties in our core markets is an important component of Killam's growth strategy. Killam began its development program in 2010 and to date has completed over \$200 million of development projects, including two projects in 2018. In April 2018, Killam completed the 94-unit Saginaw Park property in Cambridge, Ontario, pictured on the cover of this year's annual report. In October 2018, Killam completed the 240-unit Alexander development on the Halifax waterfront. Demand has been strong for these new properties, with a quick lease-up on both. Killam has two additional projects underway in Ottawa and Charlottetown and expects to break ground on two new developments in 2019. Since 2015, Killam has created \$20 million in fair value gains from its development program and is targeting another \$20 million of value creation over the next three years. With an experienced development team and an expansive development pipeline of over 2,700 units across Canada, new development will continue to be an important driver for both earnings and value growth.



Shorefront

Killam broke ground on the 78-unit Shorefront development in October, 2018. The Charlottetown rental market is one of Canada's strongest, with nation-leading per capita immigration levels driving demand for apartments. Killam is excited to add this new property to its portfolio in 2020.

Frontier

Frontier is the first of a four-phase residential development in the Gloucester sub-market of Ottawa. Killam has a 50% ownership in the development. Frontier is scheduled to be completed in Spring 2019 and construction of Phase II, containing 208 units, will start in 2019.



Silver Spear II

Killam received final approval for its 128-unit Silver Spear development during 2018 and expects to begin construction in 2019. Killam has a 50% interest in this project, which is located adjacent its existing 199-unit Silver Spear Apartment in Mississauga.



2018 Environmental, Social and Governance (ESG) Report

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Letter from the President & CEO

We are pleased to present Killam's 2018 Environmental, Social and Governance (ESG) Report. This report highlights our commitment to ESG issues and how ESG factors help guide our corporate strategy.

As one of Canada's largest housing providers, we take the responsibilities of corporate citizenship seriously. Our core values of Build Community and Do the Right Thing guide our commitment to ESG programs and investments.

Our environmental efforts are focused on two priorities: improving the efficiency of our current buildings and developing the next generation of energy-efficient apartments. We are in the third year of a five-year, \$25-million energy program, and our investments have already led to significant reductions in water and electricity consumption and greenhouse gas (GHG) emissions. We have three developments recently completed or under construction that incorporate technologies to maximize energy and water efficiencies, including geothermal heating and water sub-metering. Investing in energy initiatives reduces our carbon footprint and leads to higher earnings.

As a corporate citizen, Killam is an active participant in our communities, supporting local charities with shelter, funds and employee time. We are focused on customer service excellence and work diligently to maintain our status as an employer of choice.

Killam's Board of Trustees and governance processes are another key to our success. Our eight non-executive trustees bring significant real estate, corporate finance, government relations and management expertise to Killam. Individually, and as part of the Audit, Compensation, Governance, Nomination and Succession Committees, trustees are responsible for ensuring Killam fulfills its commitments as a responsible corporate citizen. In fact, our Governance Committee reviews and approves our annual ESG report and our performance against our ESG goals.

Many of our employees are highly involved members of their communities. We employ passionate individuals who dedicate their time and energy to a multitude of causes and charities, some of which we highlight in this report. We support these activities by providing paid time off for volunteer work. We also often provide financial contributions.

In 2019, we are making the commitment to participate in the Global Real Estate Sustainability Benchmark (GRESB) rating, a well-known global ESG benchmark for real assets, which measures performance against sustainability benchmarks including energy use, GHG emissions, water and waste, performance improvement programs and community engagement. Although we are pleased with the progress we have made thus far, there is more to do. We remain committed to advancing our ESG initiatives, and reporting annually on our progress.

Sustainability will continue to be a priority at Killam. It makes good business sense, and it's the right thing to do.

Yours truly,



Philip Fraser

President & CEO

Our Sustainability Policy – A Commitment to ESG

Killam is a leader in ESG practices within the Canadian real estate sector, and has developed a sustainability policy that emphasizes our commitment. The policy applies to all Killam employees. It is recommended by the Governance Committee and approved by the Board of Trustees. The following is Killam's commitment to ESG, included in the ESG policy:

- Invest in new technology and initiatives to increase sustainability and lower our carbon footprint across the portfolio with a focus on reducing waste, energy and water usage.
- Support and invest in our employees through training and development opportunities and providing access to a safe and positive workplace.
- Provide outstanding customer service and a sense of community at our properties.
- Support community initiatives in the communities in which we operate, with an emphasis on affordable housing.
- Establish and implement robust governance policies and practices.
- Report annually on our ESG programs, new initiatives and performance against targets.
- Review our annual ESG benchmark ratings (from various industry bodies) and target areas for improvement each year.

Our ESG Approach

Killam launched an ESG Oversight Committee in early 2019 to provide guidance and ensure the integration of ESG into Killam's strategic objectives. In addition, management regularly reports progress against ESG targets to the Board's Governance Committee.

Our approach is also underlined by our Core Values of Build Community and Do the Right Thing. Killam works proactively and diligently to monitor and reduce our environmental footprint, to ensure effective and ethical governance and to invest in ways that stimulate sustainable economic growth.

Our Core Values

Killam has five Core Values that shape the way we do business.



Our 2019 Goals

Our sustainability goals for 2019 include:

- Participate in the GRESB rating, a well-known global ESG benchmark for real assets.
- Invest \$5 million in energy-efficiency initiatives.
- Reduce carbon emissions by 3% (on a per square foot basis).
- Invest in social initiatives across our portfolio, focusing both on our people and our communities.

2018 Highlights and Achievements



WATER CONSERVATION

Completed the installation of low-flow toilets across the portfolio.



ENERGY SAVINGS

Invested \$2.1 million in LED lighting retrofits in 2018.



EFFICIENT HEATING

Invested \$1.6 million in heating efficiency projects.



EMPLOYER AWARDS

Recognized as an employer of choice, including being one of Canada's Most Admired Corporate Cultures.



RESIDENT SATISFACTION

Achieved 88%⁽¹⁾ resident satisfaction rating in annual resident survey.



CHARITABLE GIVING

Donated over \$300,000 in cash and in-kind gifts to support organizations across Canada.



COMMUNITY OUTREACH

Supported affordable housing with more than 600 subsidized units through community partnerships.



GOVERNANCE

Awarded the highest rating available for Governance from Institutional Shareholder Services (ISS).

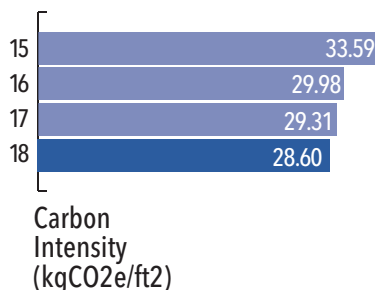
(1) Results from 2018 Corporate Research Associates (CRA) Independent Resident Survey

Reducing Energy Emissions

Killam has a long history of investing in energy efficiencies. When natural gas was first introduced to the market in Atlantic Canada in 2004, Killam was an early adopter. We converted over 98% of the portfolio in Nova Scotia and New Brunswick from oil burning boilers to cleaner natural gas within six years. This rapid adoption and conversion to natural gas has led to significant GHG reductions; over 50,000 tons of GHG reductions have been achieved in the last 15 years from smart fuel switching. Eliminating the use and storage of oil onsite has also greatly diminished Killam's environmental risk associated with older properties.

We seek to continuously improve and maintain our buildings, with a focus on reducing waste, energy and water use. To achieve this, we have been finding practical solutions for different properties that make the highest impact in reducing the environmental footprint. Our portfolio of over 200 properties provides opportunities to invest in projects that improve the long-term sustainability of our assets, while generating average annual returns of more than 20%.

With \$5 million dedicated annually to energy-efficiency projects, Killam invests over 10% of its overall capital budget in gaining operating efficiencies, lowering operating costs and reducing its impact on the environment.

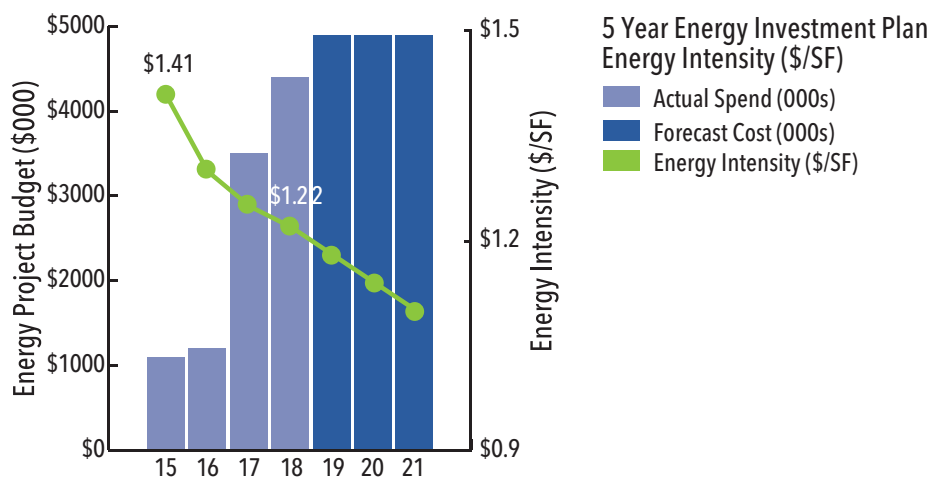


Since commencing the five-year, \$25 million energy-efficiency program in 2016, we have seen a 15% reduction in GHG intensity (as measured by CO2e/SF). We are targeting another 3% reduction in carbon intensity in 2019.

Killam also tracks its energy intensity expense per square foot (SF), which measures all energy sources (including water) used within a property, converted to a single common measurement of dollars per SF. At the end of 2018, there has been a \$0.19 per SF reduction since the 2015 base year (13%), representing an estimated \$4.3 million in annual energy cost savings, more than offsetting rising energy rates.

KILLAM'S GREEN FUTURE

Killam will continue to build on our current successes to make buildings more sustainable and resilient to the impacts of climate change. Killam's green future is already being laid with the advanced building technologies we are planning and piloting now. As Killam grows through new development and acquisitions, we challenge ourselves to ensure our impact on the environment is minimized.



Renewable Energy and Efficiency Initiatives



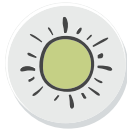
WATER CONSERVATION

Killam has completed the installation of low-flow toilets in more than 9,100 units in our portfolio. Since the program started in 2015, over 600 million liters of water have been saved by Killam and our tenants. As well, newer developments such as Saginaw Park, which opened in 2018, are sub-metering water usage.



LED LIGHTING

Killam invested \$2.1 million in lighting retrofits in 2018, and by the end of Q1-2019 will have retrofitted 100% of its portfolio with LED lighting. With over 5 million kilowatt-hours being saved annually, buildings are not only consuming less electricity, Killam has seen improved lighting levels and reduced maintenance costs with the LED program.



SOLAR

Killam has operational solar thermal heating systems at four properties. These systems together save approximately 2,800 gigajoules (GJ) of natural gas used to heat domestic hot water. Killam plans to install additional solar photovoltaic (PV) power generating panels in 2019. As the cost of solar continues to decline, Killam will scale solar to more properties. As not all properties are suitable for onsite solar or have limited roof area to meet energy needs, we are exploring purchasing offsite renewable electricity. Killam is also incorporating a solar PV heating system on its current 78-unit Shorefront development in Charlottetown, Prince Edward Island.



EFFICIENT HEATING

Killam has several programs underway to reduce heating costs and lower its impact on the environment. Large-scale boiler room overhauls using high-efficiency heating and pumping equipment are frequently being undertaken in the portfolio. Each year enough boiler upgrades are completed to save 15,000 GJ of natural gas use annually.

Developing the Next Generation of Energy-Efficient Apartments

Our more than \$200 million in new Killam developments have been designed and built using strategies aimed at improving performance across important metrics. These include: energy savings, water efficiency, the stewardship of resources and a sensitivity to their environmental impact. We focus our development activity in the urban core and in highly walkable suburban sub-markets.

We use technology and renewable resources whenever feasible with the intent to create green and sustainable homes for our residents. From LED lighting and motion sensing technology to geothermal heating and in-suite green switches, energy conservation is an important component of our development designs.



SUB-METERED
WATER



LOW-FLOW
FAUCETS



LED LIGHTING



ENERGY-EFFICIENT
APPLIANCES



Saginaw Park, Cambridge, ON



Geothermal

Killam is committed to increasing its investment in geothermal heating and cooling. In London, Ontario, Killam's 180 Mill Street apartments has a geothermal heating and cooling system that takes water from an underground stream, which is then pumped through a heat exchanger to individual heat pumps in each apartment unit. Phase one of a new 840-unit development, Frontier, is under construction in Ottawa, and will also incorporate geothermal heating and cooling. Within the next six months, Killam will also be breaking ground on another new development, a 128-unit apartment building in Mississauga that will use geothermal energy.



Sub-Metered Water

Killam introduced its first building with separately metered water with the opening of Saginaw Park in Cambridge, Ontario in the Spring of 2018. By separately metering water, residents pay for their water usage directly. This reduces Killam's exposure to water costs and promotes conservative water usage by residents. To date, water usage is estimated to be 20% lower at our sub-metered Saginaw Park property compared to our adjacent Saginaw Gardens property. Killam plans to incorporate separately metered water with the Frontier in Ottawa, and our planned Silver Spear development in Mississauga.



Electric Vehicle Chargers and Sustainable Transportation

Killam has seven properties that have on-site electric vehicle (EV) charging stations for residents. All new developments being built by Killam will incorporate EV chargers. In addition to supporting electrification of transportation, Killam is developing in urbanized environments that support direct access to public transportation. An example of this is the new Frontier development in Ottawa, which is adjacent to the city's newly expanded light-rail transit network.



Renovating To Maximize Efficiencies

Killam has an extensive suite renovation program that allows it to improve energy efficiency and sustainability throughout the apartment portfolio, while delivering upgraded amenities to its residents. With an apartment upgrade, we improve unit performance and comfort by installing the following:

- Energy Star kitchen appliances
- Energy-efficient lighting
- Programmable thermostats
- Low-VOC paint
- Low-flow faucets, shower heads and toilets

Contributing to Our Communities

COMMUNITY OUTREACH INITIATIVES & ADDRESSING SOCIAL NEEDS

Giving back is an important part of being a responsible corporate citizen. A core value of Killam is Do the Right Thing, and part of that is investing in our communities through various programs and initiatives. Killam has a Community Involvement Committee that extensively monitors all aspects of the Trust's community involvement and charitable efforts on an ongoing basis.

Providing affordable units, along with donating units to hospitals, has always been important to Killam. Below are Killam's key community initiatives in 2018:

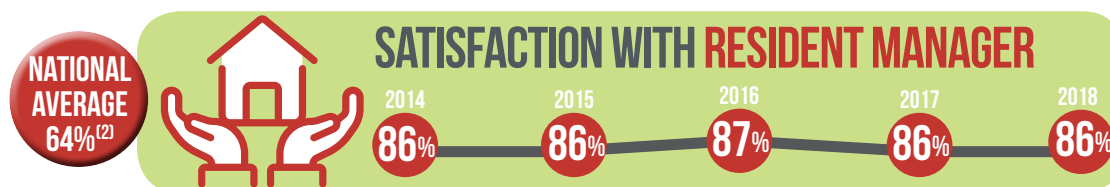
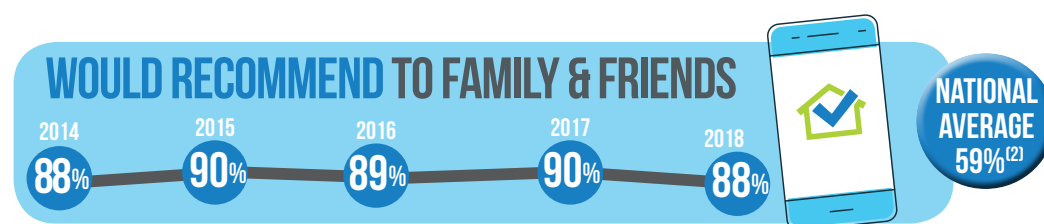
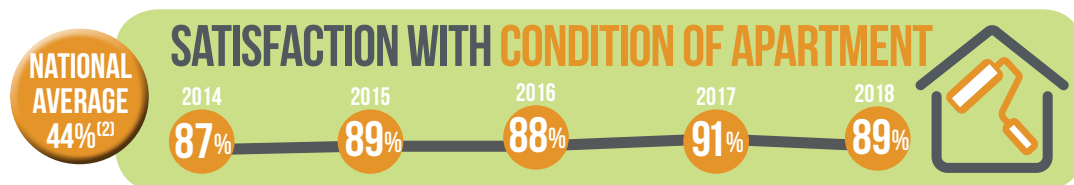
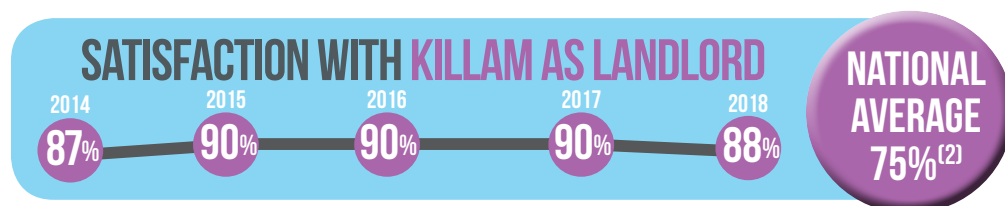
- Partnered with non-profit housing agencies such as Housing First, Nova Scotia Health Authority-Mental Health Division, Shelter Nova Scotia, YWCA and Phoenix. These relationships, along with partnerships with multiple provincial government housing boards, provide more than 600 subsidized units to previously under-housed individuals.
- Donated nine fully furnished units to hospitals across our portfolio in an effort to provide comfortable accommodation to families as they support loved ones through treatment.
- Provided financial assistance to organizations that offer shelter and support to individuals and families.
- Donated \$100,000 to the University of Calgary's Libin Cardiovascular Institute. Members of Killam's Board of Trustees personally pledge \$100,000 annually to an organization of a Trustee's choice. Since beginning this annual donation program in 2010, Killam's Trustees have donated \$900,000 to organizations across Canada.
- Provided assistance to residents who had fallen on hard times and needed financial support through Killam's Tenant Relief Program. Qualifying residents can receive up to six months of reduced rent.
- Supported many organizations across the communities in which we operate, including the organizations listed below:

Killam employees are active community members. Killam grants a full day of paid leave each year for employees to volunteer with a charity of their choice. Many employees take advantage of this day to give back to organizations in their communities.



Providing Outstanding Customer Service

Killam provides outstanding customer service and fosters a sense of community at its properties. We survey residents to measure our success in meeting expectations and to identify areas for improvement. In 2018, we received a satisfaction rating of 88%⁽¹⁾ compared to the national average of 75%⁽²⁾.



Creating a sense of community is a priority at Killam. Below are examples of programs, events and amenities that contribute to resident engagement:

- Holiday gatherings, community barbecues, meet and greets, pizza parties and movie nights.
- Investment in community gardens, playgrounds, fitness rooms, recreational facilities, as well as waterfront and pool upgrades at seasonal resorts.
- Killam's online resident portal, along with a mobile app version, and corporate website, including the online live chat option, has expanded communication options for existing and prospective residents.

(1) Results from 2018 CRA Independent Resident Survey
 (2) 2018 Avison Young National Multi-Residential Tenant Survey

The Right People

A COLLABORATIVE CULTURE

Killam's success is due to the hard work and dedication of our people. Our more than 600 employees exemplify Killam's Core Values and are the key to resident satisfaction. In our 2018 employee survey, 94% of respondents said they are willing to give an extra effort to see Killam succeed.

Killam supports its employees at work and in their communities in many ways:

- Killam invests in employee education and coaching programs and provides financial assistance for learning.
- Killam's employee unit purchase plan rewards employees with a 50% investment match after two years of service.
- Scholarships are available to children and grandchildren of Killam employees who pursue post-secondary education.
- Quarterly newsletters, team summits and senior management property visits foster an engaged workforce.
- Killam's Employee and Family Assistance Program provides counseling and support for employees and their family members experiencing depression, anxiety, stress, grief and other common issues.

COMPENSATION AND PROMOTION

Killam is committed to delivering competitive compensation for its employees, along with considerable benefits, training, education opportunities and career advancement.

The majority of Killam employees are measured quarterly on targets that are directly linked to our corporate goals for the year. This increases both Killam's ability to meet our targets as well as the commitment of our employees to our corporate success.

Quarterly scorecard reports for property managers and site employees are part of our regular performance management feedback program. The program includes annual, quarterly and probationary review programs all offered through our user-friendly interactive employee portal. Performance management includes career development and long-term goal discussions.

Senior management participated in a 360° review process during 2018, receiving one-on-one executive coaching. The senior management team as a whole was evaluated as leaders, and areas of strength and growth were identified, fostering the full potential of Killam's management team.

Employee Benefits

Flexible benefits plans

Employee & Family Assistance Program

Paid volunteer time

Paid time off (vacation & personal)

Paid sick leave

Annual incentive plan

Employee Unit Purchase Plan

Professional association reimbursement

Referral bonuses

Short-term and long-term disability coverage

Summer hours

Scholarships

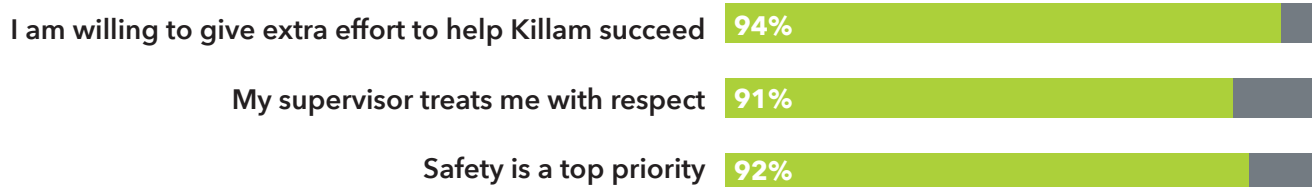
Tuition reimbursement

Discount at Killam apartments

Killam Perks (discounts at partners)

Parental leave pay

2018 EMPLOYEE SURVEY RESULTS



DIVERSITY AND INCLUSION

Killam is committed to providing a supportive and inclusive workplace for all employees. Employees are encouraged to develop their full potential and use their unique talents, maximizing the efficiency of our team. Killam recognizes the benefits which arise from employee diversity, including a strengthened corporate culture, improved employee retention, access to different perspectives and ideas and the benefit of all available talent.

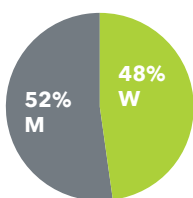
Killam is an equal opportunity employer. All decisions regarding recruitment, hiring, promotion, compensation, employee development and all other terms and conditions of employment are made without regard to race, nationality or ethnic origin, colour, religion, age, sex, sexual orientation, gender orientation, marital status, civil status, physical or mental disability or any other protected ground, as set out in Killam's Code of Business Conduct and Ethics and applicable human rights legislation.

Killam's commitment to a diverse and inclusive workplace is apparent in the following initiatives, policies and practices:

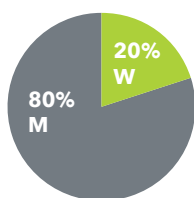
- Killam has both employee and Board of Trustees diversity policies to promote inclusiveness, diversity and leadership opportunities.
- Two of ten Board positions and five of nine senior management positions are occupied by women. The Board has a target of at least three women on the Board by 2020.
- Killam's commitment to diversity is evident in our employee policies, handbooks, documents and employee portal. More importantly, respect and fair treatment are an essential part of our culture.
- Respectful workplace training is provided to employees on a regular basis.
- Any discriminatory practices or behaviours in the workplace are not tolerated and are addressed immediately.

Diversity Metrics

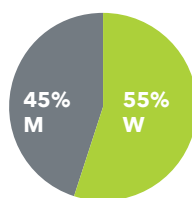
All Employees



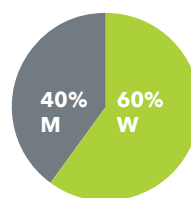
Board of Trustees



Executive



Senior Managers & Professionals

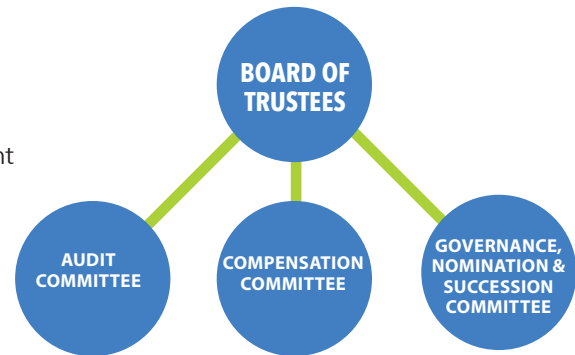


Leading with Strong Governance

BOARD OF TRUSTEES AND BOARD COMMITTEES

Killam believes that effective corporate governance is critical to our continued and long-term success and will help to maximize unitholder value. The Trustees strongly believe that their commitment to sound governance practices is in the best interest of the Trust and its unitholders and contributes to effective and efficient decision making.

The Board carries out its responsibilities with the support of several Board committees. The Governance, Nomination and Succession Committee (GN&S) is responsible for the oversight of Killam's ESG mandate and initiatives. For more information on Killam's Board Committees, visit killamreit.com/investor-relations/corporate-governance.



INDEPENDENCE

Killam's Board of Trustees is currently comprised of ten Trustees, six of whom are considered to be independent.

Killam believes that separating the position of Chair of the Board and the position of the CEO is key in effectively providing independent Board oversight and in holding management accountable to the Board for the Trust's operations. Killam has an independent, non-executive Chair of the Board, and all Board committee members are independent.

It is the Board's policy for non-management Trustees to hold regularly scheduled meetings without the attendance of management of the Trust (in-camera meetings). Time is specifically reserved for in-camera meetings at the beginning and/or end of the Board, Audit, Compensation and GN&S Committee meetings.

CODE OF BUSINESS CONDUCT AND ETHICS

Killam strives to be a good corporate citizen and maintain a high standard of integrity in conducting business. Killam's Code of Business Conduct and Ethics (the Code) establishes a framework of guidelines and principles to oversee and foster ethical behaviour in all business activities.

The principles in the Code are intended to:

- Establish ethical and fair practice in all business relationships, dealings and activities.
- Ensure compliance with all laws, regulations and Killam policies.
- Facilitate a safe working environment with respect for people and a commitment to diversity, equal opportunity and freedom from exposure to improper conduct and discrimination.
- Maintain professional integrity in all business dealings.
- Protect Killam's assets, ensuring only proper use for Killam's benefit.
- Safeguard the use of confidential information and maintain proper reporting procedures.

The Code provides additional, practical insight into applying Killam's Core Values, specifically Do the Right Thing, to Killam's everyday operations.

RECOGNITION FOR GOOD GOVERNANCE

Killam was awarded the highest rating for Governance by Institutional Shareholder Services (ISS) in 2018. ISS's Governance QualityScore methodology focuses on the qualitative aspects of governance, including global governance standards and alignment with ISS voting policy in each region.



BEST PRACTICE COMPENSATION POLICIES

The Board of Trustees' Compensation Committee is responsible for determining executive compensation packages for senior officers. In the last two years, Killam's Compensation Committee and Board of Trustees approved changes to the compensation programs to increase alignment between executives and unitholders. Highlights of Killam's executive compensation include:

- The majority of total direct compensation for executives is performance-based.
- A portion of incentive awards are dependent upon unit performance and are measured against objective financial metrics that link directly to the creation of value for unitholders.
- Vesting timeframes for at-risk compensation are designed to expose a material portion of executive compensation to long-term unitholder value creation.
- An executive compensation clawback policy was introduced in 2018.
- All members of the senior management team are subject to unit ownership requirements.
- An advisory say-on-pay resolution was introduced at the 2018 Annual General Meeting and received 97.6% approval from unitholders.

WHISTLEBLOWER POLICY

Killam has a Whistleblower Policy to encourage individuals and businesses to report any harmful activity without fear of retribution. The Whistleblower Policy underscores Killam's commitment to operating under the highest standards of accountability and transparency.

Through Killam's corporate website, persons can complete a confidential form to report any harmful activity that they may have witnessed. Reports are sent directly to the Chair of the Audit Committee and all information submitted will remain confidential.

The goal of the Whistleblower Policy is to:

- Encourage employees, advisors, residents, people and companies who do business with Killam to report possible violations of law, accounting irregularities and other suspected wrongdoing.
- Provide a confidential channel to report such activity.
- Discourage illegal activity and illegal business conduct.
- Protect Killam's good name, business interests and its relationships with employees, unitholders, broker-dealers, real estate professionals, suppliers, residents and the community at large.

2018 Management's Discussion & Analysis

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

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a \$2.8 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 ten projects to date.

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

- 1) increase earnings from the existing portfolio;
- 2) expand the portfolio and diversify geographically through accretive acquisitions, targeting newer properties; and
- 3) develop high-quality properties in its core markets.

The apartment business is Killam's largest segment and accounted for 89% of Killam's net operating income ("NOI") for the year ended December 31, 2018. As at December 31, 2018, Killam's apartment portfolio consisted of 15,883 units, including 1,245 units owned 50% with institutional partners. Killam's 196 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), and Alberta (Calgary and Edmonton). Killam is Atlantic Canada's largest residential landlord, owning a 13% share of multi-family rental units in its core markets. Killam plans to continue increasing its presence in Ontario and Alberta through acquisitions and developments and will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition to its apartment portfolio, Killam owns 5,427 sites in 37 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 7% of Killam's NOI for the year ended December 31, 2018. Killam also owns six commercial properties that accounted for 4% of Killam's NOI for the year ended December 31, 2018.

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management, focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2017 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at February 12, 2019. This MD&A has been reviewed and approved by Management and the REIT's Board of Trustees.

Declaration of Trust

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

Investment Guidelines

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

Operating Policies

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

As at December 31, 2018, Killam was in compliance with all investment guidelines and operating policies.

2018 Management's Discussion & Analysis

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

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, REIT conversion costs and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of REIT conversion costs as noted above; REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 25.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less an allowance for maintenance capital expenditures ("capex") (a three-year rolling historical average capital spend to maintain and sustain Killam's properties), commercial leasing costs and straight-line commercial rents. AFFO are calculated in accordance with the REALpac definition. Management considers AFFO an earnings metric. A reconciliation from FFO to AFFO is included on page 27, and the calculation of the maintenance capex reserve is included on page 26.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow provided by operating activities with adjustments for changes in working capital that are not indicative of sustainable cash available for distribution, maintenance capital expenditures, commercial leasing costs, amortization of deferred financing costs and non-controlling interest. Management considers ACFO a measure of sustainable cash flow. A reconciliation from cash provided by operating activities to ACFO is included on page 28. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, gains (losses) on disposition, income taxes, interest, depreciation and amortization.
- Interest coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, less interest expense related to exchangeable units, and principal mortgage repayments.
- Normalized debt to EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2018 and 2017. Same property results represent 77% of the fair value of Killam's investment property portfolio as at December 31, 2018. Excluded from same property results in 2018 are acquisitions, dispositions and developments completed in 2017 and 2018, as well as non-stabilized commercial properties linked to development projects.

2018 Management's Discussion & Analysis

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

PART II

Key Performance Indicators

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

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

2018 Management's Discussion & Analysis

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:

For the years ended December 31,

Operating Performance	2018	2017	Change ⁽²⁾
Property revenue	\$215,959	\$187,377	15.3%
Net operating income	\$135,712	\$115,220	17.8%
Net income	\$175,171	\$104,760	67.2%
FFO ⁽¹⁾	\$81,808	\$69,873	17.1%
FFO per unit - diluted ⁽¹⁾	\$0.94	\$0.90	4.4%
AFFO ⁽¹⁾	\$66,275	\$55,982	18.4%
AFFO per unit - diluted ^{(1),(3)}	\$0.76	\$0.72	5.6%
Weighted average number of units outstanding - diluted (000s)	87,185	78,658	10.8%
Distributions paid per unit	\$0.64	\$0.62	3.2%
AFFO payout ratio - diluted ^{(1),(3)}	84%	86%	(200) bps
Portfolio Performance			
Same property NOI ⁽¹⁾	\$112,846	\$107,700	4.8%
Same property NOI margin	62.2%	61.5%	70 bps
Same property apartment weighted average rental increase ⁽³⁾	2.7%	1.8%	90 bps
Same property apartment occupancy	97.1%	96.6%	50 bps

As at December 31,	2018	2017	Change
Leverage Ratios and Metrics			
Debt to total assets	49.8%	48.7%	110 bps
Weighted average mortgage interest rate	2.95%	2.89%	6 bps
Weighted average years to debt maturity	4.4	4.0	0.4 years
Normalized debt to EBITDA ⁽¹⁾	10.62x	10.50x	1.1%
Debt service coverage ⁽¹⁾	1.58x	1.51x	4.6%
Interest coverage ⁽¹⁾	3.22x	3.13x	2.9%

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

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

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

2018 Management's Discussion & Analysis

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

Summary of 2018 Results and Operations

FFO per Unit Growth of 4.4% and AFFO Growth per Unit of 5.6%

Killam generated strong FFO and AFFO per unit growth in 2018. FFO per unit was \$0.94 in 2018, 4.4% higher than the \$0.90 generated in 2017, and AFFO per unit increased 5.6% in 2018 to \$0.76 compared to \$0.72 in 2017. The growth in FFO and AFFO was attributable to a 17.8% increase in NOI due to strong same property performance and incremental contributions from recent acquisitions. This growth was partially offset by a 10.8% increase in the weighted average number of units outstanding from an aggregate \$134.6 million of equity issued in November 2017 and June 2018. AFFO was further augmented by the addition of newer high-quality assets to the portfolio, which require lower maintenance capital expenditure.

Portfolio Growth from Acquisitions

2018 was the largest year of acquisitions in Killam's history, with the completion of \$315 million of acquisitions. Killam acquired apartments totaling \$210 million, which added approximately 750 units to its portfolio across Calgary, Edmonton, Halifax, London and Ottawa. Killam also acquired a large office and commercial complex in Waterloo for \$80 million, which has significant future development potential. Killam was able to further enhance this development potential through strategic acquisitions of two adjoining land parcels. Almost 70% of the capital deployed in 2018 was in Alberta and Ontario, as Killam executed on its strategy to increase the percentage of NOI generated outside Atlantic Canada.

Strong Rental Demand Drove Same Property Revenue Growth and Highest NOI Growth Since 2010

Killam achieved 4.8% NOI growth during 2018, generated by a 3.6% increase in same property revenue coupled with modest expense growth of only 1.6%. Same property NOI growth was solid in Killam's core markets, with highlights including 4.1% in Halifax, 5.4% in Ontario and an aggregate 8.1% for New Brunswick. Killam realized strong rental rate growth on unit turns and lease renewals, averaging 5.3% and 1.7%, compared to 3.4% and 1.0% in 2017. Same property occupancy for the portfolio was 97.1%, the highest annual occupancy in Killam's history.

Efficiencies and Cost Management Initiatives Minimize Same Property Expense Growth

Killam's same property total operating expenses increased a modest 1.6% for the year ended December 31, 2018, compared to 2017. Utility and fuel expenses for 2018 were up 3.0% compared to 2017, due to increases in natural gas rates in New Brunswick and Nova Scotia, offset partially by reductions in both electricity and water expense. These costs declined during the year as a result of electricity rate reductions in Ontario and reduced utility consumption following capital investments in both water and electricity related efficiency projects. Increases in general operating expenses were limited to 0.9%, and successful appeals limited property tax expense increases to 1.3%.

Strong NOI Growth Supports Fair Value Gains

Killam recorded \$134.8 million of fair value gains related to its investment property portfolio during the year. These fair value gains were attributable primarily to higher rental rates and NOI growth across Killam's core markets and strong market fundamentals driving cap-rate compression in certain regions. Killam's weighted average cap-rate as at December 31, 2018, for its apartment portfolio was 5.15% and for MHCs it was 6.76%.

Suite Repositioning Program Augmenting NOI and NAV Growth

Killam invested approximately \$3.0 million in its expanded unit repositioning program in 2018, extensively upgrading approximately 170 of its units. This program was expanded from 47 extensive upgrades completed in 2017. During 2018, the repositionings have generated monthly rental lifts averaging \$253 per unit, resulting in an average return on investment ("ROI") of approximately 14%, based on an average investment of \$22,000 per unit. The repositionings completed in 2018 are expected to generate an additional \$0.5 million in NOI on an annualized basis, contributing to \$10 million in net asset value ("NAV") growth.

Developments Generate NAV Growth and Pipeline Expanded

Killam completed two developments in 2018. Saginaw Park, a 94-unit property located in Cambridge, was completed in April 2018, and The Alexander, Killam's 240-unit joint development in Halifax, NS, was completed in October 2018. Both properties were fully leased by year-end and contributed \$7.7 million in fair value gains. Killam acquired the remaining 50% ownership interest in The Alexander in December 2018. At year-end, Killam had two developments underway. The Frontier, a 228-unit building located in Ottawa (50% interest), is expected to be completed in Q2-2019, and a 78-unit building in Charlottetown is expected to be completed in 2020.

Killam doubled its development pipeline in 2018, increasing its future development opportunities to close to 3,000 units. In Waterloo, the purchase of Westmount Place, a commercial/office complex with excess land for residential development, as well as the acquisition of additional adjacent land parcels throughout the year, added 800 units to the pipeline. Killam also acquired land for development in Calgary, Kitchener and Charlottetown, expanding the pipeline by another 500 units. Approximately 70% of Killam's current development pipeline is located in Ontario and Alberta.

2018 Management's Discussion & Analysis

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

Strategic Targets

Growth in Same Property NOI	
2018 Target	Original Target: Same property NOI growth of 1% to 2%. Revised Target: Same property NOI growth of 3% to 5%.
2018 Performance	Target met. Same property NOI grew by 4.8% in 2018 due to strong top-line results and moderate expense growth.
2019 Target	Same Property NOI growth of 3% to 5%.
Longer-term Target	Same Property NOI growth averaging over 3%.
Expanded Portfolio	
2018 Target	Original Target: A minimum of \$125 million of acquisitions. Revised Target: A minimum of \$225 million of acquisitions.
2018 Performance	Target exceeded. Killam completed \$315 million of acquisitions in 2018. A summary of the acquisitions is shown on page 30.
2019 Target	Grow the portfolio to over \$3.0 billion by the end of 2019, with a minimum acquisition target of \$100 million.
Longer-term Target	Grow the portfolio to over \$3.5 billion by the end of 2021.
Geographic Diversification	
2018 Target	At least 75% of acquisitions made outside Atlantic Canada and to earn at least 26% of 2018 NOI outside Atlantic Canada.
2018 Performance	Target partially met. 66% of acquisitions in 2018 were located outside Atlantic Canada. Excluding the acquisition of the remaining 50% interest in the joint Halifax-based Alexander development in December, 77% of acquisitions were outside Atlantic Canada. 27% of 2018 NOI was generated by properties located in Alberta and Ontario.
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
Longer-term Target	Over 35% of NOI generated outside Atlantic Canada by 2021.
Development of High-Quality Properties	
2018 Target	To complete The Alexander and Saginaw Park developments, and break ground on one additional development project.
2018 Performance	Target met. The Saginaw Park development was completed on schedule and opened in April 2018. The Alexander development was substantially complete in October 2018. Killam remains on schedule with the 228-unit Frontier development in Ottawa. In October 2018, Killam broke ground on a 78-unit development in Charlottetown. Killam received final approval from the City of Mississauga for its Silver Spear II joint development project and expects to break ground in Q2-2019.
2019 Target	To complete phase one (Frontier) of the Ottawa development, break ground on Silver Spear II and one additional development project.
Longer-term Target	To create a minimum of \$20 million of value from developments completed between 2019 through 2021.
Strengthened Balance Sheet	
2018 Target	Maintain debt as a percentage of total assets ratio below 52%.
2018 Performance	Target met. Debt as a percentage of total assets was 49.8% as at December 31, 2018.
2019 Target	Manage debt as a percentage of assets ratio below 49%.
Longer-term Target	Reduce debt as a percentage of assets below 45% by the end of 2021.

2018 Management's Discussion & Analysis

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

Outlook

Strong Operating Fundamentals and Population Growth Expected to Drive Above-average Rental Growth

Population growth from immigration, baby boomers and seniors transitioning from home ownership to apartment living, a growing number of people living alone and a trend for young Canadians to delay homeownership are all expected to support strong rental demand for the foreseeable future. High home prices in Ontario are also increasing demand for rental units in that province. Home ownership levels are also expected to continue to be impacted by higher interest rates and recent mortgage qualification changes that increase the income and equity requirement to obtain financing, further supporting demand for apartments.

These strong demand drivers are resulting in tight rental markets across Canada, including Atlantic Canada. Per CMHC's Fall 2018 Housing Market Outlook report, Halifax vacancy hit an all-time low of 1.6%, 70 bps below the vacancy rate for the same period in 2017. This tight rental market is expected to support above-average rental rate growth in this market in the near term.

With one of the newest and highest-quality apartment portfolios in Canada, Killam is well positioned to respond to the increasing demand for quality rental housing. Management expects to grow revenue by maximizing rental rates while maintaining high occupancy levels. With the majority of Killam's portfolio not exposed to rent controls, Management has the flexibility to move rents to market on lease renewals on an annual basis. In rent-controlled Ontario, Management expects to maximize the rental rates on unit turns as extremely tight rental markets are expected to lead to demand-driven rental rate growth.

Expanded Suite Repositioning Program

Killam accelerated its suite repositioning program in 2018, investing approximately \$3.0 million in repositioning approximately 170 units. In 2019, Management is committed to investing a further \$5–\$6 million in repositioning 300 suites to meet market demand and enhance revenue growth and the net asset value of its portfolio. Suite repositionings represent unit upgrades above \$10,000. Killam targets a ROI of at least 10% and monthly rental rate increases of 10%-30% upon completion of the renovation. A review of Killam's portfolio has identified approximately 3,000 units with repositioning opportunities. Killam plans to continue to augment this program on an annual basis.

Investing in Energy Efficiency Opportunities to Reduce Consumption and Increase Margins

Investments in energy and water-saving initiatives, and operational efficiencies, are expected to continue to reduce Killam's resource consumption and improve operating margins. Killam is entering its third year of a five-year, \$25 million program to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature and lighting systems. Killam has expanded its operations team to bring energy specialists in-house to optimize this capital investment. Management is forecasting investments of \$5.0 million in 2019 on projects with an average payback of approximately five years. These projects should improve same property NOI by lowering consumption, reducing Killam's exposure to fluctuating energy costs.

Enhancing Efficiencies through Technology

Management continues to invest in technology to improve efficiencies, enhance communication with staff and tenants, expand its use of data analytics to maximize returns and implement rent maximization software. Management is implementing enhancements to its online marketing and leasing platform to make potential tenants' online experiences seamless from initial contact to lease signing. Technology enhancements in early 2019 also include upgrading the tenant mobile and online communication experience.

On Track with Geographic Diversification Targets

Management remains focused on increasing its presence in Ontario and Alberta. Killam's 2018 NOI generated outside Atlantic Canada was 27%, up from 23% in 2017 and 21% in 2016. Looking forward, Killam's strong acquisition pipeline and developments planned in both Ontario and Alberta, are expecting to meet its goals to generate 30% of its NOI outside Atlantic Canada by the end of 2019 and 35% by the end of 2021.

Driving FFO and NAV Growth with Developments

Development remains an important component of Killam's growth strategy. Since 2015, Killam has created \$20 million in fair value gains from its development program. Killam completed two projects in 2018, now fully leased; these properties are expected to contribute positively to Killam's earnings growth in 2019. Killam has two additional projects underway in Ottawa and Charlottetown and expects to break ground on its 128-unit Mississauga development in the second quarter of 2019. The Frontier, the first building (228 units) of a four-phase project in Ottawa, is planned to open in mid-2019. The Shorefront development, a 78-unit project in Charlottetown, broke ground in October 2018 and is scheduled to be completed by mid-2020.

Additionally, Killam has land supporting a development pipeline of approximately 3,000 units, representing a potential investment of \$850 million. One of these developments is the second phase of the Ottawa project that is scheduled for a mid-2019 start. Killam is moving forward with development planning for its recently acquired development land in Waterloo and Kitchener, and targets beginning construction in 2020. Developments reinforce Killam's position as the owner of one of the newest and highest-quality apartment portfolios in Canada. See further discussion on land held for future development in the "Investment Properties" section of this MD&A.

2018 Management's Discussion & Analysis

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

Focus on Improving Debt Metrics and Increasing Capital Flexibility

Killam plans to continue managing its balance sheet, to reduce its debt levels and increase capital flexibility. Since 2015, Killam has reduced its debt to total assets ratio by over 600 bps from 55.7% to 49.8% as at December 31, 2018, and has improved in all of its debt metrics. Killam is focused on continuing to increase its pool of unencumbered assets and has identified a number of MHC mortgages, with higher interest rates as they cannot be CMHC insured that are expected to be paid down and added to its unencumbered asset pool.

Repositioning of Commercial Properties Expected to Drive Net Asset Value

Killam is continuing to reposition its 158,000 square foot ("sq ft") commercial asset, the Brewery Market, located adjacent to the 240-unit Alexander apartment development, which was completed and fully leased by the end of 2018. Integrating these properties is expected to generate long-term growth in both apartment rental rates and attract new commercial tenants. In early Q2-2019, planned tenant turnover at the Brewery Market has provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base, that complements the increased residential density in the area. Due to renovations, earnings at the Brewery Market are expected to be \$0.5 million lower in 2019 compared to 2018, however, this is expected to be more than offset by long-term NAV growth.

Higher Interest Expense Expected

Management expects to refinance mortgage maturities in 2019 at higher interest rates. Killam has \$154.1 million of apartment mortgages maturing through to the end of 2019 having a weighted average interest rate of 2.82%, approximately 10 bps and 30 bps lower than prevailing 5-year and 10-year CMHC-insured rates. MHC mortgages of \$16.9 million are also maturing through to the end of 2019 at a weighted average interest rate below current market rates.

Beyond 2019, Killam expects to face higher interest rates on mortgage refinancings. The average interest rate on mortgages maturing between 2020 and 2022 is approximately 40 bps below current market rates. Management has laddered its debt maturities and reduced its overall leverage to lessen its exposure to potentially rising interest rates. As well, Management is continually reviewing opportunities to hedge and lock in rates early for larger debt maturities, minimizing exposure in the current rising interest rate environment. Management plans to maintain its conservative debt levels and continues to flatten out its debt maturity schedule as mortgages mature.

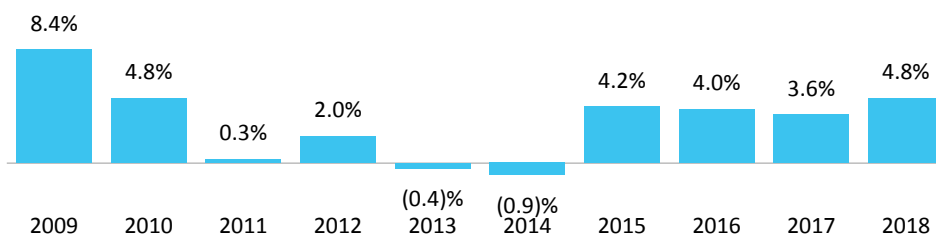
PART III

Business Strategy

Increase Earnings from the Existing Portfolio

Killam increases the value of its portfolio by maximizing revenue and managing expenses. To achieve NOI growth, Killam must address three critical factors: occupancy, rental rates and operating costs. Killam focuses on providing superior customer service and employee training, using technology and analytics to drive leasing and marketing, maximizing rental rates on renewals and completing unit renovations and repositionings, to maximize revenue on turns. Operating cost management is focused on energy efficiencies, technology investments, economies of scale, risk management, and staff and tenant education. Killam has increased same property NOI by an average of 3.1% per annum over the past decade. NOI growth has accelerated in the last four years, averaging 4.2%.

Historic Same Property NOI Growth



Expand the Portfolio through Acquisitions

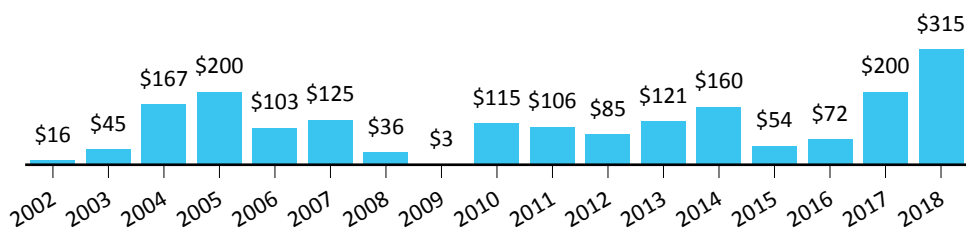
Killam is expanding its portfolio through the acquisition of centrally located buildings in its target markets of Ontario and Alberta, and continuing to add to its established portfolio in Atlantic Canada. Acquisition activity varies by year depending on opportunities and access to capital. 2018 was Killam's most active year in its history on the acquisition front, acquiring \$315 million of properties. On average, Killam has acquired over \$113 million of properties each year since the organization's first acquisition in 2002.

Killam operates one of Canada's newest apartment portfolios and targets the acquisitions of newer properties as modern, high-quality buildings are in greater demand by tenants and require less maintenance capital to operate. All of Killam's 2018 apartment acquisitions were built within the last three years.

2018 Management's Discussion & Analysis

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

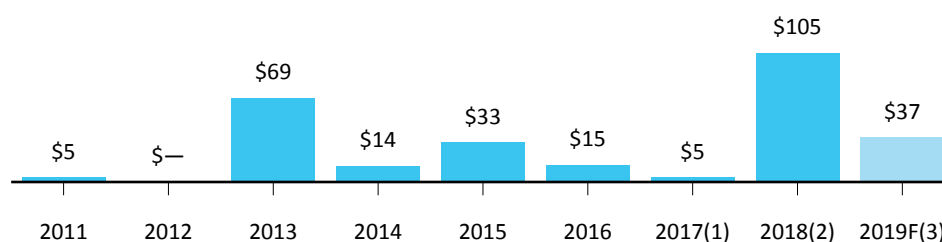
Annual Acquisitions (\$ millions)



Develop High-Quality Properties in Core Markets

Killam enhances its external growth opportunities with development. Killam started developing apartments in 2010 and has completed ten projects to date, investing approximately \$250 million to construct over 1,000 units. Killam has an experienced development team, including an in-house architect and engineers, that oversee all projects. New property construction enables Killam to control the quality and features of its buildings. Killam targets yields of 5.0%-6.0% on development, and expects to build at a 50-150 bps discount to the market capitalization rates ("cap-rates") on completion, creating value for its unitholders. Killam currently has a development pipeline of approximately 3,000 units.

Apartment Developments Completed (\$ millions)



⁽¹⁾ Relates to Killam's 50% interest in the podium portion (55 units) of The Alexander.

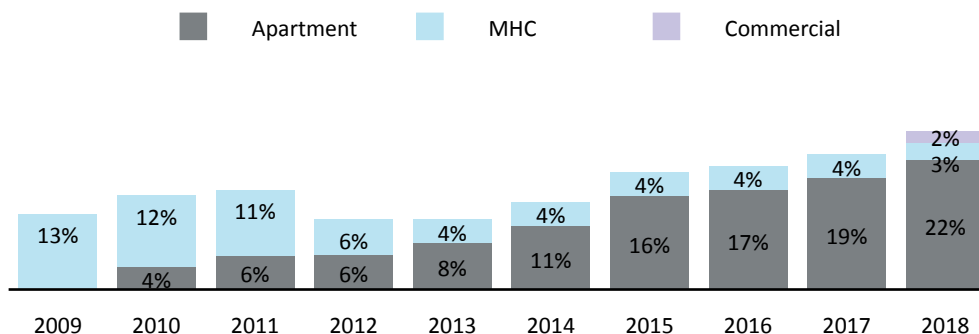
⁽²⁾ 2018 includes Saginaw Park and The Alexander. Killam was the development manager for 100% of the \$85 million Alexander development and purchased the remaining 50% interest in December 2018.

⁽³⁾ 2019 estimate includes Killam's 50% interest in the Frontier.

Diversify Geographically through Accretive Acquisitions

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

% of Killam's NOI Generated Outside Atlantic Canada



2018 Management's Discussion & Analysis

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

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at December 31, 2018:

Apartment Portfolio				
	Units ⁽¹⁾	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia				
Halifax	5,753	64	\$48,309	35.6%
Sydney	139	2	\$1,311	1.0%
	5,892	66	\$49,620	36.6%
New Brunswick				
Moncton	1,629	31	\$10,113	7.5%
Fredericton	1,422	21	\$9,677	7.1%
Saint John	1,202	14	\$6,339	4.7%
Miramichi	96	1	\$614	0.5%
	4,349	67	\$26,743	19.8%
Ontario ⁽³⁾				
Ottawa	1,124	10	\$8,639	6.4%
London	523	5	\$5,081	3.7%
Toronto	378	2	\$3,764	2.8%
Kitchener-Waterloo-Cambridge	448	5	\$4,779	3.5%
	2,473	22	\$22,263	16.4%
Newfoundland & Labrador				
St. John's	915	12	\$7,224	5.3%
Grand Falls	148	2	\$776	0.6%
	1,063	14	\$8,000	5.9%
Prince Edward Island				
Charlottetown	1,015	19	\$6,982	5.1%
Summerside	86	2	\$530	0.4%
	1,101	21	\$7,512	5.5%
Alberta ⁽³⁾				
Edmonton	474	3	\$3,699	2.7%
Calgary	531	3	\$2,834	2.1%
	1,005	6	\$6,533	4.8%
Total Apartments	15,883	196	\$120,671	89.0%
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Nova Scotia	2,749	17	\$4,420	3.3%
Ontario	2,284	17	\$4,854	3.6%
New Brunswick	170	1	\$139	0.1%
Newfoundland & Labrador	224	2	\$342	0.3%
Total MHCs	5,427	37	\$9,755	7.3%
Commercial Portfolio				
	Square Footage	Number of Properties	NOI (\$) ⁽²⁾	NOI ⁽²⁾ (% of Total)
Halifax, NS	254,000	5	\$3,070	2.2%
Waterloo, ON	297,000	1	\$2,216	1.5%
Total Commercial	551,000	6	\$5,286	3.7%
Total Portfolio		239	\$135,712	100.0%

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

(2) For the year ended December 31, 2018.

(3) Killam also has 118,000 sq ft of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

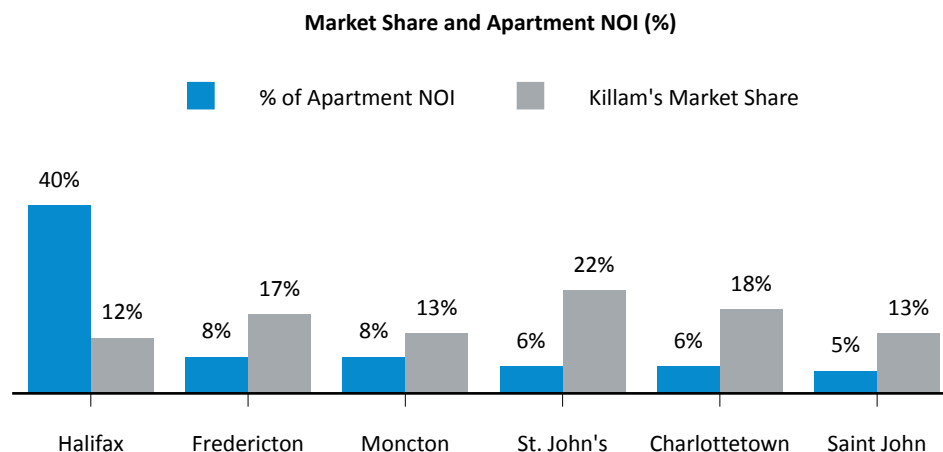
2018 Management's Discussion & Analysis

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

Unique Portfolio Features

Atlantic Canada's Market Leader

Killam is the single largest multi-residential landlord in Atlantic Canada, with a 13% market share of apartments in its core markets as of December 31, 2018. A large portfolio in each core market provides advantages, including brand recognition, a diverse selection of apartments in each city, improved operating margins from economies of scale and the ability to attract and retain top talent.



With strong rental fundamentals in Atlantic Canada, Canada Mortgage and Housing Corporation's ("CMHC") Fall 2018 Rental Market Reports highlighted improved occupancy in all six of Killam's Atlantic Canadian markets versus October 2017. This corresponds with Killam's experience in the market, with five of six of its Atlantic Canadian markets experiencing improved occupancy during 2018 compared to 2017.

Modest Exposure to Rent Control

Over 75% of Killam's current apartment portfolio is not impacted by rent control, allowing Killam to move rents to market rates annually. Prince Edward Island, representing 6.2% of Killam's apartment NOI, is the only province in Atlantic Canada with rent control for apartments. Killam's Ontario portfolio, accounting for 18.4% of apartment NOI, is also subject to rent control. In Ontario, landlords can move rents to market on a unit-by-unit basis as they become vacant. Ontario and Nova Scotia both have rent control for MHCs. In both provinces, rent controls do not apply to new tenants. Overall, only 28.8% of Killam's NOI is generated in markets subject to rent control; however, owners may apply for above-guideline increases to offset significant capital expenditures in these regions. Killam analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents on renewal and on turn.

CMHC Insured Debt Available for Over 85% of Killam's Portfolio

Apartment owners are eligible for CMHC mortgage loan insurance. These policies eliminate default risk for lenders, resulting in lower interest rates than those available for conventional mortgages. Approximately 85% of Killam's apartment debt is CMHC-insured. As mortgages are renewed and new properties are financed, Killam expects to increase the percentage of apartment mortgages with CMHC-insured debt. CMHC insurance is not available for the owners of MHCs; however, the financing is available to manufactured home owners, increasing the affordability of these homes.

Focused on Customer Service

Killam takes pride in offering tenants well-maintained properties, responding to service requests in a timely manner and providing an attractive housing value proposition. In-house educational programs and adoption of new technology enhance employees' skills to provide exemplary service to current and prospective tenants. Annually, Management engages an independent market research firm to measure tenants' satisfaction through an on-line survey (approximately 3,270 respondents in 2018). Killam's 2018 survey results support Killam's focus on service with an 88% tenant satisfaction rating.

Geographic Diversification

Killam is focused on increasing its geographic diversification through the acquisition and development of properties in its core markets in Ontario and Alberta. Killam's current apartment portfolio consists of 2,473 apartment units in Ontario, up from 225 units in 2010 when Killam first entered the market, and includes properties in Ottawa, Toronto, London, and Kitchener-Waterloo-Cambridge. Killam has also assembled a portfolio of 1,005 units in Calgary and Edmonton, of which 336 units were acquired in 2018. In addition to apartments, 42% of Killam's MHC sites and 54% of Killam's commercial square footage is located in Ontario.

2018 Management's Discussion & Analysis

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

Core Market Update

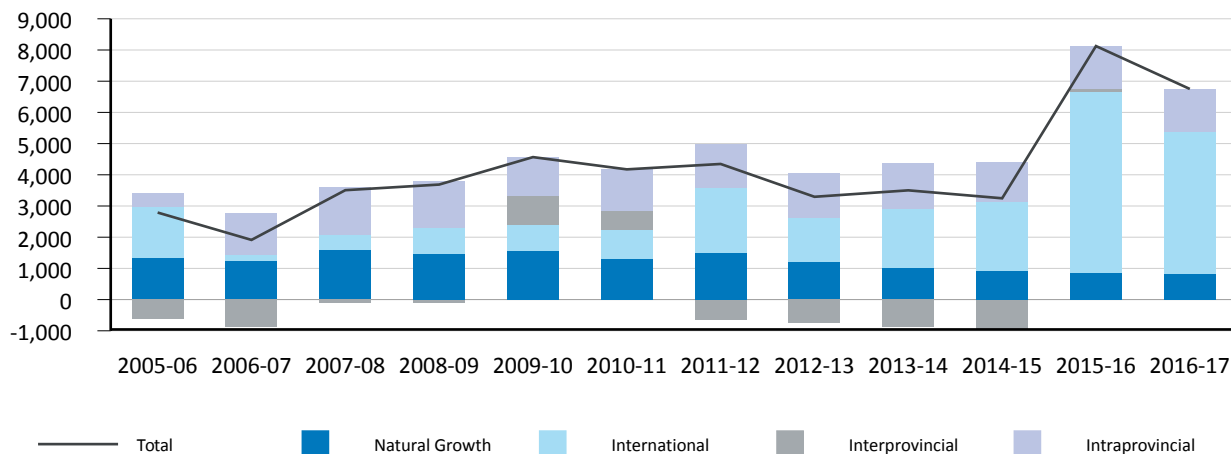
Halifax

Thirty-six percent of Killam's NOI is generated by its Halifax properties. Halifax is the largest city in Eastern Canada and is home to 18% of Atlantic Canadians. The city's rental market totals 49,609 units, representing 48% of Atlantic Canada's rental universe, as measured by CMHC. Halifax's diverse economy generates 56% of Nova Scotia's GDP and is home to 45% of the province's population. With six degree granting universities and three large community college campuses, Halifax has approximately 38,000 students, including 6,000 international students. Halifax's employment base is diversified, with the largest sectors focused on public service, health care, education, and retail and wholesale trade. 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.

The Conference Board of Canada's 2018 Autumn Metropolitan Outlook forecasts that Halifax's GDP will expand by 2.2% in 2019, fueled by growth in the manufacturing sector. Scotiabank's September 2018 Provincial Pulse report notes that in 2019, the Halifax Shipyard will complete its current six Arctic patrol ships and begin preparations to build 15 combat vessels for the Canadian surface combatant fleet. Drilling permits have been filed for six offshore oil wells through 2022, which are in addition to the exploratory Scotian Basin project where drilling began in April 2018. Technology is another expanding sector of growth for Halifax, with over \$4 million of public funding announced for a local tech incubator over the next three years.

The following chart summarizes population growth by source from 2005 to 2017, the most recent year for which detailed population growth data is available:

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



Source: Statistics Canada

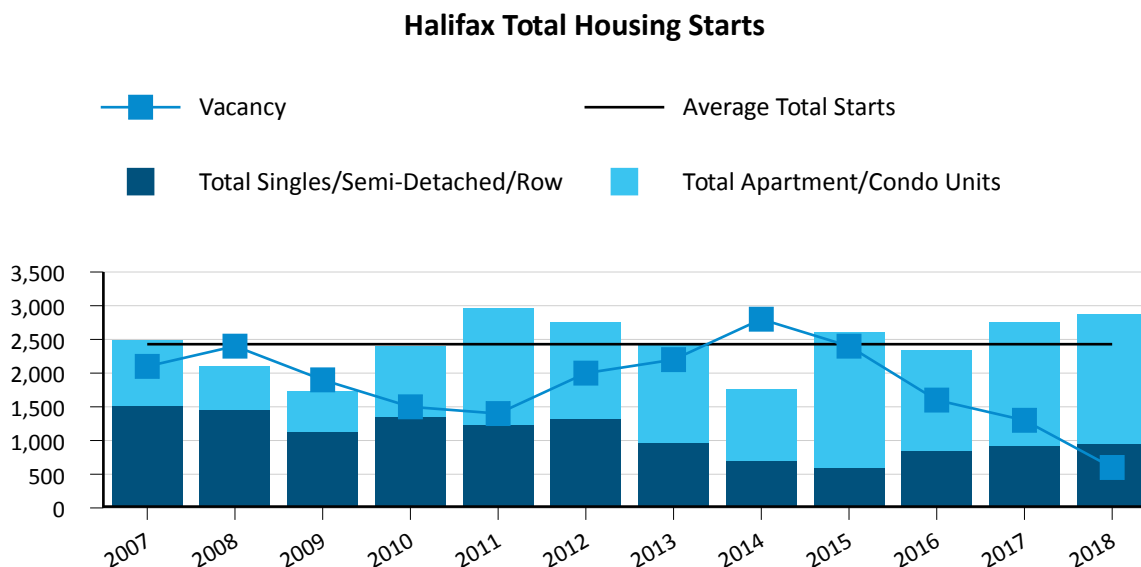
Halifax's population growth in each of the last two years was 1.6% and 1.9%, driven primarily by immigration and urbanization. Halifax, and Atlantic Canada overall, is benefiting from increased Canadian immigration. In addition, a higher percentage of immigrants are locating in Atlantic Canada. Statistics Canada reports that 4.2% of new immigrants were received in Atlantic Canada in 2018, up from 2.2% in 2013.

CMHC, in its Fall 2018 Housing Market Outlook, expects residential housing starts will expand, driven by strength in both the apartment and single-detached markets. Year-over-year growth in international migration paired with positive interprovincial migration and an aging population seeking downsizing options will support demand for rental units. CMHC reported average apartment vacancy of 1.6% in 2018, an improvement from 2.3% in 2017, as reported in its Fall 2018 Rental Market Outlook. With expected population growth and rental demand, CMHC forecasts that vacancy rates will continue to trend downward in 2019 before rising slightly in 2020.

2018 Management's Discussion & Analysis

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

The following chart summarizes Halifax's housing start activity from 2007 to 2018:



Source: CMHC

New Brunswick

20% of Killam's NOI is generated by apartments in New Brunswick's three major urban centres - Fredericton, Moncton and Saint John. Fredericton is the provincial capital and home to the province's largest university and a significant public sector workforce. Moncton is the province's largest city and is a transportation and distribution hub for Atlantic Canada. Moncton and Fredericton each represent 7% of Killam's NOI, with the Saint John market representing 5%.

CMHC expects a favorable housing resale market to encourage previously hesitant sellers and increase the flow of seniors into the rental market. This, along with an increased volume of immigration being attracted through the Atlantic Immigration Pilot Program, is expected to enhance rental housing demand. Actual vacancy rates reported by CMHC for Fredericton, Moncton and Saint John were 2.1%, 2.7% and 3.7% in October 2018, down from 2.2%, 4.5% and 4.7%, respectively, in October 2017.

St. John's, Newfoundland

Six percent of Killam's apartment NOI is generated in Newfoundland. According to RBC's December 2018 Provincial Outlook Report, Newfoundland and Labrador's growth ranking will swing from being the lowest among the Atlantic Provinces in 2018 to the highest in 2019. Higher oil production from the Hebron site, as well as the ramp-up of major project investments, are expected to generate positive growth in 2019. In the 2018 Rental Market Report, CMHC reported a second straight year-over-year improvement to St. John's apartment occupancy, following eight years of rising vacancy. CMHC reported 6.3% vacancy in St. John's in October 2018, an improvement over 7.2% in October 2017. St. John's continues to benefit from population growth fueled by urbanization and immigration.

Prince Edward Island

Killam has an 18% share of the Charlottetown market, the provincial capital and economic center of Prince Edward Island. The Charlottetown market accounted for 5% of Killam's total NOI in 2018. According to RBC's December 2018 Provincial Outlook report, PEI's economy continues to thrive on rapid population growth, strong job creation and brisk consumer-related activity. The provincial economy is expected to grow by 1.6% in 2019 and 1.2% in 2020. Following population growth of 1.8% in 2018, CMHC's 2018 Outlook expects the province's population growth to continue through 2019 and 2020. CMHC reported Charlottetown vacancy of 0.2% in October 2018, 70 bps better than the 0.9% in October 2017.

Ontario

Killam's Ontario apartment portfolio generated 16% of NOI in 2018. The Ontario rental market is strong, as the province continues to experience economic and population growth attributable to high levels of international immigration. A widening gap between the cost of home ownership and renting is increasing the demand for rental stock. CMHC reported a 5% year-over-year increase in average rents for the overall Ontario rental market in October 2018. CMHC projects that vacancy rates will remain near 2.0% through 2019 driven by higher housing prices, international migration and an aging population, and that rental rates will increase by 4.7% over the same period. Overall, Ontario vacancy per CMHC was 1.8% for October 2018, up slightly from 1.6% in October 2017.

2018 Management's Discussion & Analysis

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

Ottawa

According to CMHC's 2018 Rental Market Report, Ottawa's vacancy rates have remained stable. Overall vacancy was reported as 1.6% in October 2018, down slightly from 1.7% in October 2017. Rental demand has continued to be strong, supported by continued population growth, with an important driver being immigration. As of September 2018, immigration numbers rose 13% when compared to the same period in 2017. The average rent for a two-bedroom unit rose by 5.8% year-over-year, as the 1.8% Ontario rent increase guideline encouraged property owners to look for larger increases on unit turns.

Kitchener-Cambridge-Waterloo

Known as Canada's Silicon Valley since the 1980s, the region has seen vacancy rates decrease over the past four years from 3.0% to a low of 1.9% in October 2017. In October 2018, CMHC reported an increase in overall vacancy to 2.9%; however, this was driven by a large supply of new units in that period. Rental demand is expected to continue to be strong in this region fueled by population growth coupled with the increase in mortgage carrying costs, making it more difficult for individuals to purchase a home.

London

The London primary rental market saw a small increase in overall vacancy, from 1.8% in 2017 to 2.1% in 2018. This was due primarily to 681 newly completed purpose-built rental apartments in London, which, according to CMHC, were absorbed by growing rental demand.

Greater Toronto Area

According to CMHC's 2018 Outlook, home ownership costs in the Greater Toronto Area are keeping the demand for rental units strong in both primary and secondary markets. CMHC reported a slight increase in vacancy from 1.1% in October 2017 to 1.2% in October 2018. Growth in rental rates and strong occupancy has led developers to begin building more rental units in the region; however, they are still significantly lower than condo starts.

Alberta

Five percent of Killam's 2018 NOI was earned in Alberta. Despite concern for the province's economy related to oil pricing and an impasse between federal and provincial governments about the new Trans Mountain Pipeline Project, there are positive trends in the multi-family markets in both Calgary and Edmonton. RBC's December 2018 Provincial Outlook notes that the completion of Enbridge's Line 3 replacement pipeline is expected to reduce the bottleneck of oil inventory being held in Alberta by Q1-2020.

Calgary

In its 2018 Rental Market Report, CMHC reported 3.9% vacancy for Calgary, improved from 6.3% in 2017, and an average monthly rental rate of \$1,272 for a two-bedroom apartment, up 2% from the previous year. The rental demand is driven by a desire to shift to more affordable housing options and stronger 2018 migration.

Edmonton

In Edmonton, CMHC reported 5.3% vacancy, versus 7.0% in 2017, and an average monthly rental rate of \$1,246 for a two-bedroom apartment, up 2.6% from a year earlier. CMHC's 2018 Outlook is expecting vacancy to continue decreasing gradually over 2019 and 2020 as Edmonton's economic recovery has been stronger than other parts of Alberta.

2018 Management's Discussion & Analysis

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

PART IV

2018 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Property revenue	\$215,959	\$187,377	15.3%	\$181,491	\$175,236	3.6%	\$34,468	\$12,141	183.9%
Property operating expenses									
General operating expenses	33,447	30,444	9.9%	28,503	28,242	0.9%	4,944	2,202	124.5%
Utility and fuel expenses	21,705	19,668	10.4%	19,419	18,845	3.0%	2,286	823	177.8%
Property taxes	25,095	22,045	13.8%	20,723	20,449	1.3%	4,372	1,596	173.9%
Total operating expenses	\$80,247	\$72,157	11.2%	\$68,645	\$67,536	1.6%	\$11,602	\$4,621	151.1%
NOI	\$135,712	\$115,220	17.8%	\$112,846	\$107,700	4.8%	\$22,866	\$7,520	204.1%
Operating margin %	62.8%	61.5%	130 bps	62.2%	61.5%	70 bps	66.3%	61.9%	440 bps

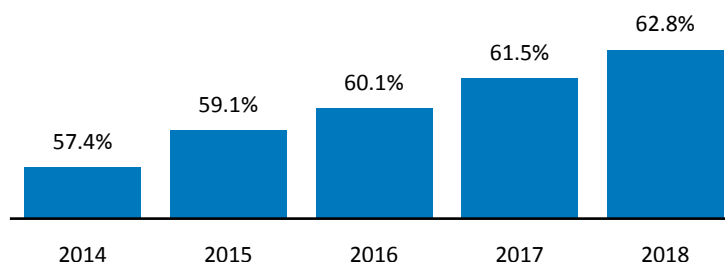
Total revenue and NOI increased over 2017 due to contributions from recent acquisitions, same property rental rate growth and improved occupancy. Included in 2018 non-same property revenue is \$1.1 million related to the timing of recognition of forgivable government loans to fund affordable housing units at three properties.

Same property results include 77% of Killam's portfolio owned during comparable 2018 and 2017 periods. Non-same property results include properties acquired and developments completed in 2017 and 2018, properties sold and adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 3.6% for the year ended December 31, 2018, as compared to the year ended December 31, 2017, due to higher rental rates and improved occupancy as a result of strong market fundamentals, particularly in New Brunswick, Nova Scotia and Prince Edward Island. Total property operating expenses for the year ended December 31, 2018 were 1.6% higher than the prior year as utility and fuel expense savings from lower consumption, due to the energy efficiency program, and lower natural gas prices in Ontario were more than offset by higher property taxes, inflationary operating cost pressures and higher natural gas prices in New Brunswick and Nova Scotia. Overall, same property NOI grew by 4.8% for the year ended December 31, 2018, as compared to 2017, and the operating margin increased by 70 bps.

Killam's net operating margin percentage has increased steadily over the past five years reaching 62.8% in 2018, a 130 bps increase from 2017. The increases can be attributed to higher rental revenues and expense reductions through efficiency projects as well as the acquisition and development of higher quality and more efficient properties which generate higher margins.

Operating Margin %



2018 Management's Discussion & Analysis

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

Apartment Results

For the years ended December 31,

	Total			Same Property			Non-Same Property		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Property revenue	\$190,048	\$167,718	13.3%	\$165,975	\$160,136	3.6%	\$24,073	\$7,582	217.5%
Property operating expenses									
General operating expenses	27,533	25,470	8.1%	24,745	24,528	0.9%	2,788	942	196.0%
Utility and fuel expenses	19,523	17,772	9.9%	17,985	17,436	3.1%	1,538	336	357.7%
Property taxes	22,321	20,525	8.8%	20,093	19,835	1.3%	2,228	690	222.9%
Total operating expenses	\$69,377	\$63,767	8.8%	\$62,823	\$61,799	1.7%	\$6,554	\$1,968	233.0%
NOI	\$120,671	\$103,951	16.1%	\$103,152	\$98,337	4.9%	\$17,519	\$5,614	212.1%
Operating margin %	63.5%	62.0%	150 bps	62.1%	61.4%	70 bps	72.8%	74.0%	(120) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2018 was \$190 million, an increase of 13.3% over the year ended December 31, 2017. Revenue growth was due to the contribution from recent acquisitions and improved occupancy and higher rental rates from the existing portfolio.

Same property apartment revenue increased 3.6% for the year ended December 31, 2018, with strong demand contributing to a 50 bps improvement in same property occupancy and a 2.7% increase in average rental rates. Rental incentives of 30 bps of revenue for the year ended December 31, 2018 were modestly lower than 2017, as fewer incentives were offered given strong market conditions.

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

For the years ended December 31,	# of Units	Total Occupancy			Same Property Occupancy		
		2018	2017	Change (bps)	2018	2017	Change (bps)
Halifax, NS	5,753	96.9%	97.0%	(10)	97.6%	97.1%	50
Ontario	2,473	95.8%	96.3%	(50)	97.2%	96.4%	80
Moncton, NB	1,629	97.4%	96.0%	140	97.4%	96.0%	140
Fredericton, NB	1,422	97.5%	96.5%	100	97.5%	96.5%	100
Saint John, NB	1,202	96.6%	95.1%	150	96.6%	95.1%	150
St. John's, NL	915	93.0%	94.2%	(120)	93.0%	94.2%	(120)
Charlottetown, PE	1,015	99.5%	99.3%	20	99.5%	99.3%	20
Alberta	1,005	89.2%	88.5%	70	93.2%	93.6%	(40)
Other Atlantic	469	95.3%	96.4%	(110)	95.3%	96.4%	(110)
Total Apartments (weighted average)	15,883	96.3%	96.4%	(10)	97.1%	96.6%	50

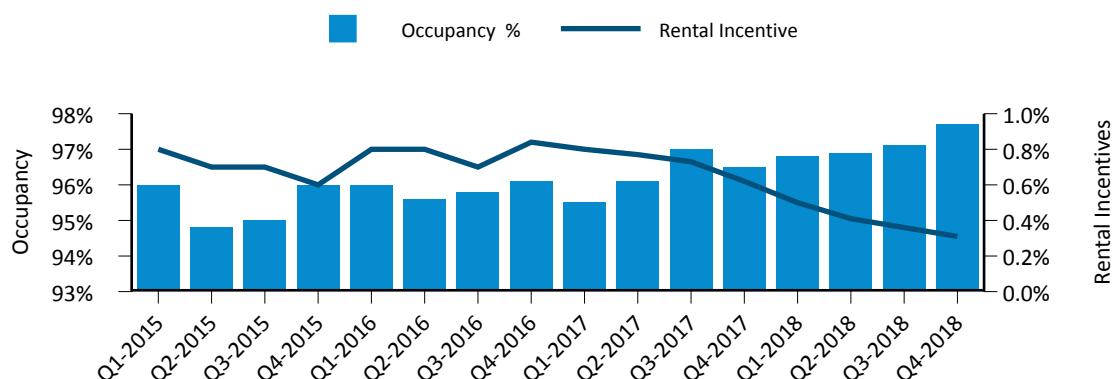
(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the year.

For discussion on changes in occupancy levels during the past year, refer to page 20 of this MD&A under section "Apartment Same Property NOI by Region".

2018 Management's Discussion & Analysis

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

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



Average Rent Analysis by Core Market

As at December 31,

	# of Units	Average Rent			Same Property Average Rent		
		2018	2017	% Change	2018	2017	% Change
Halifax, NS	5,753	\$1,100	\$1,027	7.1%	\$1,043	\$1,011	3.2%
Ontario	2,473	\$1,425	\$1,362	4.6%	\$1,382	\$1,343	2.9%
Moncton, NB	1,629	\$868	\$843	3.0%	\$868	\$843	3.0%
Fredericton, NB	1,422	\$960	\$937	2.5%	\$960	\$937	2.5%
Saint John, NB	1,202	\$807	\$786	2.7%	\$807	\$786	2.7%
St. John's, NL	915	\$980	\$971	0.9%	\$980	\$971	0.9%
Charlottetown, PE	1,015	\$1,005	\$925	8.6%	\$948	\$925	2.5%
Alberta	1,005	\$1,354	\$1,350	0.3%	\$1,147	\$1,131	1.4%
Other Atlantic	469	\$889	\$874	1.7%	\$889	\$874	1.7%
Total Apartments (weighted average)	15,883	\$1,076	\$1,017	5.8%	\$1,018	\$990	2.7%

Same Property Rental Increases - Lease Renewal versus Unit Turn

Killam turned approximately 32% of its units in 2018, down from 35% in 2017. To turn a unit means it is leased to a new tenant, versus a renewal of a lease with an existing tenant. Upon turn, Killam will typically invest capital to upgrade units and generate rental increases by raising rates to market. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

For the years ended December 31,	Same Property Rental Increases		
	2018	2017	Change (bps)
Upon lease renewal	1.7%	1.0%	70
Upon unit turn	5.3%	3.4%	190
Weighted average rental increase	2.7%	1.8%	90

With strong occupancy levels and a tight rental market throughout 2018, Killam increased its rental rates on lease renewals by 1.7%, a 70 bps increase over 2017. In addition to increasing market rates, Killam accelerated and expanded its suite repositioning program, investing additional capital, contributing to an average rental increase of 5.3% on unit turns in 2018, a 190 bps improvement over 2017.

2018 Management's Discussion & Analysis

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

Apartment Expenses

Total operating expenses for the year ended December 31, 2018 were \$69.4 million, an 8.8% increase over 2017, due primarily to incremental costs associated with recent acquisitions. Killam increased its overall apartment operating margin by 150 bps to 63.5%.

Killam managed the increase in total same property operating expenses for the year ended December 31, 2018 to be only 1.7% compared to the year ended December 31, 2017. Cost saving initiatives, including Killam's energy efficiency program that reduced both natural gas and utility consumption, and successful property tax assessment appeals, helped to mitigate increases in global oil prices and natural gas prices in both Nova Scotia and New Brunswick. Overall, the same property margin improved by 70 bps during the year ended December 31, 2018.

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,

	2018	2017	% Change
Natural gas	\$5,409	\$4,758	13.7%
Electricity	6,736	7,014	(4.0)%
Water	4,498	4,539	(0.9)%
Oil & propane	1,299	1,093	18.8%
Other	43	32	34.4%
Total utility and fuel expenses	\$17,985	\$17,436	3.1%

Killam's apartments are heated with natural gas (60%), electricity (32%), oil (6%), steam (2%) and propane (less than 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 5,000 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 29% of Killam's total apartment same property operating expenses for the year ended December 31, 2018. Total same property utility and fuel expenses were 3.1% higher than the year ended December 31, 2017.

Same property natural gas expense increased by 13.7% compared to 2017. The increased cost compared to the prior year was primarily attributable to higher distribution and commodity prices in New Brunswick and Nova Scotia of 14% and 7%, along with higher consumption due to colder 2018 temperatures compared to 2017 in most regions. Ontario gas prices decreased by 6%, partially offsetting higher consumption realized in that province as a result of an 4% increase in heating degree days for 2018 compared to 2017.

Electricity costs for the year ended December 31, 2018 were 4.0% lower than 2017 primarily due to lower rates in Ontario and savings from LED lighting retrofits. Killam has completed LED retrofit projects at over 90 properties since 2017, saving an estimated 3.7 million kWh of electricity annually, translating into approximately \$0.6 million of annualized electricity cost savings.

Despite water rate increases of 2% to 15% in Killam's regions in the past year, water expense decreased by 0.9% for the year ended December 31, 2018, compared to 2017. Since 2015, Killam has installed over 9,100 low-flow toilets, saving an estimated 600 million litres of water annually across the portfolio and generating approximately \$1.2 million of water cost savings. The low-flow toilet program has been completed across all eligible Killam buildings as of the end of 2018.

Heating oil and propane costs increased by 18.8% in 2018 compared to 2017 as a result of a rise in global oil prices.

2018 Management's Discussion & Analysis

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

Apartment Same Property NOI by Region

For the years ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Halifax	\$64,565	\$62,250	3.7%	(\$22,882)	(\$22,227)	2.9%	\$41,683	\$40,023	4.1%
Ontario	27,521	26,515	3.8%	(9,720)	(9,619)	1.1%	17,801	16,896	5.4%
Moncton	17,720	16,868	5.1%	(8,055)	(8,095)	(0.5)%	9,665	8,773	10.2%
Fredericton	16,509	15,772	4.7%	(6,836)	(6,619)	3.3%	9,673	9,153	5.7%
Saint John	11,639	11,014	5.7%	(5,632)	(5,485)	2.7%	6,007	5,529	8.6%
St. John's	10,175	10,201	(0.3)%	(2,952)	(3,025)	(2.4)%	7,223	7,176	0.7%
Charlottetown	10,262	9,988	2.7%	(4,104)	(3,974)	3.3%	6,158	6,014	2.4%
Alberta	2,455	2,434	0.9%	(734)	(797)	(7.9)%	1,721	1,637	5.1%
Other	5,129	5,094	0.7%	(1,908)	(1,958)	(2.6)%	3,221	3,136	2.7%
	\$165,975	\$160,136	3.6%	(\$62,823)	(\$61,799)	1.7%	\$103,152	\$98,337	4.9%

Halifax

Halifax is Killam's largest rental market, contributing 40% of apartment same property NOI for the year ended December 31, 2018. Same property apartment revenue increased by 3.7% for the year ended December 31, 2018, compared to the prior year, due to a 3.2% increase in average rent, a 50 bps increase in occupancy, higher commercial occupancy and a reduction in rental incentives.

Total operating expense for the year ended December 31, 2018 was 2.9% higher than 2017. The increase in operating expenses was driven by higher natural gas pricing and fuel consumption, property tax increases, higher garbage collection costs and general operating cost inflation. These increased costs were partially offset by lower snow removal costs, as less snow hauling was required in 2018, lower insurance premiums and lower electricity and water consumption from energy efficiency initiatives. The net impact was a 4.1% increase in NOI for the year ended December 31, 2018, as compared to the year ended December 31, 2017.

Ontario

Killam's Ontario portfolio generated 17% of Killam's apartment same property NOI for the year ended December 31, 2018. Revenue increased by 3.8% over year-end December 31, 2017, driven by a 2.9% increase in average rental rates, an 80 bps increase in same property occupancy and a reduction in bad debt expense. Rental rate increases on unit turns have been above Killam's portfolio average in 2018, with increases of 7.1% in Southwestern Ontario and 6.1% in Ottawa.

Total operating expense for year-end December 31, 2018 was 1.1% higher than the same period in 2017, due to increases in contract services, which were largely offset by decreased utility costs as a result of reduced electricity rates, as well as decreased property tax expense. In aggregate, same property NOI was 5.4% higher than the year ended December 31, 2017.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for 25% of apartment same property NOI for the year ended December 31, 2018. Same property revenues increased by 5.1% for the year ended December 31, 2018, due to occupancy gains of 130 bps and average rental rate growth of 2.7% in these markets.

Total operating expense for the year ended December 31, 2018 was 1.6% higher than the same period in 2017 primarily due to higher natural gas prices in New Brunswick. This increase was partially offset by reduced water consumption and operational spend management, which lowered maintenance and contract services coupled with lower insurance premiums. In total, the NB portfolio achieved an impressive 8.1% NOI growth over 2017.

Newfoundland and Labrador

Killam's Newfoundland properties accounted for 7% of Killam's apartment same property NOI in 2018. Same property revenue decreased 0.3% for the year ended December 31, 2018, as compared to 2017. While rental rates have increased by 0.9%, current year occupancy is 120 bps lower due to softness in the economy as a result of reduced activity in the offshore oil sector.

Total operating expense for the year ended December 31, 2018 was 2.4% lower primarily due to net savings from internalizing property management for this portfolio effective April 2017, operational efficiencies and lower insurance premiums. In aggregate, same property NOI growth was 0.7% for the year ended December 31, 2018, compared to 2017.

2018 Management's Discussion & Analysis

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

Prince Edward Island

Killam's Charlottetown portfolio contributed 6% of apartment same property NOI. Charlottetown achieved 2.7% revenue growth for the year ended December 31, 2018, as compared to the same period in 2017, due to rental rate growth and close to maximum occupancy. Total operating expense for the year ended December 31, 2018 was 3.3% higher than the same period in 2017 due primarily to higher heating oil expenses and property tax increases. Overall, Charlottetown achieved 2.4% NOI growth over 2017.

Alberta

Grid 5, a 307-unit building in downtown Calgary, accounted for 2% of Killam's apartment same property NOI. Grid 5 recorded a 0.9% increase in revenue compared to 2017. Occupancy for 2018 was 93.2% versus 93.6% in 2017; however, the property has achieved positive increases in rental rates upon turn, with average rents up 1.4% in 2018 compared to 2017, and little to no incentive offerings. During 2018, Grid 5 earned more commercial revenue, as approximately 71% of its ancillary commercial space is leased.

Same property operating expenses for the year ended December 31, 2018 were 7.9% lower than the same period in 2017 due primarily to decreased property tax expense and contract services, slightly offset by increases in electricity costs.

MHC Results

For the years ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Property revenue	\$15,850	\$15,139	4.7%	\$15,515	\$15,099	2.8%	\$335	\$40	737.5%
Property operating expenses									
General operating expenses	3,978	3,738	6.4%	3,758	3,713	1.2%	220	25	780.0%
Utility and fuel expenses	1,478	1,409	4.9%	1,433	1,409	1.7%	45	—	N/A
Property taxes	639	615	3.9%	630	615	2.4%	9	—	N/A
Total operating expenses	\$6,095	\$5,762	5.8%	\$5,821	\$5,737	1.5%	\$274	\$25	996.0%
NOI	\$9,755	\$9,377	4.0%	\$9,694	\$9,362	3.5%	\$61	\$15	306.7%
Operating margin %	61.5%	61.9%	(40) bps	62.5%	62.0%	50 bps	—%	—%	—

The MHC business generated 7.3% of Killam's NOI for the year ended December 31, 2018. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its eight seasonal communities that generate approximately 63% of their NOI between July and September.

MHC same property revenue increased 2.8% for the year ended December 31, 2018, compared to 2017, as rents rose by 2.5%, to \$254 per site from \$248 per site in 2017 due to rental rate increases in permanent communities as well as strong revenue growth in Killam's seasonal communities. Occupancy increased to 97.9% for the year ended December 31, 2018, up from 97.7% in 2017.

Total same property expense increased by 1.5% for the year ended December 31, 2018, as compared to 2017, primarily due to higher property tax assessments, partially offset by lower repairs and maintenance costs. Overall, the MHC portfolio generated same property NOI growth of 3.5% for the year ended December 31, 2018, as compared to 2017.

Commercial Results

Killam's commercial property portfolio contributed \$5.3 million, or 3.7%, of Killam's total NOI for the year ended December 31, 2018. Occupancy was 97.1% as at December 31, 2018, compared to 95.7% as at December 31, 2017.

Killam's commercial property portfolio consists of five properties located in Halifax, Nova Scotia, totaling 254,000 SF of leaseable space. The largest commercial property in Halifax is The Brewery Market (158,000 SF), centrally located beside the 240-unit Alexander apartment building. Other commercial assets include an 18,000 SF office building, which is slated for redevelopment in the future, and two commercial buildings in north-end Halifax, one of which is Killam's head office. Killam completed the acquisition of Westmount Place, an office and retail complex totaling 297,000 sq ft located in Waterloo, ON in March 2018. Killam also has another 118,000 sq ft of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

2018 Management's Discussion & Analysis

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

PART V

Other Income and Expenses

Other Income

For the years ended December 31,

	2018	2017	% Change
	\$965	\$847	13.9%

Other income includes property management fees for jointly owned properties, interest on bank balances, and net revenue associated with the sale of homes in Killam's MHC segment. The 13.9% increase compared to 2017 is due to higher property management fees from an additional property under management that was acquired in March 2017 and increased interest income on higher bank balances.

Financing Costs

For the years ended December 31,

	2018	2017	% Change
Mortgage, loan and construction loan interest	\$37,674	\$32,526	15.8%
Interest on credit facilities	1,075	—	N/A
Interest on Exchangeable Units	2,453	2,383	2.9%
Amortization of deferred financing costs	4,354	1,720	153.1%
Amortization of fair value adjustments on assumed debt	95	(214)	144.4%
Amortization of loss on interest rate hedge	37	60	(38.3%)
Unrealized loss (gain) on derivative liability	129	(362)	135.6%
Convertible debenture interest	—	715	(100.0%)
Capitalized interest	(3,169)	(1,982)	59.9%
	\$42,648	\$34,846	22.4%

Mortgage and loan interest expense was \$37.7 million for the year ended December 31, 2018, an increase of \$5.1 million, or 15.8%, compared to 2017. The increase reflects higher debt balances to fund Killam's acquisitions and developments; Killam's total mortgage and construction debt increased by \$221.6 million over the past year. The average interest rate on refinancings in 2018 was 3.51%, 32 bps lower than the average interest rate on expiring debt.

Interest expense on credit facilities was \$1.1 million in 2018, compared to \$nil in 2017 due to Killam's increased use of its line of credit to fund acquisitions in 2018.

There was no interest expense associated with convertible debt in 2018, compared to \$0.7 million in 2017, following the redemption of convertible debentures in April 2017.

Capitalized interest increased \$1.2 million for the year ended December 31, 2018, as compared to 2017. 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.

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. Amortization of deferred financing costs increased 153.1% for the year ended December 31, 2018, following \$126 million of mortgage refinancings, as well as the addition of deferred financing costs associated with property acquisitions and completed developments projects over the past year. Deferred financing costs will vary annually based on Killam's refinancing program. The increase in 2018 is partially attributable to the timing of recognition of CMHC premiums linked to refinancings. Management expects the amortization of deferred financing to decrease in 2019 to approximately \$2.5 million.

2018 Management's Discussion & Analysis

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

Depreciation Expense

For the years ended December 31,

	2018	2017	% Change
	\$859	\$787	9.1%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer software and hardware. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The increase in depreciation expense for the year ended December 31, 2018, compared to the same period in 2017, was primarily due to costs associated with new vehicles, computer equipment and upgrades to Killam's head office building.

Administration Expenses

For the years ended December 31,

	2018	2017	% Change
Administration (including REIT conversion costs)	\$14,201	\$12,958	9.6%
REIT conversion costs	—	(236)	(100.0)%
Administration (excluding REIT conversion costs)	\$14,201	\$12,722	11.6%
As a percentage of total revenues	6.5%	6.8%	(30) bps

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

During the year ended December 31, 2018, total administration expenses increased by \$1.5 million, or 11.6%, compared to the year ended December 31, 2017, due primarily to increased software costs, higher restricted trust unit ("RTU") related expenses from stronger REIT performance and the timing of recognition of RTU expense linked to introducing a new executive compensation program in 2017 that improves the ties between pay and performance.

Management is targeting annualized administrative costs of approximately 6.5% of total revenues for 2019.

Fair Value Adjustments

For the years ended December 31,

	2018	2017	% Change
Investment properties	\$134,803	\$64,857	107.8%
Convertible debentures	—	690	(100.0)%
Deferred unit-based compensation	(553)	(534)	(3.6)%
Exchangeable units	(6,373)	(8,811)	27.7%
	\$127,877	\$56,202	127.5%

Killam recognized \$134.8 million in fair value gains on investment properties for the year ended December 31, 2018, compared to \$64.9 million in fair value gains on investment properties for the year ended December 31, 2017. The fair value gains recognized during 2018 were primarily due to NOI growth in Killam's investment properties as a result of accelerated revenue growth achieved and overall strong operating performance in Killam's core markets as well as cap-rate compression.

The weighted average cap-rate for the apartment portfolio has declined 22 bps to 5.15%, compared to 5.37% as at December 31, 2017. The MHC portfolio fair value increased slightly in 2018, as a result of NOI growth and a decrease in the average cap-rate to 6.76% from 6.84%.

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RTUs governed by Killam's RTU Plan are awarded to certain members of management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the year ended December 31, 2018, there was an unrealized fair value loss of \$0.6 million, versus a \$0.5 million fair value loss in 2017, due to appreciation in the market price of Killam's trust units.

Killam also recorded a fair value loss associated with its exchangeable units in 2018. Distributions paid on exchangeable units are consistent with distributions paid to Killam's unitholders. The exchangeable units are redeemable on a one-for-one basis into trust units at the option of the holder. The fair value of the exchangeable units is based on the trading price of Killam's trust units. For the year ended December 31, 2018, there was an unrealized fair value loss on remeasurement of \$6.4 million, compared to an \$8.8 million loss in 2017, due to appreciation in the market price of Killam's trust units.

Killam redeemed its remaining outstanding convertible debentures on April 13, 2017.

Deferred Tax Expense

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

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PART VI

Per Unit Calculations

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

For the years ended December 31,	Weighted Average Number of Units (000s)			Outstanding Number of Units (000s)
	2018	2017	% Change	2018
Trust units	83,122	73,711	12.8%	86,058
Exchangeable units	3,827	3,864	(1.0)%	4,154
Basic number of units	86,949	77,575	12.1%	90,212
Plus:				
Units under RTU plan	236	202	16.8%	—
Convertible debentures	—	881	(100.0)%	—
Diluted number of units	87,185	78,658	10.8%	90,212

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition, with the exception of the add-back of REIT conversion costs as REALpac does not address this specific type of adjustment. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the years ended December 31, 2018 and 2017 are calculated as follows:

For the years ended December 31,

	2018	2017	% Change
Net income	\$175,171	\$104,760	67.2%
Fair value adjustments	(127,877)	(56,202)	(127.5)%
Loss on disposition	197	259	(23.9)%
Non-controlling interest	(27)	(28)	3.6%
Deferred tax expense	31,478	18,659	68.7%
Interest expense related to exchangeable units	2,453	2,383	2.9%
Unrealized loss (gain) on derivative liability	129	(362)	135.6%
Depreciation on owner-occupied building	153	168	(8.9)%
Internal leasing costs	131	—	N/A
REIT conversion costs	—	236	(100.0)%
FFO	\$81,808	\$69,873	17.1%
FFO unit - basic	\$0.94	\$0.90	4.4%
FFO unit - diluted	\$0.94	\$0.90	4.4%
Weighted average number of units - basic (000s)	86,949	77,575	12.1%
Weighted average number of units - diluted (000s) ⁽¹⁾	87,185	78,658	10.8%

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

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Killam earned FFO of \$81.8 million, or \$0.94 per unit (diluted), for the year ended December 31, 2018, compared to \$69.9 million, or \$0.90 per unit (diluted), for the year ended December 31, 2017. The 4.4% increase in FFO per unit is attributable to contributions from acquisitions completed in 2017 and 2018 and completed developments net of interest expense (\$7.9 million), same property NOI growth (\$4.7 million), increased capitalized interest (\$1.2 million), lower interest expense associated with convertible debentures that were repaid in 2017 (\$0.7 million) and increased corporate income (\$0.3 million). These increases were partially offset by higher administration costs (\$1.4 million), higher deferred financing costs (\$1.5 million) and a 10.8% increase in the weighted average number of units outstanding from equity raises in November 2017 and June 2018.

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 33, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 40 of this MD&A.

Calculating Maintenance Capex Reserve for AFFO

In February 2017, REALpac issued "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS", updating their guidance on maintenance capital expenditures ("maintenance capex") to be used in the calculation of AFFO and ACFO. Killam has elected to adopt a maintenance reserve based on a three-year historical average of the capital invested 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

	2018	2017	2016
Total capital investments	\$39,912	\$26,959	\$30,139
Value-enhancing capital investment			
Building	(13,004)	(5,365)	(6,571)
Suite upgrades	(12,361)	(9,753)	(9,597)
Equipment & other	(866)	(749)	(919)
	(26,231)	(15,867)	(17,087)
Maintenance capex	\$13,681	\$11,092	\$13,052
Maintenance capex - % of total capital	34%	41%	43%
Number of units ⁽¹⁾	14,685	13,712	13,617
Maintenance capex per unit	\$932	\$809	\$959
Maintenance capex - three-year average		\$900	

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

Value-enhancing capital investment includes building enhancements, suite upgrades and equipment purchases supporting NOI growth. Value-enhancing capital classified as building enhancements 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 investment required to maintain current revenues. For the year ended December 31, 2018, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2016 - 2018), which is equivalent to \$900 per unit. Based on this calculation, Management has selected \$900 per unit for its maintenance capex reserve for 2018, which is consistent with the 2017 reserve of \$900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2019 until the three-year average is updated at year-end with actual results.

The allocations above were the result of a detailed review of Killam's historical capital investment. Significant judgment was required to allocate capital between value-enhancing and maintenance activities. Management believes these allocations are reflective of Killam's capital program. The maintenance capital expenditure as a percentage of total capital investment decreased in 2018, and this reflects Killam's increased investment in its suite repositioning program as well as its energy efficiency program, both of which are value enhancing. In 2018, approximately 35% of annual capital investment was attributable to maintaining and sustaining properties.

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

Maintenance Capex Reserve - MHCs and Commercial

The capital investment specific to the MHC portfolio was also reviewed for the three years ended December 31, 2018, and categorized into value-enhancing and maintenance capex. Value-enhancing capital investment includes site expansions, land improvements and NOI-enhancing water and sewer upgrades. Maintenance capex includes capital investment related to roads and paving, as well as the majority of water and sewer capital invested to maintain the infrastructure in each community. On a per site basis, maintenance capex has ranged from \$221 to \$377 over the past three years. Management selected \$300 per MHC site for its maintenance capex reserve for 2018, consistent with its 2017 reserve of \$300 per site.

On March 29, 2018 Killam expanded its commercial portfolio with the purchase of Westmount Place, a 297,000 sq ft office and retail complex in Waterloo. Killam's commercial portfolio now includes six properties totaling 551,000 sq ft. Killam began taking a maintenance capex allowance for its commercial properties in Q2-2018. Based on the expected average annual maintenance capital investment in these assets, Killam has taken an annual capex reserve of \$0.70 per square foot. Killam has also included an adjustment for non-cash straight-line rent included in revenue related to its commercial portfolio.

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

For the years ended December 31,

	2018	2017	% Change
FFO	\$81,808	\$69,873	17.1%
Maintenance capital expenditures			
Apartments	(13,216)	(12,341)	7.1%
MHCs	(1,731)	(1,550)	11.7%
Commercial	(289)	—	—%
Commercial straight-line rent adjustment	(143)	—	—%
Commercial leasing costs	(154)	—	—%
AFFO	\$66,275	\$55,982	18.4%
AFFO per unit - basic	\$0.76	\$0.72	5.6%
AFFO per unit - diluted	\$0.76	\$0.72	5.6%
AFFO payout ratio - diluted ⁽¹⁾	84%	86%	(200) bps
Weighted average number of units - basic (000s)	86,949	77,575	12.1%
Weighted average number of units - diluted (000s) ⁽²⁾	87,185	77,777	12.1%

(1) Based on Killam's annual distribution of \$0.6367 for the year ended December 31, 2018, and \$0.6167 for the year ended December 31, 2017.

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

The AFFO payout ratio of 84% for the year ended December 31, 2018, has improved 200 bps from the payout ratio of 86% for the year ended December 31, 2017. The improvement is attributable to a 18.4% increase in AFFO driven by contributions from acquisitions and developments and same property NOI growth, partially offset by the impact of the increase in the weighted average number of units outstanding.

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

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Adjusted Cash Flow from Operations

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

Killam calculates ACFO in accordance with the REALpac definition but may differ from other REITs' methods and, accordingly, may not be comparable to ACFO reported by other issuers. In the calculation of ACFO, Killam makes an adjustment for certain working capital items that are not considered indicative of sustainable economic cash flow available for distribution. Examples include working capital changes relating to development projects, sales and other indirect taxes payable or receivable from applicable governments, and changes in the security deposit liability. ACFO continues to include the impact of fluctuations from normal operating working capital, such as changes to rent receivable from tenants and accounts payable and accrued liabilities.

A reconciliation from cash generated from operating activities (refer to the consolidated statements of cash flows for the years ended December 31, 2018, and 2017) to ACFO is as follows:

For the years ended December 31,			
	2018	2017	% Change
Cash generated from operating activities	\$89,738	\$82,916	8.2%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	(1,245)	(7,776)	(84.0%)
Maintenance capital expenditures	(15,236)	(13,891)	9.7%
Amortization of deferred financing costs	(4,354)	(1,720)	153.1%
Internal commercial leasing costs	143	—	N/A
Non-controlling interest	(12)	(28)	(57.1%)
ACFO	\$69,034	\$59,501	16.0%
Distributions declared ⁽¹⁾	\$56,321	\$48,832	15.3%
Excess of ACFO over cash distributions	\$12,713	\$10,669	19.2%
ACFO Payout Ratio ⁽²⁾	82%	82%	—%

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 39.

(2) Based on Killam's monthly distribution of \$0.05333 per unit from March 2018 to December 2018 and \$0.05167 per unit from March 2017 to February 2018.

Killam's ACFO payout ratio for the year ended December 31, 2018 was 82% consistent with 82% in 2017. For the year ended December 31, 2018, Killam retained \$12.7 million of adjusted cash flow from operations to fund future growth, including investments in NOI-enhancing capital upgrades, acquisitions and developments.

Cash Flows from Operating Activities and Distributions Declared

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

For the years ended December 31,		
	2018	2017
Net income	\$175,171	\$104,760
Cash flow from operating activities	\$89,738	\$82,916
Total distributions declared	\$56,321	\$48,832
Excess of net income over total distributions declared	\$118,850	\$55,928
Excess of net income over net distributions paid	\$133,591	\$67,245
Excess of cash flow from operating activities over total distributions declared	\$33,417	\$34,084

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PART VII

Investment Properties

As at December 31,

	2018	2017	% Change
Investment properties	\$2,701,502	\$2,171,372	24.4 %
Investment properties under construction ("IPUC")	37,163	80,226	(53.7)%
Land for development	\$61,028	\$28,165	116.7 %
	\$2,799,693	\$2,279,763	22.8 %

Continuity of Investment Properties

For the years ended December 31,

	2018	2017	% Change
Balance, beginning of year	\$2,171,372	\$1,887,302	15.1%
Acquisition of properties	248,186	190,356	30.4%
Disposition of properties	—	(16,616)	(100.0)%
Transfer from IPUC	104,283	15,485	573.4%
Capital expenditures	46,488	30,995	50.0%
Other	—	(965)	(100.0)%
Fair value adjustment - Apartments	118,601	62,380	90.1%
Fair value adjustment - MHCs	5,271	2,922	80.4%
Fair value adjustment - Other	7,301	(487)	(1,599.2)%
Balance, end of year	\$2,701,502	\$2,171,372	24.4%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2018 and December 31, 2017, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2018			December 31, 2017		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	3.75%	8.00%	5.15%	3.75%	8.00%	5.37%
MHCs	5.75%	8.00%	6.76%	5.75%	8.00%	6.84%

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2018 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Ownership Interest (%)	Property Type	Purchase Price ⁽¹⁾	
					Income-producing Properties	Land for Development
The Killick	Halifax, NS	28-Feb-18	100%	Apartment	\$33,000	—
4th Avenue Land	Calgary, AB	28-Feb-18	40%	Development land	—	7,200
Weber Scott Pearl	Kitchener, ON	12-Mar-18	100%	Development land	1,200	4,800
Westmount Place	Waterloo, ON	29-Mar-18	100%	Retail/office complex and development land	72,900	4,900
Mississippi Lakes	Carleton Place, ON	16-Jul-18	100%	Seasonal resort	2,000	—
Nolan Hill	Calgary, AB	25-Jul-18	10%	Development land	—	2,200
Haviland Street	Charlottetown, PE	3-Aug-18	100%	Development land	—	2,150
Erb Street	Waterloo, ON	10-Aug-18	100%	Development land	—	2,300
Harley Street	Charlottetown, PE	14-Aug-18	100%	Apartment	22,400	—
The Vibe	Edmonton, AB	27-Aug-18	100%	Apartment	47,000	—
Shorefront	Charlottetown, PE	7-Sept-18	100%	IPUC	—	1,200
151 Greenbank	Ottawa, ON	26-Sept-18	100%	Apartment	20,700	—
180 Mill Street ⁽²⁾	London, ON	28-Sept-18	100%	Parking garage	2,400	—
Treo	Calgary, AB	1-Oct-18	100%	Apartment	39,000	—
Dietz House	Waterloo, ON	15-Oct-18	100%	Development land	—	2,900
Parkwood Court	New Minas, NS	22-Oct-18	100%	MHC	2,675	—
The Alexander ⁽³⁾	Halifax, NS	19-Dec-18	50%	Apartment	44,500	—
Total Acquisitions					\$287,775	\$27,650

⁽¹⁾ Purchase price does not include transaction costs.

⁽²⁾ Parking lot connected to existing apartment building.

⁽³⁾ Killam purchased the remaining 50% of the Alexander during 2018 and now owns all 240 units at 100%. Prior to the acquisition, Killam had control of 100% of the subsidiary pertaining to the Alexander and therefore consolidated 100% of its results in the statement of financial position and statement of income and comprehensive income.

Investment Properties Under Construction

For the years ended December 31,

	2018	2017	% Change
Balance, beginning of year	\$80,226	\$34,611	131.8%
Capital expenditures	53,336	50,060	6.5%
Interest capitalized	1,692	1,390	21.7%
Acquisitions	—	3,596	(100.0)%
Fair value gain	4,919	—	N/A
Transfer from land for development	1,273	—	N/A
Transfer to investment properties	(104,283)	(9,431)	1,005.7%
Balance, end of year	\$37,163	\$80,226	(53.7)%

Killam's definition of IPUC includes only active development projects that have broken ground. Land for future development that is not yet in active development is classified as land for development.

Saginaw Park

In April 2018, Killam's Saginaw Park, a 94-unit, seven-storey development in Cambridge, reached substantial completion. The total cost of the project was \$25.5 million and it was completed on time and on budget. Approximately \$6.4 million in fair value gains was recognized during 2018, contributing to Killam's NAV growth. The building was 100% leased by the end of the year.

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The Alexander

This 240-unit project located in downtown Halifax was completed in October 2018. The total cost of development was approximately \$85 million, resulting in an all-cash yield of approximately 4.5%. The cost of development was over budget due primarily to municipal delays in the approvals, municipal building code changes related to exterior cladding that led to delays in schedule, plus labour and material costs inflation. This building is currently 100% leased.

As Killam had control over the development for accounting purposes, 100% of the investment property and development costs was included in IPUC during the development phase. In December 2018, following the completion of construction and the achievement of certain leasing conditions, Killam purchased the remaining 50% equity interest in the development for \$44.5 million, representing a market value on the property of \$89 million. Killam's purchase price for the remaining 50% interest was based on the average of two independent appraisals.

Gloucester City Centre

In 2017, Killam and RioCan REIT ("RioCan") formed a joint venture to develop a residential rental community at Gloucester City Centre in Ottawa, with Killam acquiring a 50% interest in a 7.1-acre development site for \$8.0 million (\$16 million at 100%). Killam and RioCan each own a 50% interest in the land and participate on the same basis in this development. RioCan is the development manager, and upon completion, Killam will be 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, Frontier, a 23-storey tower containing 228 units, is currently under construction. The total cost to develop Phase I is budgeted at \$73 million (\$36.5 million for Killam's 50% interest). As at December 31, 2018, Killam has invested \$31.3 million in the first phase of the project, which is scheduled to be completed mid-2019. Leasing has began at the Frontier, with approximately 60 leases signed to date. Construction of Phase II, containing 208 units, is expected to commence in mid-2019.

Shorefront

On September 10, 2018, Killam acquired land to commence construction on the 78-unit, five-story Shorefront development in Charlottetown, PE. The project budget is \$20.8 million (\$267,000/unit), resulting in an all-cash yield of approximately 5.6%, approximately a 60 bps premium over the market cap-rate of a similar quality asset. The development broke ground in October 2018 and is scheduled to be completed in 2020.

Silver Spear II

During 2018, Killam received final approval from the city of Mississauga to proceed with its Silver Spear II development on land adjacent to its existing 199-unit building. Killam will have 50% ownership in this 128-unit development and expects to break ground during the first half of 2019. The budget for this project is \$49 million (\$24.5 million for Killam's 50% interest), \$383,000 per door, with an anticipated all-cash yield of 5.0%, approximately a 125 bps premium over the market cap-rate for a similar quality asset.

With the developments underway and expected to start in 2019, Killam forecasts adding approximately \$125 million of new developments to its portfolio by the end of 2021.

Land for Development

For the years ended December 31,

	2018	2017	% Change
Balance, beginning of year	\$28,165	\$20,896	34.8%
Fair value adjustment on investment properties	1,800	—	N/A
Acquisitions	28,347	11,460	147.4%
Dispositions	(1,460)	—	N/A
Transfer to IPUC	(1,273)	(6,054)	(79.0)%
Capital expenditure on IPUC	3,972	1,271	212.5%
Interest capitalized on IPUC	1,477	592	149.5%
Balance, end of year	\$61,028	\$28,165	116.7%

During 2018, Killam doubled its development pipeline through the acquisition of land, increasing its future development opportunities to 2,800 units.

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In Q1-2018, Killam acquired Westmount Place, a commercial/office complex with excess land for residential development. To enhance the development opportunity, Killam also purchased an adjacent 16,500-sq-ft site on Erb Street, and two 8-unit apartment buildings, adjacent to Westmount Place on Dietz Avenue. These acquisitions allow for greater density and flexibility with Killam's future multi-phase residential Westmount Development, increasing the overall development opportunity to approximately 800 units.

Killam also acquired land for development in Calgary, Kitchener and Charlottetown, further expanding its pipeline by another 500 units.

Approximately 70% of Killam's development pipeline is outside Atlantic Canada (50% in Ontario and 20% in Alberta). Killam targets yields of 5.0% to 6.0% on development, 50-150 bps higher than expected cap-rate value on completion. Building out the \$850 million pipeline at a 100 bps spread would create approximately \$200 million in NAV for unitholders. Killam has a robust development pipeline. As at February 12, 2019, Killam has the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) ⁽¹⁾	Status	Estimated Year of Completion
<u>Developments expected to start in the next 24 months</u>					
Silver Spear II	Mississauga, ON	50%	64	Approved; to break ground in Q2-2019	2020
Weber Scott Pearl	Kitchener, ON	100%	178	In design	2021
Gloucester (Ph 2)	Ottawa, ON	50%	104	In design	2021
Westmount (Ph 1)	Waterloo, ON	100%	120	In design	2022
<u>Developments expected to start in 2021-2025</u>					
Gloucester Park (Ph 3-4)	Ottawa, ON	50%	185	In design	2024
Grid 5/Plaza 54 (Ph 1-3)	Calgary, AB	40%	408	In design and approval process	2024
Cameron Heights	Edmonton, AB	100%	172	In design and approval process	2024
Westmount Place (Ph 2-5)	Waterloo, ON	100%	680	In design	2028
<u>Additional future development projects</u>					
The Governor	Halifax, NS	100%	48	In design and approval process	TBD
Carlton Terrace	Halifax, NS	100%	104	In design and approval process	TBD
Kanata Lakes	Ottawa, ON	50%	40	In design and approval process	TBD
Haviland Street	Charlottetown, PE	100%	99	In design	TBD
Medical Arts (Spring Garden)	Halifax, NS	100%	200	Future development	TBD
Carlton Houses	Halifax, NS	100%	80	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities			2,787		

(1) Represents Killam's interest/# of units in the potential development units.

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

Capital Improvements

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

During the year ended December 31, 2018, Killam invested \$46.5 million, compared to \$31.0 million for the year ended December 31, 2017. Killam expects to invest between \$55 and \$60 million during 2019 in capital improvements. This increase reflects additional capital allocated to Killam's repositioning and energy efficiency programs as well as targeted spending for curb appeal projects to enhance value and timing of multi-phase cladding and building envelope upgrades. In 2019, Killam will also have increased capital associated with leaseholds for new tenants at its Brewery Market commercial property.

For the years ended December 31,

	2018	2017	% Change
Apartments	\$39,912	\$26,959	48.0%
MHCs	3,666	3,227	13.6%
Commercial	2,910	809	259.7%
	\$46,488	\$30,995	50.0%

Apartments - Capital Spend

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

For the years ended December 31,

	2018	2017	% Change
Building improvements	\$22,222	\$12,493	77.9%
Suite renovations	12,421	9,972	24.6%
Appliances	1,625	1,355	19.9%
Boilers and heating equipment	2,246	2,501	(10.2)%
Other	960	405	137.0%
Equipment	29	201	(85.6)%
Parking lots	398	30	1,226.7%
Land improvements	11	2	450.0%
Total capital spend	\$39,912	\$26,959	48.0%
Average number of units outstanding ⁽¹⁾	14,685	13,712	7.1%
Capital spend - \$ per unit	\$2,718	\$1,966	38.3%

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

Killam invested \$2,718 per unit for the year ended December 31, 2018, compared to \$1,966 per unit for year ended December 31, 2017. The variance year over year is a result of timing of multi-phased projects and an enhanced capital program to drive NOI and NAV growth with repositionings, energy efficiency investments and common area and exterior upgrades.

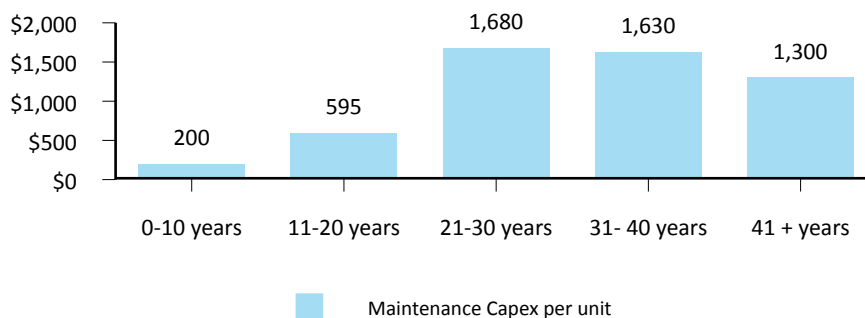
Killam's focus on development and acquisition of newer properties translates into a lower capital investment per unit than many other apartment owners in Canada. Thirty-three percent of Killam's apartments, as a percentage of 2019 forecasted NOI, were built in the past 10 years, and the average age of Killam's portfolio is 27 years. This portfolio of newer assets allows Killam to focus on value-enhancing opportunities as the maintenance capital requirements are less.

Maintenance capital requirements vary significantly by age of each property. As the following chart illustrates, the approximate 2018 maintenance capex for properties built in the past 10 years was \$200 per unit vs. \$1,300 per unit, for buildings that are 40+ years old.

2018 Management's Discussion & Analysis

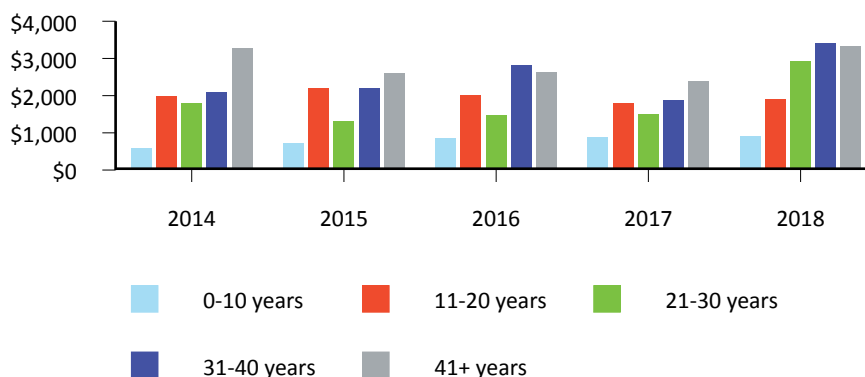
Dollar amounts in thousands of Canadian dollars (except as noted)

**Average Maintenance Capital Spend per Unit by Building Age
(Based on 2018 actual spend)**



As well, the chart below highlights that the total capital spend per unit is less for newer properties (built in the past 10 years), averaging \$910 per unit in 2018, compared to \$3,325 per unit, for buildings over 40 years old.

Average Capital Spend per Unit by Building Age



Building Improvements

Of the \$39.9 million total capital investment in the apartment segment, approximately 56% was invested in building improvements, compared to 46% of the total capital spend for the year ended December 31, 2017. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, common area renovations and energy efficiency investments, such as LED lighting upgrades, to increase the quality of Killam's portfolio. The year-over-year variance relates primarily to the timing of multi-phased building envelope projects and an increase in energy efficiency investments.

Suite Renovations

Killam invested \$12.4 million in suite renovations during the year ended December 31, 2018, a 25% increase over the total investment of \$10.0 million for the year ended December 31, 2017, due to recent acceleration of Killam's suite repositioning program. Killam continues to focus on unit upgrades to maximize occupancy and rental increases. Killam targets a minimum ROI of 10% for its suite renovations. The timing of suite renovation investment 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.

Suite Repositionings

Killam accelerated its suite repositioning program, tripling its investment from 2017 to approximately \$3.0 million in 2018. Killam categorizes suite renovations over \$10,000 as suite repositionings. Killam targets a return on investment of at least 10% with monthly rental rate increases of 10%-30% upon completion of the renovation and lease-up. Management is committed to investing further in repositioning its suites to increase revenue growth and the NAV of the portfolio. The repositioning program is ramping up across all regions. In 2018, approximately 170 units were extensively upgraded, at an average investment of \$22,000 per suite, with an average ROI of 14% and average monthly rental increase of \$253 per unit. The repositionings in 2018 are expected to generate an additionally \$0.5 million in NOI on an annualized basis and \$10 million in NAV growth.

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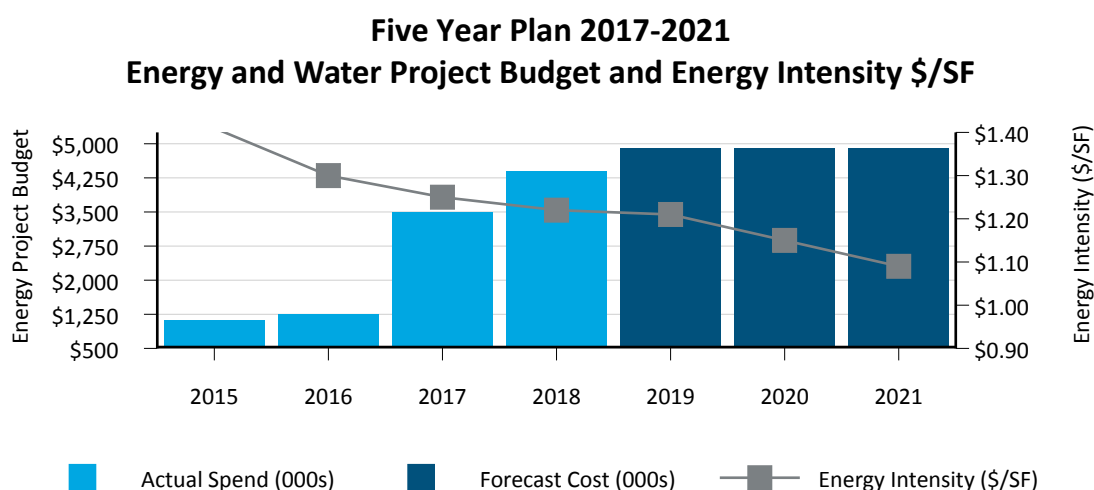
Dollar amounts in thousands of Canadian dollars (except as noted)

Killam targets 300 units for 2019, which Management expects to generate \$0.9 million additional annualized revenue. The opportunity to reposition units within Killam's current portfolio is approximately 3,000 units, with an estimated \$9.0 million in additional annualized revenue and approximately \$170 million in increased NAV. The average cost to reposition a unit is expected to be approximately \$20,000.

Energy Efficiencies

Through a comprehensive review in 2016, Killam identified approximately 700 projects to reduce water, heating fuel and electricity consumption. The total budget for these projects is \$25 million, entering its third year of a five-year project; aggregate annual savings of \$5 million are expected. Assuming a 5% average cap-rate, execution of these initiatives could increase the NAV of Killam's portfolio by approximately \$100 million.

These projects are expected to reduce Killam's energy intensity from a base of \$1.41 per sq ft at the time of the review in 2016 to \$1.10 per sq ft by the end of 2021, a 22% reduction. Energy intensity measures all energy sources (including water) used within a property, converted to a single common measurement of dollars per sq ft. This \$0.30 decline represents an estimated \$4.3 million in annual energy costs, which should more than offset rising energy rates and other operating pressures.



In 2018, Killam invested \$4.4 million in these initiatives. Projects were focused on the installation of ultra-low flow toilets (\$0.7 million), LED lighting retrofits (\$2.1 million), and heating efficiency projects (\$1.6 million), including condensing gas boilers, system recommissioning, insulation upgrades, and thermostat replacements. These projects are estimated to generate \$0.9 million in annualized savings, with an average payback of 5 years. Since 2015, Killam has installed over 9,100 low-flow toilets, saving an estimated 600 million litres of water across the portfolio and generating approximately \$1.2 million of water cost savings. The ultra-low flow toilet program was completed across all eligible Killam buildings in 2018. As well, Killam has retrofit over 90 properties with LED technology since 2017, saving an estimated 3.7 million kWh of electricity annually and generating approximately \$0.6 million of annualized electricity cost savings.

MHCs - Capital Spend

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

For the years ended December 31,

	2018	2017	% Change
Water and sewer upgrades	\$1,625	\$1,764	(7.9)%
Site expansion and land improvements	375	276	35.9%
Other	972	855	13.7%
Roads and paving	592	310	91.0%
Equipment	102	22	363.6%
Total capital spend - MHCs	\$3,666	\$3,227	13.6%
Average number of units outstanding	5,252	5,165	1.7%
Capital spend - \$ per site	\$698	\$625	11.7%

2018 Management's Discussion & Analysis

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

Management expects to invest between \$400 and \$700 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and community enhancements, such as the addition of playgrounds. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital spend during the year ended December 31, 2018 was \$3.7 million, up from \$3.2 million in the year ended December 31, 2017. The increase in capital spend is due to site expansions at seasonal communities in Ontario as well as paving upgrades at various parks throughout 2018. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Commercial - Capital Spend

During 2018, Killam invested an additional \$2.9 million in its commercial portfolio. This investment relates primarily to roof work completed at the Westmount property acquired in Q1-2018 coupled with additional upgrades at the Brewery Market as Killam continues to reposition this property.

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

As at December 31,	2018	2017	Change
Weighted average years to debt maturity	4.4	4.0	0.4 years
Total debt to total assets	49.8%	48.7%	110 bps
Interest coverage	3.22x	3.13x	2.9%
Debt service coverage	1.58x	1.51x	4.6%
Normalized debt to EBITDA ⁽¹⁾	10.62x	10.50x	1.1%
Weighted average mortgage interest rate	2.95%	2.89%	6 bps
Weighted average interest rate of total debt	3.10%	2.96%	14 bps

(1) Ratio calculated net of cash

Killam's long-term debt consists largely of fixed-rate, long-term mortgage financings. In certain cases, Killam will also utilize vendor-take-back mortgages as part of an acquisition. Mortgages are secured by a first or second charge against individual properties, and vendor financing is secured by a general corporate guarantee. Killam's weighted average interest rate on mortgages as at December 31, 2018 increased slightly to 2.95% from 2.89% as at December 31, 2017, as a result of refinancing at slightly higher interest rates over the past year.

Total debt as a percentage of total assets has increased 110 bps to 49.8% from December 31, 2017, largely due to the timing of the acquisition of three properties in December 2017 without mortgage debt, with mortgages being subsequently placed on the properties in the first quarter of 2018.

This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 bps change in the weighted average cap-rate as at December 31, 2018, would have impacted the ratio of debt as a percentage of total assets by 90 bps.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering maturity dates. Additionally, Killam may enter into forward interest rate hedges. Approximately \$180 million (or 14%) of Killam's fixed mortgages mature in the next year. 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 \$1.8 million per year.

Refinancings

For the year ended December 31, 2018, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	\$76,036	3.76%	\$105,123	3.38%	6.5 years	\$29,087
MHCs	11,843	4.29%	20,918	4.17%	5.0 years	9,075
	\$87,879	3.83%	\$126,041	3.51%	6.0 years	\$38,162

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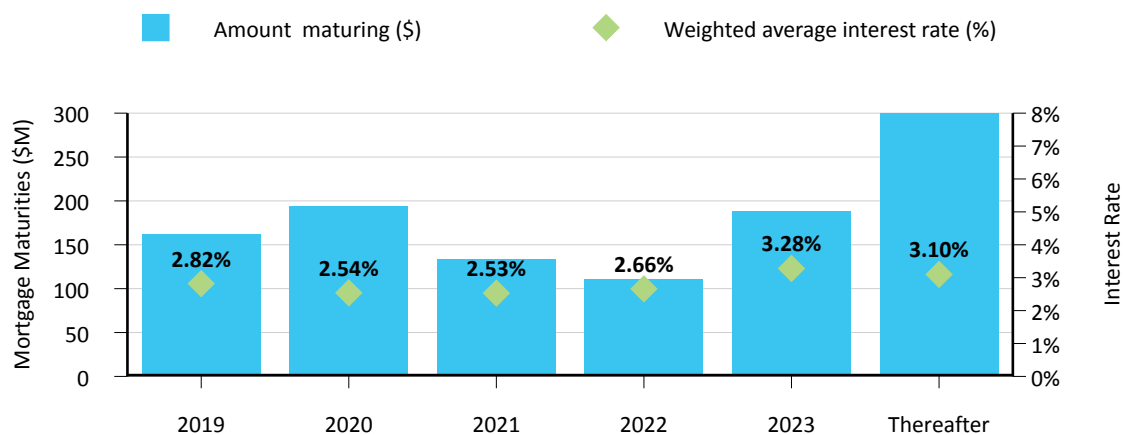
Dollar amounts in thousands of Canadian dollars (except as noted)

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:

Year of Maturity	Apartments			MHC		Total ⁽¹⁾	
	Balance December 31, 2018	Weighted Avg Int. Rate %	% CMHC Insured	Balance December 31, 2018	Weighted Avg Int. Rate %	Balance December 31, 2018	Weighted Avg Int. Rate %
2019	\$162,162	2.82%	90.9%	\$17,409	3.85%	\$179,571	2.92%
2020	194,017	2.54%	57.7%	6,409	3.52%	200,426	2.57%
2021	134,799	2.53%	85.2%	6,649	3.29%	141,448	2.56%
2022	110,936	2.66%	68.2%	23,747	3.67%	134,683	2.84%
2023	187,893	3.28%	76.9%	20,511	4.17%	208,404	3.36%
Thereafter	441,950	3.10%	100.0%	—	—%	441,950	3.10%
	\$1,231,757	2.90%	84.6%	\$74,725	3.80%	\$1,306,482	2.95%

(1) Excludes \$16.5 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at December 31, 2018.

Apartment Mortgages Maturities by Year



Access to mortgage debt is essential in refinancing maturing debt and financing acquisitions. Management has diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered maturity dates to manage interest rate risk. Management anticipates continued access to mortgage debt for both acquisitions and refinancings. Access to CMHC-insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee and therefore are able to lend at more favorable rates. As at December 31, 2018, approximately 85% of Killam's apartment mortgages were CMHC-insured (79.7% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2017 - 80% and 75%). The weighted average interest rate on the CMHC-insured mortgages was 2.95% as at December 31, 2018 (December 31, 2017 - 2.71%).

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2019 and 2020:

Remaining 2019 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	38	\$20,350	\$154,063
MHCs with debt maturing	7	2,410	16,887
	45	\$22,760	\$170,950

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

2020 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	40	\$19,484	\$180,090
MHCs with debt maturing	4	967	6,075
	44	\$20,451	\$186,165

Future Contractual Debt Obligations

As at December 31, 2018, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending December 31,	Mortgage and Loans Payable	Construction Loans	Credit Facilities ⁽¹⁾	Total
2019	\$232,394	\$60,502	\$13,350	\$306,246
2020	224,366	—	40,000	264,366
2021	156,678	—	—	156,678
2022	140,912	—	—	140,912
2023	193,431	—	—	193,431
Thereafter	375,187	—	—	375,187
	\$1,322,968	\$60,502	\$53,350	\$1,436,820

⁽¹⁾ Killam's \$70 million credit facility expires in December 2020.

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.

Credit Facilities

Killam has access to two credit facilities with credit limits of \$70.0 million and \$5 million (December 31, 2017 - \$70.0 million and \$1.5 million) that can be used for acquisition and general business purposes. Killam holds an accordion option to increase the \$70.0 million facility to \$90.0 million.

The \$70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$40.0 million committed revolver as well as an accordion option to increase the \$70.0 million facility by an additional \$20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2018, Killam has assets with a carrying value of \$83.9 million pledged as first mortgage ranking and \$325.1 million pledged as second mortgage ranking to the line and a balance outstanding of \$53.4 million (December 31, 2017 - \$nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2018.

During 2018, Killam increased its \$1.5 million facility to \$5.0 million. This facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2018, Killam had assets with a carrying value of \$2.1 million pledged as collateral (December 31, 2017 - \$1.8 million) and letters of credit totaling \$1.0 million outstanding against the facility (December 31, 2017 - \$1.1 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2018.

As at December 31, 2018	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$70.0 million demand facility	\$90,000	\$53,350	—	\$36,650
\$5.0 million demand facility	5,000	—	958	4,042
Total	\$95,000	\$53,350	\$958	\$40,692

2018 Management's Discussion & Analysis

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

As at December 31, 2017	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$70.0 million demand facility	\$90,000	—	—	\$90,000
\$1.5 million demand facility	1,500	—	1,100	400
Total	\$91,500	—	\$1,100	\$90,400

⁽¹⁾ Maximum loan includes a \$20 million accordion option, for which collateral is pledged.

Construction Loans

As at December 31, 2018, Killam has access to two floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling \$79.8 million. Payments are made monthly on an interest-only basis. The construction loans have interest rates of prime plus 0.63% or 125 bps above BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at December 31, 2018, \$60.5 million is drawn on the two construction loans (December 31, 2017 - \$41.0 million on three non-revolving demand construction loans). The weighted-average interest rate is 4.28% (December 31, 2017 - 3.83%).

Unitholders' Equity

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

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

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

During the first quarter of 2018, Killam increased its monthly distribution by 3.2% to \$0.05333 per unit per month (\$0.64 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution that was reinvested. The price per unit is calculated by reference to the ten-day volume weighted average price of Killam's units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the distribution declaration. The following chart highlights Killam's distributions paid and trust units reinvested for the years ended December 31, 2018 and 2017:

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

	2018	2017	% Change
Distributions declared on trust units	\$53,564	\$46,216	15.9%
Distributions declared on exchangeable units	2,453	2,383	2.9%
Distributions declared on awards outstanding under RTU plan	304	233	30.5%
Total distributions declared	\$56,321	\$48,832	15.3%
Less:			
Distributions on trust units reinvested	(14,437)	(11,084)	30.3%
Distributions on RTUs reinvested	(304)	(233)	30.5%
Net distributions paid	\$41,580	\$37,515	10.8%
Percentage of distributions reinvested	26.2%	23.2%	

2018 Management's Discussion & Analysis

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

Liquidity and Capital Resources

Management ensures there is adequate liquidity to fund major property maintenance and improvements, debt principal and interest payments, distributions to unitholders and property acquisitions and developments. Killam's sources of capital include: (i) cash flows generated from operating activities; (ii) cash inflows from mortgage refinancings; (iii) mortgage debt secured by investment properties; (iv) credit facilities with two Canadian chartered banks; (v) construction facilities and (vi) 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) Currently, Killam has \$36.7 million available on its credit facility, including the accordion feature. Combined with cash on hand, Killam has flexibility for approximately \$100 million of acquisitions.
- (iii) The retained portion of annual ACFO, mortgage refinancings and construction loans is expected to be sufficient to fund ongoing property capital investments, principal repayments and developments.
- (iv) Construction facilities to fund development projects.
- (v) Upcoming mortgage maturities are expected to be renewed through Killam's mortgage program.

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of the assets of Killam as shown on the most recent consolidated statement of financial position and (ii) the historical cost of the assets of Killam. Killam's total debt as a percentage of assets as at December 31, 2018 was 49.8%.

As at December 31,

	2018	2017
Mortgages and loans payable ⁽¹⁾	1,292,476	1,074,103
Credit facilities	53,350	—
Construction loans	60,502	41,046
Total debt	1,406,328	1,115,149
Total assets ⁽¹⁾	2,824,406	2,288,445
Total debt as a percentage of total assets	49.8%	48.7%

(1) Killam acquired the remaining 50% interest in The Alexander development on December 19, 2018; therefore, no adjustment to total debt or assets was required as at December 31, 2018 (December 31, 2017 - Total assets \$22.8 million, Total debt - \$14.4 million).

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

2018 Management's Discussion & Analysis

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

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	\$58,041	\$55,532	\$52,937	\$49,449	\$48,579	\$48,595	\$45,898	\$44,305
NOI	\$36,889	\$36,484	\$33,916	\$28,423	\$29,747	\$31,746	\$28,785	\$24,942
Net income	\$44,273	\$27,120	\$34,864	\$68,914	\$37,850	\$14,649	\$34,611	\$17,650
FFO	\$20,611	\$23,355	\$21,035	\$16,807	\$18,067	\$19,964	\$18,174	\$13,666
FFO per unit - diluted	\$0.23	\$0.26	\$0.25	\$0.20	\$0.22	\$0.25	\$0.23	\$0.19
AFFO per unit - diluted	\$0.18	\$0.22	\$0.20	\$0.16	\$0.18	\$0.21	\$0.19	\$0.14
Weighted average units - diluted (000s)	89,517	89,176	85,236	84,790	80,837	78,621	78,340	73,219

Killam's total property revenue for the three months ended December 31, 2018 was \$58.0 million, a 19.5% increase over the same period in 2017, due to the contributions from recent acquisitions, as well as increased same property revenue. NOI increased 24.0% in Q4-2018 compared to Q4-2017. Net income was up \$6.4 million in the quarter due to increased NOI and a net \$36.1 million of fair value gains in Q4-2018 compared to net fair value gains of \$28.0 million in Q4-2017.

Q4 Consolidated Results

or the three months ended December 31,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Property revenue	\$58,041	\$48,579	19.5%	\$45,738	\$44,374	3.1%	\$12,303	4,205	192.6%
Property operating expenses									
General operating expenses	8,993	8,041	11.8%	7,336	7,389	(0.7)%	1,657	652	154.1%
Utility and fuel expenses	5,639	5,226	7.9%	4,886	4,924	(0.8)%	753	302	149.3%
Property taxes	6,520	5,565	17.2%	5,218	5,106	2.2%	1,302	459	183.7%
Total operating expenses	\$21,152	\$18,832	12.3%	\$17,440	\$17,419	0.1%	\$3,712	\$1,413	162.7%
NOI	\$36,889	\$29,747	24.0%	\$28,298	\$26,955	5.0%	\$8,591	\$2,792	207.7%
Operating margin %	63.6%	61.2%	240 bps	61.9%	60.7%	120 bps	69.8%	66.4%	340 bps

Q4 Same Property NOI

For the three months ended December 31,

	Total Portfolio			Apartments			MHCs		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Property revenue	\$45,738	\$44,374	3.1%	\$42,245	\$40,975	3.1%	\$3,493	\$3,399	2.8%
Property operating expenses									
General operating expenses	7,336	7,389	(0.7)%	6,418	6,424	(0.1)%	918	964	(4.8)%
Utility and fuel expenses	4,886	4,924	(0.8)%	4,473	4,605	(2.9)%	413	319	29.5%
Property taxes	5,218	5,106	2.2%	5,061	4,932	2.6%	157	175	(10.3)%
Total property expenses	\$17,440	\$17,419	0.1%	\$15,952	\$15,961	(0.1)%	\$1,488	\$1,458	2.1%
NOI	\$28,298	\$26,955	5.0%	\$26,293	\$25,014	5.1%	\$2,005	\$1,941	3.3%
Operating margin	61.9%	60.7%	120 bps	62.2%	61.0%	120 bps	57.4%	57.1%	30 bps

2018 Management's Discussion & Analysis

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

Apartment Same Property

Killam's same property apartment portfolio realized NOI growth of 5.1% for the three months ended December 31, 2018, as compared to the three months ended December 31, 2017, due to a 3.1% increase in revenues and a 0.1% reduction in total property operating expenses. The revenue growth was generated from a 2.7% increase in the average rental rate and a 10 bps increase in occupancy. Occupancy for the quarter ended December 31, 2018 was 97.7%, which was Killam's highest fourth quarter occupancy in its history.

General operating expenses decreased 0.1% in the fourth quarter of 2018, compared to the same period in 2017, due to lower repairs and maintenance costs as well as a reduction in advertising costs, given strong occupancy in the majority of Killam's core markets. General operating expense decreases were partially offset by increased rates on snow removal contracts and higher garbage tipping fees in Nova Scotia and New Brunswick.

Utility and fuel expenses were 2.9% less for the quarter ended December 31, 2018, as compared to the quarter ended December 31, 2017. Electricity expenses were 11.5% lower due to the installation of LED lighting over the past 12 months, offsetting the increases in hydro rates in various regions. Water expenses were 3.4% lower than Q4-2017 as water consumption savings from low-flow toilet installations across the portfolio more than offset the impact of increases in water rates. Both natural gas costs and oil expense increased due to increased consumption from colder weather (approximately 15% colder in Atlantic Canada and 4% colder in Ontario in Q4-2018 vs. Q4-2017) and higher oil and natural gas pricing in Nova Scotia and New Brunswick. Property taxes increased 2.6% quarter over quarter due to higher property tax assessments and rate increases.

Q4-2018 Occupancy by Region

For the three months ended December 31,

	Total Occupancy			Same Property Occupancy		
	2018	2017	Change (bps)	2018	2017	Change (bps)
Halifax, NS	96.9%	98.0%	(110)	98.3%	98.4%	(10)
Ontario	97.5%	97.5%	—	98.2%	97.5%	70
Moncton, NB	97.6%	96.7%	90	97.6%	96.7%	90
Fredericton, NB	99.0%	98.2%	80	99.0%	98.2%	80
Saint John, NB	96.5%	96.9%	(40)	96.5%	96.9%	(40)
St. John's, NL	91.1%	94.9%	(380)	91.1%	94.9%	(380)
Charlottetown, PE	99.7%	99.4%	30	99.8%	99.4%	40
Alberta	90.6%	87.3%	330	92.7%	92.1%	60
Other Atlantic	98.4%	95.6%	280	98.4%	95.6%	280
Total Apartment (Weighted Average)	96.7%	97.2%	(50)	97.7%	97.6%	10

Overall apartment occupancy decreased 50 bps to 96.7% in the fourth quarter of 2018, compared to 97.2% for the fourth quarter of 2017 due to several new properties in the initial lease-up phase, including The Alexander, which was completed in October 2018. Same property occupancy was at a record high for the fourth quarter at 97.7%, a 10 bps gain over Q4-2017.

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Q4-2018 Same Property Apartment NOI by Region

For the three months ended December 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Halifax	\$16,514	\$15,957	3.5%	(\$5,839)	(\$5,721)	2.1%	\$10,675	\$10,236	4.3%
Ontario	7,044	6,786	3.8%	(2,499)	(2,536)	(1.5)%	4,545	4,250	6.9%
Moncton	4,483	4,332	3.5%	(1,985)	(2,082)	(4.7)%	2,498	2,250	11.0%
Fredericton	4,243	4,071	4.2%	(1,721)	(1,648)	4.4%	2,522	2,423	4.1%
Saint John	2,939	2,857	2.9%	(1,403)	(1,411)	(0.6)%	1,536	1,446	6.2%
St. John's	2,495	2,579	(3.3)%	(760)	(766)	(0.8)%	1,735	1,813	(4.3)%
Charlottetown	2,586	2,513	2.9%	(1,077)	(1,063)	1.3%	1,509	1,450	4.1%
Alberta	619	605	2.3%	(183)	(204)	(10.3)%	436	401	8.7%
Other	1,322	1,275	3.7%	(485)	(530)	(8.5)%	837	745	12.3%
	\$42,245	\$40,975	3.1%	(\$15,952)	(\$15,961)	(0.1)%	\$26,293	\$25,014	5.1%

Performance in New Brunswick was strong in the fourth quarter, with Moncton, Saint John and Fredericton recording year-over-year NOI gains of 11.0%, 6.2% and 4.1%, respectively, as compared to the same period in 2017. Rental rates grew by an average of 2.7% across the province, and the average occupancy improved by 50 bps for the quarter, as population growth and a lack of new supply continue to create a tighter rental market. Property expenses decreased slightly compared Q4-2017 as hydro and water expense savings from energy initiatives offset property tax and inflationary cost pressures. In total, NOI for Q4-2018 increased 7.2% as compared to Q4-2017 in the province.

Despite a 10 bps decrease in occupancy, revenues in Halifax grew by 3.5% during the fourth quarter of 2018 due to a 3.2% increase in average rental rates. Property operating expense growth was 2.1%, compared to Q4-2017, due to increases in utility and heating fuel costs, higher garbage removal rates and increases in property tax expense, which were slightly offset by lower repairs and maintenance costs and lower advertising expenses. Halifax's Q4-2018 same property NOI increased 4.3%, or \$0.4 million, from Q4-2017.

The Charlottetown market remains strong, with revenue increases of 2.9% in Q4-2018 compared to Q4-2017. The market is extremely tight, with occupancy of 99.8% in Q4-2018, a 40 bps increase from Q4-2017. Property expenses were a modest 1.3% higher than the same period in 2017, primarily due to higher heating oil prices and property tax increases, offset by lower hydro and water expense due to energy efficiency projects implemented in the past year.

Strong fourth quarter results were realized in Killam's Ontario portfolio. A 3.8% increase in revenue was driven by a 2.9% increase in rental rates and a 70 bps improvement in occupancy to 98.2% for Q4-2018. In addition, total operating expenses decreased 1.5% due to lower repairs and maintenance expenses, lower advertising costs and lower natural gas pricing. Overall, Ontario's NOI increased by 6.9% compared to Q4-2017.

Killam's St. John's portfolio saw a slight 0.9% increase in rental rates, but realized a 380 bps decrease in occupancy over Q4-2017. There is a current softness in the economy as a result of the reduced offshore oil activity. Net revenue in St. John's decreased by 3.3% for Q4-2018, and combined with slightly lower operating expenses, NOI decreased by 4.3% in Q4-2018.

Revenues in Alberta increased 2.3%, given a 60 bps improvement in occupancy and a 1.4% increase in rental rates. Operating costs decreased 10.3% compared to the quarter ended December 31, 2017, due to lower contract service costs and decreased insurance expense. In total, NOI was 8.7% higher in Q4-2018 than Q4-2017.

MHC Same Property

The MHC same property portfolio generated a 3.3% increase in NOI in Q4-2018, compared to Q4-2017. Revenues grew by 2.8% quarter over quarter due to a 2.5% rental rate increase at the permanent MHC communities. Total same property expenses increased 2.1%, or \$30 thousand, due to higher utility expenses, mostly relating to a water main break at a permanent park in Nova Scotia.

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Q4 FFO and AFFO

For the three months ended December 31,	2018	2017	% Change
Net income	\$44,273	\$37,850	17.0%
Fair value adjustments	(36,059)	(28,046)	28.6%
Loss on disposition	16	20	(20.0)%
Non-controlling interest	(15)	(4)	275.0%
Deferred tax expense	11,423	7,637	49.6%
Interest expense related to exchangeable units	626	599	4.5%
Unrealized loss (gain) on derivative	245	(35)	(800.0)%
Internal leasing costs	66	—	N/A
Depreciation on owner-occupied building	36	46	(21.7)%
FFO	\$20,611	\$18,067	14.1%
FFO per unit - diluted	\$0.23	\$0.22	4.5%
AFFO per unit - diluted	\$0.18	\$0.18	—%
AFFO payout ratio - diluted	87%	86%	100 bps
Weighted average number of units - basic (000s)	89,283	80,609	10.8%
Weighted average number of units - diluted (000s)	89,517	80,837	10.7%

FFO was \$20.6 million in the fourth quarter, up 14.1% from \$18.1 million in the fourth quarter of 2017. FFO per unit was \$0.23 in Q4-2018, a 4.5% increase over the same period in 2017. The growth in FFO was generated by increased earnings from the same property portfolio (\$1.3 million) and contributions from recent acquisitions and developments (\$2.6 million) and recognition of revenue related to government loans (\$1.1 million). This growth was partially offset by an increase in deferred financing costs (\$2.2 million), higher interest expense on refinancings (\$0.3 million), and a 10.7% increase in the weighted average units outstanding, following the equity issuance in 2018 to reduce leverage and fund growth.

The increase in amortization of deferred financing costs in Q4-2018 is partially attributable to the timing of recognition of CMHC premiums linked to refinancings. Management expects the amortization of deferred financing to decrease in Q4-2019 to approximately \$0.6 million.

Selected Consolidated Financial Information

For the years ended December 31,	2018	2017	2016
Property revenue	\$215,959	\$187,377	\$175,269
Net income	\$175,171	\$104,760	\$71,439
FFO	\$81,808	\$69,873	\$58,886
FFO per unit - diluted	\$0.94	\$0.90	\$0.86
Investment properties	\$2,799,693	\$2,279,763	\$1,942,809
Total assets	\$2,824,406	\$2,311,210	\$1,987,929
Total liabilities	\$1,655,456	\$1,343,488	\$1,237,463
Distribution per unit	\$0.64	\$0.62	\$0.60

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PART IX

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

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

As at December 31, 2018, \$130.4 million of Killam's debt had variable interest rates, including two construction loans for \$60.5 million, a credit facility balance of \$53.4 million, and six demand loans totaling \$16.4 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% (December 31, 2017 - prime plus 0.63% - 2.0%).

Liquidity Risk

Liquidity risk is the risk that Killam may not have access to sufficient capital to fund its growth program or refinance its debt obligations as they mature. Killam manages cash resources based on financial forecasts and anticipated cash flows. The maturities of Killam's long-term financial liabilities are set out in note 23 of the consolidated financial statements. Killam staggers the maturities of its debt, minimizing exposure to liquidity risk in any year. In addition, Killam's apartments qualify for CMHC-insured debt, reducing the refinancing risk on maturity. Killam's MHCs and commercial properties do not qualify for CMHC-insured debt; however, they continue to have access to mortgage debt.

Increased Supply Risk

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

Credit Risk

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

Cyber Security Risk

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

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays will occur and/or units will not be leased in the timeframe and/or at rents anticipated. To reduce Killam's exposure to cost increases, Killam enters into fixed-price contracts when possible. To reduce the lease-up risk, Killam does market research in advance of each development to support expected rental rates and premarkets its properties early on in the process, to increase demand for the new developments.

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Environmental Risk

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

General Uninsured Losses

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

Rent Control Risk

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

Utility, Energy and Property Tax Risk

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

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

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

Fluctuation and Availability of Cash Distributions

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

Ability of Unitholders to Redeem Units

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

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Exchangeable Units

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

Taxation-related Risks

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

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

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

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

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

- At each time in the taxation year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
- Not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";
- Not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, from dispositions of real or immovable properties that are capital properties;

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

The SIFT Rules contain a “look-through rule” under which a trust could qualify for the REIT Exception where it holds properties indirectly through intermediate entities, provided that each such entity, assuming it were a trust, would satisfy paragraphs (1) through (4) of the REIT Exception above. The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy. The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each taxation year, and each direct and indirect subsidiary of the Trust will qualify as an “excluded subsidiary entity” (as defined in the Tax Act) such that the Trust will not be a SIFT Trust within the meaning of the SIFT Rules at any time. However, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a Taxation Year will not result in the Trust failing to qualify for the REIT Exception for that taxation year.

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

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

Other Canadian Tax Matters

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

Competition for Real Property Investments

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

Future Acquisitions of Real Property Investments

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

Zoning and Approval

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

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Dependence on Key Personnel

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

Market for Securities and Price Volatility

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

Co-ownership

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

Ground Leases

Three of Killam's properties, including 6101 South Street and Chapter House located in Halifax, and 1033 Queen Street West in Toronto, are subject to long-term ground leases in which the underlying land is owned by an arms-length third party and leased to Killam. Under the terms of the ground lease, Killam must pay rent for the use of the land and is generally responsible for all the costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all the improvements made, will revert to the owner of the land upon the expiration of the lease. The leases are scheduled to expire in 2041 (there is an option for a ten-year renewal), 2080 and 2060, respectively. The total ground leases payments for the year ended December 31, 2018 were \$0.1 million (December 31, 2017 - \$0.1 million).

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

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

(iv) Basis of consolidation

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

2018 Management's Discussion & Analysis

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

(v) Revenue Recognition

The Trust applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Trust concluded that revenue for property management and ancillary services is to be recognized over time because the tenant simultaneously receives and consumes the benefits provided by the Trust. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is identified as containing more than one performance obligation, the Trust allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

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

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

(ii) Deferred unit-based compensation plan

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

(iii) Deferred taxes

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 20 to the consolidated financial statements.

Future Accounting Policy Changes

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are disclosed below. Killam intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16. The objective of the new standard is to provide financial statement users with information to assess the amount, timing and uncertainty of cash flows arising from lease obligations. This standard introduces a single lessee accounting model and is effective for annual periods beginning after January 1, 2019, with early adoption permitted.

The most significant effect of the new standard will be the lessee's recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

Relative to the results of applying the current standard, although the actual cash flows will be unaffected, the lessee's statement of cash flows will reflect increases in cash flows from operating activities offset equally by decreases in cash flows from financing activities. This is the result of the payments of the "principal" component of leases that would currently be accounted for as operating leases being presented as a cash flow use within financing activities under the new standard.

Killam has assessed the impacts and transition provisions of the new standard and will apply the modified retrospective approach, effective January 1, 2019. Lessor accounting is substantially unchanged from today's accounting. Lessors will continue to classify all leases using the same classification principle and distinguish between operating and finance leases. Killam does not expect a material impact to its consolidated financial statements on adoption of this IFRS standard Killam as leases with tenants will continue to be accounted for as operating leases consistent with current accounting standards.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Killam will apply the interpretation from its effective date and does not anticipate a significant impact on its consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

As of December 31, 2018, Management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer, with the assistance of Management.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Management, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Internal Controls over Financial Reporting

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

As at December 31, 2018, Killam's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the ICFR using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the ICFR were designed and operating effectively as at December 31, 2018. Killam did not make any changes to the design of ICFR in 2018 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Related Party Transactions

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. Commencing in 2016, Killam and Halkirk began developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia. Construction of the development was managed by Killam, and the cost of construction was funded 50/50 by each partner. The building reached substantial completion in October 2018 and in December 2018 Killam purchased the remaining 50% interest for \$44.5 million. The purchase price, net of construction financing, was settled with the issuance of Trust and Exchangeable Units issued at \$16.51. Halkirk's portion of the unit issuance was 277,181 Trust Units and 180,217 Exchangeable Units.

Killam entered into a construction management agreement with APM Construction ("APM"), a company owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development in PEI. APM will be paid a market rate development and construction management fee. For the year ended December 31, 2018, APM was paid \$0.3 million in development and construction management fees (December 31, 2017 - \$nil).

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and Trustee of Killam. In addition, the property manager for the commercial complex was controlled by an executive and Trustee and paid an industry standard property management fee until July 3, 2018, when the Trustee sold the property management company.

2018 Management's Discussion & Analysis

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

Subsequent Events

On January 15, 2019, Killam announced a distribution of \$0.0533 per unit, payable on February 15, 2019, to unitholders of record on January 31, 2019.

On January 15, 2019, Killam acquired an 8-unit apartment building, adjacent to Westmount Place, in Waterloo, ON for \$1.5 million.

On February 12, 2019, the Board of Trustees approved a 3.1% increase to Killam's annual distribution, to \$0.66 per unit from \$0.64 per unit. The monthly distribution will be \$0.055 per unit, up from \$0.05333 per unit. The increase will become effective for the March 2019 distribution, to be paid in April 2019.

Killam has two properties located in Ottawa, Ontario that will be sold for \$14.8 million and Killam expects to generate net proceeds of \$7.4 million. The transaction is scheduled to close on April 1, 2019.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis (MD&A) have been prepared by the management of Killam Apartment REIT in accordance with International Financial Reporting Standards, and include amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented in the MD&A is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2018, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

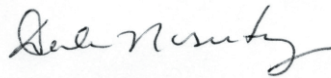
Ernst & Young LLP, the auditors appointed by the Unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. Their report as auditors is set forth below.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 12, 2019



Philip Fraser
President and Chief Executive Officer



Dale Noseworthy
Chief Financial Officer

Independent auditor's report

To the Unitholders of Killam Apartment Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Killam Apartment Real Estate Investment Trust and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gina Kinsman, CPA, CA.

The logo for Ernst & Young LLP is written in a black, cursive script font. The letters are fluid and connected, with a prominent 'E' and 'Y'.

Halifax, Canada
February 12, 2019

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars

As at December 31,

	Note	2018	2017
ASSETS			
Non-current assets			
Investment properties	[5]	\$2,799,693	\$2,279,763
Property and equipment	[7]	5,659	5,192
Other non-current assets		530	659
		\$2,805,882	\$2,285,614
Current assets			
Cash		\$3,789	\$12,000
Rent and other receivables	[9]	3,025	2,355
Other current assets	[8]	11,710	11,241
		18,524	25,596
TOTAL ASSETS		\$2,824,406	\$2,311,210
EQUITY AND LIABILITIES			
Unitholders' equity	[15]	\$1,168,814	\$967,618
Accumulated other comprehensive loss ("AOCL")		—	(37)
Non-controlling interest		136	141
Total Equity		\$1,168,950	\$967,722
Non-current liabilities			
Mortgages and loans payable	[10]	\$1,060,082	\$951,645
Other liabilities		—	12,161
Exchangeable units	[14]	66,207	54,937
Deferred income tax	[20]	134,684	103,206
Deferred unit-based compensation	[17]	4,579	4,501
		\$1,265,552	\$1,126,450
Current liabilities			
Mortgages and loans payable	[10]	\$232,394	\$136,862
Credit facilities	[11]	53,350	—
Construction loans	[12]	60,502	41,046
Accounts payable and accrued liabilities	[13]	43,658	39,130
		389,904	217,038
Total Liabilities		\$1,655,456	\$1,343,488
TOTAL EQUITY AND LIABILITIES		\$2,824,406	\$2,311,210
Commitments and contingencies	[24]		
Financial guarantees	[25]		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees



Trustee



Trustee

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars

For the years ended December 31,

	Note	2018	2017
Property revenue	[18]	\$215,959	\$187,377
Property operating expenses			
Operating expenses		(33,447)	(30,444)
Utility and fuel expenses		(21,705)	(19,668)
Property taxes		(25,095)	(22,045)
		(80,247)	(72,157)
Net operating income		\$135,712	\$115,220
Other income		965	847
Financing costs	[19]	(42,648)	(34,846)
Depreciation		(859)	(787)
Administration		(14,201)	(12,958)
Fair value adjustment on convertible debentures		—	690
Fair value adjustment on unit-based compensation		(553)	(534)
Fair value adjustment on exchangeable units	[14]	(6,373)	(8,811)
Fair value adjustment on investment properties	[5]	134,803	64,857
Loss on disposition		(197)	(259)
Income before income taxes		206,649	123,419
Deferred tax expense	[20]	(31,478)	(18,659)
Net income		\$175,171	\$104,760
Other comprehensive income			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to financing costs		37	60
Comprehensive income		\$175,208	\$104,820
Net income attributable to:			
Unitholders		175,144	104,732
Non-controlling interest		27	28
		\$175,171	\$104,760
Comprehensive income attributable to:			
Unitholders		175,181	104,792
Non-controlling interest		27	28
		\$175,208	\$104,820

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

Year ended December 31, 2018	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2018	\$718,858	\$795	\$247,965	(\$37)	\$141	\$967,722
Exchange of exchangeable units	1,054	—	—	—	—	1,054
Distribution reinvestment plan	13,919	—	—	—	—	13,919
Deferred unit-based compensation	678	—	—	—	—	678
Issued for cash	54,852	—	—	—	—	54,852
Issuance of units for acquisitions	9,112	—	—	—	—	9,112
Net income	—	—	175,144	—	27	175,171
Amortization of loss on forward interest rate hedge	—	—	—	37	—	37
Distributions on non-controlling interest	—	—	—	—	(32)	(32)
Distributions declared and paid	—	—	(48,936)	—	—	(48,936)
Distributions payable	—	—	(4,627)	—	—	(4,627)
As at December 31, 2018	\$798,473	\$795	\$369,546	\$—	\$136	\$1,168,950

Year ended December 31, 2017	Trust Units	Contributed Surplus	Retained Earnings	AOCL	Non-controlling Interest	Total Equity
As at January 1, 2017	\$560,197	\$795	\$189,458	(\$97)	\$113	\$750,466
Exchange of exchangeable units	32	—	—	—	—	32
Distribution reinvestment plan	11,104	—	—	—	—	11,104
Deferred unit-based compensation	349	—	—	—	—	349
Issued for cash	147,176	—	—	—	—	147,176
Net income	—	—	104,732	—	28	104,760
Amortization of loss on forward interest rate hedge	—	—	—	60	—	60
Distributions declared and paid	—	—	(42,028)	—	—	(42,028)
Distributions payable	—	—	(4,197)	—	—	(4,197)
As at December 31, 2017	\$718,858	\$795	\$247,965	(\$37)	\$141	\$967,722

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars

For the years ended December 31,

	Note	2018	2017
OPERATING ACTIVITIES			
Net income		\$175,171	\$104,760
Add (deduct) items not affecting cash			
Fair value adjustments		(127,877)	(56,203)
Depreciation		859	787
Amortization of deferred financing costs	[19]	4,354	1,720
Non-cash compensation expense		1,513	1,021
Deferred income taxes		31,478	18,659
Loss on disposition		197	259
Interest expense on exchangeable units		2,453	2,383
Net change in non-cash operating activities	[22]	1,590	9,530
Cash provided by operating activities		\$89,738	\$82,916
FINANCING ACTIVITIES			
Deferred financing costs paid		(8,429)	(4,426)
Net proceeds on issuance of units		54,852	147,285
Cash paid on vesting of restricted units		(1,289)	(520)
Redemption of convertible debentures		—	(46,000)
Mortgage financing		286,609	183,835
Mortgages repaid on maturity		(85,579)	(76,073)
Mortgage principal repayments		(39,662)	(35,467)
Proceeds from construction loans		19,455	22,537
Proceeds from credit facility		53,350	—
Distributions paid to non-controlling interest		(32)	—
Distributions to unitholders		(41,618)	(36,711)
Cash provided by financing activities		\$237,657	\$154,460
INVESTING ACTIVITIES			
Decrease (increase) in restricted cash		574	(700)
Acquisition of investment properties, net of debt assumed		(229,349)	(181,459)
Disposition of investment properties		1,460	16,616
Development of investment properties		(60,477)	(53,313)
Capital expenditures		(47,814)	(31,172)
Cash used in investing activities		(\$335,606)	(\$250,028)
Net decrease in cash		(8,211)	(12,652)
Cash, beginning of year		12,000	24,652
Cash, end of year		\$3,789	\$12,000

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

1. Organization of the Trust

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

The consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at and for the year ended December 31, 2018. Killam's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8.

2. Significant Accounting Policies

(A) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Trust for the year ended December 31, 2018 were authorized for issue in accordance with a resolution of the Board of Trustees of Killam on February 12, 2019.

(B) Basis of Presentation

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

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial year. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interest represents the portion of profit or loss and net assets not held by Killam and is presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from unitholders' equity.

Subsidiaries are entities controlled by Killam. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Killam. In certain circumstances, throughout the year Killam had control over entities in which it does not own more than 50% of the voting power.

In its evaluation, Management considers whether Killam controls the entity by virtue of the following circumstances:

- a. Power over more than half of the voting rights by virtue of an agreement with other investors;
- b. Power to govern the financial and operating policies of the entity under a statute or an agreement;
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; and
- d. Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

Killam's investments in subsidiaries, all of which are incorporated in Canada, are listed in the following table:

Subsidiary	% Interest
Killam Apartment General Partner Ltd.	100%
Killam Apartment Limited Partnership	100%
Killam Properties Inc.	100%
Killam Properties SGP Ltd.	100%
Killam Apartment Subsidiary Limited Partnership	100%
661047 N.B Inc.	100%
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties MHC Trust	100%
Blackshire Court Limited	100%
Killam - Keith Development Ltd.	100%
Blackshire Court Limited Partnership	96.94%
Killam KamRes (Silver Spear) Inc.	50%
Killam KamRes (Grid 5) Inc.	50%
Killam KamRes (Kanata Lakes) I Inc.	50%
Killam KamRes (Kanata Lakes) II Inc.	50%
Killam KamRes (Kanata Lakes) III Inc.	50%
Killam KamRes (Kanata Lakes) IV Inc.	50%
Riotrin Properties (Gloucester 3) Inc.	50%
AKK 4th Avenue Inc.	40%

(ii) Joint arrangements

Killam has joint arrangements in and joint control of three properties (six buildings), two development projects and two parcels of land for future development. Killam has assessed the nature of its joint arrangements as at December 31, 2018 and determined them to be joint operations. For joint operations, Killam recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and Killam have been eliminated to the extent of its interest in the joint operations.

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, Killam evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to Killam. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, Killam applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties.

When an acquisition does not represent a business as defined under IFRS 3, Killam classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property. All of Killam's acquisitions have been classified as asset acquisitions.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties represents the majority of Killam's revenue and includes rents from tenants under leases, parking income, laundry income and other miscellaneous income paid by the tenants under the terms of their existing leases. Rental revenue from investment properties is recognized on a straight-line basis over the lease term. Rental payments are due from tenants at the beginning of the month. The operating leases entered into with tenants creates a legally enforceable right to the use of the underlying asset by the tenant and also requires Killam to provide additional services. IAS 17 - *Leases* provides guidance on "lease components" such as base rent, realty tax and insurance recoveries and therefore are outside of the scope of IFRS 15. Property management and ancillary income (such as utilities, parking and laundry) are considered non-lease components and are within the scope of IFRS 15, Revenue from Contracts with Customers. The performance obligation for the property management and ancillary services is satisfied over time, which is generally the lease term.

The Trust applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(ii) Other income

Other corporate income includes interest income and management fees. Interest income is recognized as earned, and management fees are recorded as services are provided.

(iii) Service charges and expenses recoverable from tenants

Income arising from expenses recovered from tenants is recognized gross of the related expenses in the period in which the expense can be contractually recovered. Revenue related to laundry and parking is included gross of the related costs.

(iv) Manufactured home sales

Where revenue is obtained from the sale of manufactured homes, it is recognized when the significant risks and rewards have been transferred to the buyer. This will normally take place on the closing date of the home sale. Such sales are considered sales of goods.

(F) Tenant Inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are amortized on a straight-line basis over the term of the lease as a reduction of rental revenue.

(G) Investment Properties

Investment properties include multi-family residential properties, manufactured home communities and commercial properties held to earn rental income and properties that are under construction or development for future use as investment properties. Killam considers its income properties to be investment properties under International Accounting Standard ("IAS") 40, *Investment Property* ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation.

Killam's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with the economies of scale from owning a large portfolio or the consolidation of value from having compiled a large portfolio of properties over a long period of time, mostly through individual property acquisitions.

Investment properties are measured initially at cost, including transaction costs. Transaction costs include deed transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are recorded at fair value. Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains and losses arising from changes in fair values are included in the consolidated statements of income and comprehensive income in the year in which they arise. Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statements of income and comprehensive income in the year of retirement or disposal.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

The cost of a development property that is an asset acquisition comprises the amount of cash, or the fair value of other consideration, paid to acquire the property, including transaction costs. Subsequent to acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes, directly attributable labour costs and borrowing costs on both specific and general debt. Direct and indirect borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin, and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received, whether or not the space is leased. If Killam is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of these costs continues until such improvements are completed. Capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Interest is capitalized using Killam's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

Properties under development are also adjusted for fair value at each consolidated balance sheet date, with fair value adjustments recognized in net income.

(i) Investment properties under construction

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

(H) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and consist mainly of Killam's head office buildings, leasehold improvements, vehicles and information technology systems. The estimated useful lives, residual values and depreciation methods are reviewed at each year-end, with the effect of any changes in estimates accounted for prospectively. These items are categorized into the following classes, and their respective useful economic life is used to calculate the amount of depreciation or amortization for each period.

<u>Category</u>	<u>Useful Life / Depreciation Rate</u>	<u>Depreciation Method Used</u>
Building	40 years	Straight-line
Heavy equipment	7.5%	Declining balance
Vehicles	10%	Declining balance
Furniture, fixtures and office equipment	10% to 30%	Declining balance
Leasehold improvements	Lease term	Straight-line

(I) Inventory

Inventory represents manufactured homes available for sale. The manufactured homes are valued at the lower of cost (purchase price plus delivery and setup costs) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business based on market prices at the reporting date less costs to complete and the estimated costs of sale.

(J) Consolidated Statements of Cash Flows

Cash consists of cash on hand and bank account balances excluding cash on hand held for security deposits. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

(K) Unit-based Compensation

Unit-based compensation benefits are provided to officers, Trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in Killam. In accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the Restricted Trust Units ("RTUs") are presented as a liability on the consolidated statements of financial position as the Trust is obliged to provide the holder with Trust Units once the RTUs vest.

The fair value of performance-based RTUs is estimated using a Monte Carlo pricing model. The fair value estimate requires determination of the most appropriate inputs to the pricing model including the expected life, volatility, and dividend yield. The grant date fair value of the deferred unit-based compensation is determined based on the market value of the Trust's Units on the date of grant and compensation expense is recognized over the vesting period and included in administration costs.

Under IAS 19, *Employee Benefits*, the RTUs are classified at fair value through profit or loss ("FVTPL") and are measured at each reporting period at fair value, with changes in fair value recognized in the consolidated statements of income and comprehensive income.

(L) Financial Instruments

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7, *Financial Instruments: Disclosures*, IAS 32, and IFRS 9, *Financial Instruments*. Killam recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. The following summarizes Killam's classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Rent, loans and other receivables	Financial assets	Amortized cost
Accounts payable, accrued liabilities	Financial liabilities	Amortized cost
Mortgages, loans payable and construction loans	Financial liabilities	Amortized cost
Exchangeable Units	FVTPL	Fair value
Unit-based compensation	FVTPL	Fair value
Other assets	FVTPL	Fair value

Financial liabilities at fair value through profit and loss

The Exchangeable Units of the Trust are exchangeable into units of the Trust at the option of the holder. These Exchangeable Units are considered puttable instruments in accordance with IAS 32 and are required to be classified as financial liabilities at FVTPL. The distributions paid on the Exchangeable Units are accounted for as financing costs.

Financial liabilities are classified as FVTPL if they meet certain conditions and are designated as such by Management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Financial assets

Such receivables arise when Killam provides services to a third party, such as a tenant, and are included in other current assets, except for those with maturities more than 12 months after the consolidated statement of financial position date, which are classified as other non-current assets. Loans and receivables are accounted for at amortized cost.

Financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount of the initial recognition.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

Trust Units

Killam's Trust Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. Killam's Trust Units meet the conditions of IAS 32 as they are the most subordinate to all other classes of instruments and are, therefore, presented as equity on the consolidated statements of financial position.

Restricted Trust Units

The RTUs are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon conversion of the RTUs. As the Trust Units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, the RTUs are also considered a financial liability. The RTUs are measured at fair value on each reporting date using Killam's unit price, the fair value of RTUs with performance conditions is estimated using a Monte Carlo pricing model and changes in fair value are recognized in the consolidated statements of income and comprehensive income.

Exchangeable Units

The Exchangeable Units are considered a financial liability as there is a contractual obligation for the Trust to deliver Trust Units upon exchange of the Exchangeable Units. The distributions on the Exchangeable Units are recognized as financing costs in the consolidated statements of income and comprehensive income. The distributions payable as at the reporting date are reported under other current liabilities on the consolidated statements of financial position. The Exchangeable Units are measured at each reporting date at fair value, which is based off of the unit price of the Trust given the Exchangeable Units can be converted into Trust units. Changes in fair value are recognized in the consolidated statements of income and comprehensive income.

Mortgages and loans payable

Mortgages and loans payable are initially recognized at fair value less directly attributable transaction costs. After initial recognition, mortgages and loans payable are subsequently measured at amortized cost using the effective interest rate method. Mortgage maturities and repayments due more than 12 months after the consolidated statement of financial position date are classified as non-current.

Financing costs

Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate calculation.

Prepaid insurance premiums

Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are netted against mortgages and loans payable. They are amortized over the amortization period of the underlying mortgage loans on a straight-line basis (initial period is typically 25-30 years) and are included as a component of financing costs. Should Killam refinance an existing mortgage, CMHC premiums associated with the new mortgage will be reflected in deferred financing costs. Other unamortized CMHC premiums and fees associated with the property that are no longer linked to a current mortgage will be amortized in the period in which the refinancing occurs.

Transaction costs

Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

Determination of fair value

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. Killam classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and Killam's own assumptions about market value. See note 5 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. For Killam's accounting policy on hedging, see the *Hedging Relationships* section below. Derivatives not designated in a hedging relationship are measured at fair value, with changes therein recognized directly through the consolidated statements of income and comprehensive income.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value, with changes therein recognized within net income in the consolidated statements of income and comprehensive income.

(M) Hedging Relationships

Killam may use interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, Killam formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how Killam will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity through other comprehensive income, while any ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statements of income and comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

(N) Comprehensive Income

Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

(O) Accumulated Other Comprehensive Loss

AOCL is included in the consolidated statements of financial position as equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges.

(P) Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units and Exchangeable Units.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

(Q) Provisions

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, a provision is a liability of uncertain timing or amount. Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the date of the consolidated statements of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect Killam's best estimate at the reporting date. Killam's provisions are immaterial and are included in other payables.

(R) Taxation

Effective January 1, 2016, Killam qualified as a "mutual fund trust" as defined under the *Income Tax Act* (Canada) and as a REIT eligible for the "REIT Exemption" in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, the Trust is not taxable on its income provided that all of its taxable income is distributed to its unitholders. This exemption, however, does not extend to the corporate subsidiaries of Killam that are subject to income taxes.

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and tax laws enacted or substantively enacted at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits, or tax losses can be utilized. The carrying values of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Killam determines the deferred tax consequences associated with temporary differences relating to investment properties as if the carrying amount of the investment property is recovered entirely through sale. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

(S) Earnings Per Unit

As a result of the redemption feature of Killam's Trust Units, these Units are considered financial liabilities under IAS 33, *Earnings per Share*, and they may not be considered as equity for the purposes of calculating net income on a per Unit basis. Consequently, Killam has elected not to report earnings per Unit calculations, as permitted under IFRS.

(T) Adoption of New Standards, Amendments and Interpretations

Revenue from Contracts with Customers ("IFRS 15")

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

2. Significant Accounting Policies (continued)

Financial Instruments ("IFRS 9")

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

Share-based Payment ("IFRS 2")

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

Investment Property ("IAS 40")

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

3. Critical Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

The Trust's accounting policies relating to financial instruments are described in note 2(L). Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9 to determine the appropriate recognition model, i.e. FVTPL, etc., assess the effectiveness of hedging relationships and determine the identification of embedded derivatives, if any, that are subject to fair value measurement.

(iv) Basis of consolidation

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

3. Critical Accounting Judgments, Estimates and Assumptions (continued)

(v) Revenue Recognition

The Trust applies judgment about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Trust concluded that revenue for property management and ancillary services is to be recognized over time because the tenant simultaneously receives and consumes the benefits provided by the Trust. Rents charged to tenants are generally charged on a gross basis, inclusive of property management and ancillary services. If a contract is identified as containing more than one performance obligation, the Trust allocates the total transaction price to each performance obligation in an amount based on an expected cost plus a margin approach.

Key Accounting Estimates and Assumptions

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

(i) Valuation of investment properties

The choice of valuation method and the critical estimates and assumptions underlying the fair value determination of investment properties are set out in note 5. Significant estimates used in determining the fair value of the Trust's investment properties include capitalization rates and stabilized net operating income used in the overall capitalization rate valuation method. A change to any one of these inputs could significantly alter the fair value of an investment property. Please refer to note 5 for sensitivity analysis.

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

(ii) Deferred unit-based compensation

The compensation costs relating to deferred unit-based compensation are based on estimates of how many deferred units will be awarded as well as how many will actually vest and be exercised, as well as valuation models, which by their nature are subject to measurement uncertainty.

(iii) Deferred taxes

The amount of the temporary differences between the accounting carrying value of the Trust's assets and liabilities held in various corporate subsidiaries versus the tax bases of those assets and liabilities and the tax rates at which the differences will be realized are outlined in note 20.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

4. Future Accounting Policy Changes

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are disclosed below. Killam intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16. The objective of the new standard is to provide financial statement users with information to assess the amount, timing and uncertainty of cash flows arising from lease obligations. This standard introduces a single lessee accounting model and is effective for annual periods beginning after January 1, 2019, with early adoption permitted.

The most significant effect of the new standard will be the lessee's recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

Relative to the results of applying the current standard, although the actual cash flows will be unaffected, the lessee's statement of cash flows will reflect increases in cash flows from operating activities offset equally by decreases in cash flows from financing activities. This is the result of the payments of the "principal" component of leases that would currently be accounted for as operating leases being presented as a cash flow use within financing activities under the new standard.

Killam has assessed the impacts and transition provisions of the new standard and will apply the modified retrospective approach, effective January 1, 2019. Lessor accounting is substantially unchanged from today's accounting. Lessors will continue to classify all leases using the same classification principle and distinguish between operating and finance leases. Killam does not expect a material impact to its consolidated financial statements on adoption of this IFRS standard Killam as leases with tenants will continue to be accounted for as operating leases consistent with current accounting standards.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Killam will apply the interpretation from its effective date and does not anticipate a significant impact on its consolidated financial statements.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

5. Investment Properties

As at December 31, 2018

Segment	Apartments	MHCs	Other	IPUC	Land for Development	Total
Balance, beginning of year	\$1,995,144	\$139,783	\$36,445	\$80,226	\$28,165	\$2,279,763
Fair value adjustment on investment properties	118,601	5,271	7,301	4,919	1,800	137,892
Acquisitions	167,218	4,789	76,179	—	28,347	276,533
Dispositions	—	—	—	—	(1,460)	(1,460)
Transfer from IPUC	104,283	—	—	(104,283)	—	—
Capital expenditure on investment properties	39,912	3,666	2,910	—	—	46,488
Transfer from land for development	—	—	—	1,273	(1,273)	—
Capital expenditure on IPUC and land for development	—	—	—	53,336	3,972	57,308
Interest capitalized on IPUC and land for development	—	—	—	1,692	1,477	3,169
Balance, end of year	\$2,425,158	\$153,509	\$122,835	\$37,163	\$61,028	\$2,799,693

As at December 31, 2017

Segment	Apartments	MHCs	Other	IPUC	Land for Development	Total
Balance, beginning of year	\$1,721,399	\$133,634	\$32,269	\$34,611	\$20,896	\$1,942,809
Fair value adjustment on investment properties	62,380	2,922	(487)	—	—	64,815
Acquisitions	186,502	—	3,854	3,596	11,460	205,412
Dispositions	(16,616)	—	—	—	—	(16,616)
Transfer from IPUC	15,485	—	—	(9,431)	(6,054)	—
Other	(965)	—	—	—	—	(965)
Capital expenditure on investment properties	26,959	3,227	809	—	—	30,995
Capital expenditure on IPUC and land for development	—	—	—	50,060	1,271	51,331
Interest capitalized on IPUC and land for development	—	—	—	1,390	592	1,982
Balance, end of year	\$1,995,144	\$139,783	\$36,445	\$80,226	\$28,165	\$2,279,763

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

5. Investment Properties (continued)

During the year ended December 31, 2018, Killam acquired the following properties:

Property	Location	Acquisition Date	Ownership Interest (%)	Property Type	Purchase Price ⁽¹⁾	
					Income-producing Properties	Land for Development
The Killick	Halifax, NS	28-Feb-18	100%	Apartment	\$33,000	—
4th Avenue Land	Calgary, AB	28-Feb-18	40%	Development land	—	\$7,200
Weber Scott Pearl	Kitchener, ON	12-Mar-18	100%	Development land	1,200	4,800
Westmount Place	Waterloo, ON	29-Mar-18	100%	Retail/office complex and development land	72,900	4,900
Mississippi Lakes	Carleton Place, ON	16-Jul-18	100%	Seasonal resort	2,000	—
Nolan Hill	Calgary, AB	25-Jul-18	10%	Development land	—	2,200
Haviland Street	Charlottetown, PE	3-Aug-18	100%	Development land	—	2,150
Erb Street	Waterloo, ON	10-Aug-18	100%	Development land	—	2,300
Harley Street	Charlottetown, PE	14-Aug-18	100%	Apartment	22,400	—
The Vibe	Edmonton, AB	27-Aug-18	100%	Apartment	47,000	—
Shorefront	Charlottetown, PE	7-Sept-18	100%	IPUC	—	1,200
151 Greenbank	Ottawa, ON	26-Sept-18	100%	Apartment	20,700	—
180 Mill Street ⁽²⁾	London, ON	28-Sept-18	100%	Parking garage	2,400	—
Treo	Calgary, AB	1-Oct-18	100%	Apartment	39,000	—
Dietz House	Waterloo, ON	15-Oct-18	100%	Development land	—	2,900
Parkwood Court	New Minas, NS	22-Oct-18	100%	MHC	2,675	—
The Alexander ⁽³⁾	Halifax, NS	19-Dec-18	50%	Apartment	44,500	—
Total Acquisitions					\$287,775	\$27,650

(1) Purchase price does not include transaction costs.

(2) Parking lot connected to existing apartment building.

(3) Killam purchased the remaining 50% of the Alexander during 2018 and now owns all 240 units at 100%. Prior to the acquisition, Killam had control of 100% of the subsidiary pertaining to the Alexander and therefore consolidated 100% of its results in the statement of financial position and statement of income and comprehensive income.

During the year ended ended December 31, 2018, Killam capitalized salaries of \$3.1 million (December 31, 2017 - \$3.0 million), as part of its project improvement, suite renovation and development programs. For the year ended December 31, 2018, interest costs associated with the general corporate borrowings used to fund development were capitalized to the respective development projects using Killam's weighted average borrowing rate of 2.91% (December 31, 2017 - 3.11%). Interest costs associated with development-specific loans were capitalized to the respective developments using the actual borrowing rate associated with the loan.

Investment properties with a fair value of \$2.2 billion as at December 31, 2018 (December 31, 2017 - \$1.9 billion) have been pledged as collateral against Killam's mortgages, construction loan and credit facilities.

Valuation methodology

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation.

Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all investment properties are classified as Level 3 assets. See note 23 for further details.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

5. Investment Properties (continued)

Killam's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for investment properties during the year.

Valuation processes

Internal valuations

Killam measures the vast majority of its investment properties using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of Killam's management. The internal valuation team's processes and results are reviewed and approved by senior management of Killam, including the President & Chief Executive Officer; Chief Financial Officer; and other executive members, in line with Killam's quarterly reporting dates.

External valuations

Depending on the property asset type and location, management may at times use external valuations to support its fair value, obtaining valuations from independent third-party firms that employ experienced valuation professionals. During the year, Killam obtained a total of 21 external property appraisals, which supported an IFRS fair value of approximately \$483.1 million or 17% of Killam's investment property portfolio as at December 31, 2018. The internal valuation team also verifies all major inputs used by the external valuator in preparing the valuation report, compares the fair value against the fair value determined in internal models, and holds discussions with the external valuator.

Valuation techniques underlying Management's estimation of fair value

Income properties

The investment properties were valued using the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income ("SNOI") of each property is divided by a capitalization rate. The significant unobservable inputs include:

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing leases, other contracts or external evidence such as current market rents for similar properties. Budgeted rents and expenses are adjusted to incorporate allowances for vacancy rates, management fees and market-based maintenance and salary costs. The resulting capitalized value is then adjusted for other costs inherent in achieving and maintaining SNOI, including structural reserves for capital expenditures.
- Capitalization rate is based on location, size and quality of the properties and takes into account market data at the valuation date.

Investment properties under construction and land for development

Management uses an internal valuation process to estimate the fair value of properties under development and land for development. Where a site is partially developed, the direct capitalization method is applied to capitalize the pro forma NOI, stabilized with market allowances, from which the costs to complete the development are deducted. The significant unobservable inputs are based on:

- Pro forma SNOI is based on the location, type and quality of the properties and supported by the terms of actual or anticipated future leases, other contracts or external evidence such as current market rents for similar properties. Vacancy rates are based on expected future market conditions, and estimated maintenance costs are based on management's experience and knowledge of the market conditions.
- Costs to complete are derived from internal budgets based on management's experience and knowledge of the market conditions.
- Capitalization rate is risk-adjusted taking into consideration the inherent risk of the development project and based on location, size and quality of the properties and taking into account market data at the valuation date.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

5. Investment Properties (continued)

The primary method of valuation for land acquired for development is the comparable sales approach, which considers recent sales activity for similar land parcels in the same or similar markets. Land values are estimated using either a per acre or per buildable square foot basis based on highest and best use. Such values are applied to Killam's properties after adjusting for factors specific to the site, including its location, intended use, zoning, servicing and configuration.

Valuation basis

Using the direct income capitalization method, the apartment properties were valued using cap-rates in the range of 3.75% to 8.00%, applied to a stabilized NOI of \$125.5 million (December 31, 2017 - 3.75% to 8.00% and \$107.8 million), resulting in an overall weighted average cap-rate of 5.15% (December 31, 2017 - 5.37%). The stabilized occupancy rates used in the calculation of NOI were in the range of 94.0% to 99.0% (December 31, 2017 - 93.1% to 98.3%).

Using the direct income capitalization method, the MHC properties were valued using cap-rates in the range of 5.75% to 8.00%, applied to a stabilized NOI of \$10.2 million (December 31, 2017 - 5.75% to 8.00% and \$9.6 million), resulting in an overall weighted average cap-rate of 6.76% (December 31, 2017 - 6.84%). The stabilized occupancy rate used in the calculation of NOI was 97.8% (December 31, 2017 - 97.8%).

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

	December 31, 2018			December 31, 2017		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	3.75%	8.00%	5.15%	3.75%	8.00%	5.37%
Halifax	4.50%	6.00%	5.22%	4.85%	6.00%	5.34%
Moncton	5.15%	7.00%	5.73%	5.15%	7.00%	5.88%
Fredericton	5.00%	6.00%	5.73%	5.15%	6.50%	5.98%
Saint John	5.75%	6.25%	6.04%	6.00%	6.75%	6.40%
St. John's	5.00%	6.00%	5.62%	5.00%	6.00%	5.63%
Charlottetown	5.28%	6.00%	5.74%	5.50%	6.25%	5.94%
Ontario	3.75%	5.08%	4.33%	3.75%	5.08%	4.55%
Alberta	4.50%	5.00%	4.72%	4.52%	5.75%	5.30%
Other Atlantic	5.75%	8.00%	6.67%	5.75%	8.00%	6.83%
MHCs	5.75%	8.00%	6.76%	5.75%	8.00%	6.84%
Ontario	6.50%	8.00%	7.35%	7.00%	8.00%	7.48%
Nova Scotia	5.75%	7.00%	6.21%	5.75%	7.00%	6.26%
New Brunswick	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Newfoundland	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%

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

Class of Property	Capitalization Rate	
	10 basis points increase	10 basis points decrease
Apartments	(\$46,289)	\$48,122
MHCs	(\$2,193)	\$2,258

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

6. Joint Operations and Investments in Joint Venture

Killam has interests in three properties (six buildings), two development projects and two land parcels for future development that are subject to joint control and are joint operations. Accordingly, the consolidated statements of financial position and consolidated statements of income and comprehensive income include Killam's rights to and obligations for the related assets, liabilities, revenue and expenses. As at December 31, 2018, the fair value of the investment property subject to joint control was \$286.8 million (December 31, 2017 - \$234.8 million).

7. Property and Equipment

As At	December 31, 2018		December 31, 2017	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$270	\$—	\$270	\$—
Building	1,922	383	1,913	325
Heavy equipment	276	124	257	113
Vehicles	2,156	784	1,827	657
Furniture, fixtures and office equipment	6,320	5,204	6,001	4,654
Leasehold improvements	1,613	360	963	290
	12,557	6,855	11,231	6,039
Less: accumulated depreciation	(6,898)		(6,039)	
	\$5,659		\$5,192	

Land and building represent Killam's ownership of a 50% interest in the property that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a carrying value of \$1.9 million, representing Killam's 50% ownership interest (December 31, 2017 - \$1.9 million), is pledged as collateral against Killam's mortgage payable.

For the year ended December 31,	2018	2017
Balance, beginning of the year	\$5,192	\$4,787
Capital expenditures	1,326	1,192
Depreciation	(859)	(787)
Balance, end of year	\$5,659	\$5,192

8. Other Current Assets

As at	December 31, 2018	December 31, 2017
Restricted cash	\$7,405	\$7,979
Prepaid expenses	4,029	3,163
Inventory	276	99
	\$11,710	\$11,241

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

9. Rent and Other Receivables

As at	December 31, 2018	December 31, 2017
Rent receivable	\$996	\$748
Other receivables	2,029	1,607
	\$3,025	\$2,355

Included in other receivables are laundry revenue, insurance receivables and other non-rental income. The majority of these receivables are less than 60 days old. Killam's policy is to write off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. Killam's bad debt expense experience has historically been less than 0.4% of revenue. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

10. Mortgages and Loans Payable

As at	December 31, 2018		December 31, 2017	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	2.95%	\$1,275,990	2.89%	\$1,070,387
Variable rate	5.42%	16,486	4.56%	12,116
Vendor financing	—%	—	5.00%	6,004
Total		\$1,292,476		\$1,088,507
Current		232,394		136,862
Non-current		1,060,082		951,645
		\$1,292,476		\$1,088,507

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

As at December 31, 2018, unamortized deferred financing costs of \$30.1 million (December 31, 2017 - \$26.0 million) and mark-to-market adjustments on mortgages assumed on acquisitions of \$0.4 million (December 31, 2017 - \$0.4 million) are netted against mortgages and loans payable.

Estimated future principal payments and maturities required to meet mortgage obligations for the years ending December 31 are as follows:

	Principal Amount	% of Total Principal
2019	\$232,394	17.6%
2020	224,366	17.0%
2021	156,678	11.8%
2022	140,912	10.7%
2023	193,431	14.6%
Subsequent to 2023	375,187	28.3%
	\$1,322,968	100.0%
Unamortized deferred financing costs	(30,079)	
Unamortized mark-to-market adjustments	(413)	
	\$1,292,476	

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

11. Credit Facilities

Killam has access to two credit facilities with credit limits of \$70.0 million and \$5.0 million (December 31, 2017 - \$70.0 million and \$1.5 million) that can be used for acquisition and general business purposes. As at December 31, 2018, Killam had sufficient assets pledged against the facility to access the additional \$20.0 million.

The \$70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). The facility includes a \$30.0 million demand revolver and a \$40.0 million committed revolver as well as an accordion option to increase the \$70.0 million facility by an additional \$20.0 million. Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at December 31, 2018, Killam has assets with a carrying value of \$83.9 million pledged as first mortgage ranking and \$325.1 million pledged as second mortgage ranking to the line and a balance outstanding of \$53.4 million (December 31, 2017 - \$nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2018.

During 2018, Killam increased its \$1.5 million facility to \$5.0 million. This facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2018, Killam had assets with a carrying value of \$2.1 million pledged as collateral (December 31, 2017 - \$1.8 million) and letters of credit totaling \$1.0 million outstanding against the facility (December 31, 2017 - \$1.1 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at December 31, 2018.

As at December 31, 2018	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$70.0 million demand facility	\$90,000	\$53,350	—	\$36,650
\$5.0 million demand facility	5,000	—	958	4,042
Total	\$95,000	\$53,350	\$958	\$40,692

As at December 31, 2017	Maximum Loan Amount ⁽¹⁾	Amount Drawn	Letters of Credit	Amount Available
\$70.0 million demand facility	\$90,000	—	—	\$90,000
\$1.5 million demand facility	1,500	—	1,100	400
Total	\$91,500	—	\$1,100	\$90,400

(1) As at December 31, 2018, Killam has sufficient assets pledged against the demand facility to access the additional \$20.0 million accordion option to increase the \$70.0 million facility to \$90.0 million.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

12. Construction Loans

As at December 31, 2018, Killam has access to two floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling \$79.8 million. Payments are made monthly on an interest-only basis. The construction loans have interest rates of prime plus 0.63% or 125 bps above BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at December 31, 2018, \$60.5 million is drawn on the two construction loans (December 31, 2017 - \$41.0 million on three non-revolving demand construction loans). The weighted-average interest rate is 4.28% (December 31, 2017 - 3.83%).

13. Accounts Payable and Accrued Liabilities

As at	December 31, 2018	December 31, 2017
Accounts payable and other accrued liabilities	\$27,991	\$25,622
Distributions payable	4,627	4,197
Mortgage interest payable	2,852	2,343
Security deposits	8,188	6,968
	\$43,658	\$39,130

14. Exchangeable Units

For the year ended December 31,	2018		2017	
	Number of Exchangeable Units	Value	Number of Exchangeable Units	Value
Balance, beginning of year	3,863,336	\$54,937	3,865,836	\$46,158
Issuance of units for acquisitions	360,434	5,951	—	—
Exchangeable Units exchanged	(70,250)	(1,054)	(2,500)	(32)
Fair value adjustment	—	6,373	—	8,811
Balance, end of year	4,153,520	\$66,207	3,863,336	\$54,937

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

15. Unitholders' Equity

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

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

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

The units issued and outstanding are as follows:

	Number of Trust Units	Value
December 31, 2017	80,565,279	\$718,858
Distribution reinvestment plan	933,758	13,919
Restricted trust units redeemed	88,272	678
Units issued on exchange of Exchangeable Units	70,250	1,054
Units issued for cash	3,846,750	54,852
Units issued for acquisitions	554,362	9,112
December 31, 2018	86,058,671	\$798,473

New Units Issued

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
Bought-deal (June 26, 2018)	\$14.95	\$50,008	\$2,310	\$47,698	3,345,000
Over-allotment (June 26, 2018)	\$14.95	7,501	347	7,154	501,750
Total		\$57,509	\$2,657	\$54,852	3,846,750

Distribution Reinvestment Plan ("DRIP")

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

16. Distributions

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

For the year ended December 31, 2018, the distributions declared related to the Trust Units were \$53.6 million (year ended December 31, 2017 - \$46.2 million). For the year ended December 31, 2018, distributions declared related to the Exchangeable Units were \$2.5 million (December 31, 2017 - \$2.4 million). The distributions on the Exchangeable Units are recorded in financing costs.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

17. Deferred Unit-based Compensation

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

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

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

The RTUs are considered a financial liability because there is a contractual obligation for the Trust to deliver Trust units (which are accounted for as liabilities, but presented as equity instruments under IAS 32) upon conversion of the RTUs. The RTUs are measured at fair value, with changes flowing through the consolidated statements of income and comprehensive income. The fair value of the vested RTUs for the year ended December 31, 2018, is \$4.6 million, which includes \$0.6 million related to RTUs subject to performance conditions (December 31, 2017 - \$4.5 million and \$0.2 million). For the year ended December 31, 2018, compensation expense of \$1.5 million (December 31, 2017 - \$1.0 million) has been recognized in respect of the RTUs.

The details of the RTUs issued are shown below:

For the year ended December 31,	2018		2017	
	Number of RTUs	Weighted Average Issue Price	Number of RTUs	Weighted Average Issue Price
Outstanding, beginning of year	432,688	\$12.09	263,736	\$10.78
Granted	127,452	13.18	242,101	12.79
Redeemed	(174,467)	10.81	(91,202)	10.73
Forfeited	(2,380)	12.83	—	—
Additional Restricted Trust Unit distributions	20,437	14.91	18,053	12.91
Outstanding, end of year	403,730	\$13.12	432,688	\$12.09

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

18. Revenue

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

For the year ended December 31,	2018	2017
Rental revenue	\$153,331	\$133,038
Property management recoveries ⁽²⁾	51,830	44,970
Ancillary revenue ⁽¹⁾⁽²⁾	10,798	9,369
	\$215,959	\$187,377

(1) Ancillary revenue consists of parking, laundry and other revenue.

(2) Amounts represent revenue recognized in accordance with IFRS 15.

19. Financing Costs

For the year ended December 31,	2018	2017
Mortgage, loan and construction loan interest	\$37,674	\$32,526
Interest on credit facilities	1,075	—
Interest on Exchangeable Units	2,453	2,383
Amortization of deferred financing costs	4,354	1,720
Amortization of fair value adjustments on assumed debt	95	(214)
Amortization of loss on interest rate hedge	37	60
Unrealized loss (gain) on derivative liability	129	(362)
Convertible debenture interest	—	715
Capitalized interest	(3,169)	(1,982)
	\$42,648	\$34,846

20. Deferred Income Tax

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

The source of deferred tax balances and movements were as follows:

As at December 31,	2017	Recognized in consolidated statement of income and comprehensive income	2018
Deferred tax liabilities (assets) related to:			
Real estate properties	\$101,736	\$32,926	\$134,662
Loss carryforwards	(3,187)	(3,225)	(6,412)
Unrealized capital gains	2,419	944	3,363
Other	2,238	833	3,071
Net deferred tax liabilities	\$103,206	\$31,478	\$134,684

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

20. Deferred Income Tax (continued)

As at December 31,	2016	Recognized in consolidated statement of income and comprehensive income	2017
Deferred tax liabilities (assets) related to:			
Real estate properties	\$83,962	\$17,774	\$101,736
Loss carryforwards	(3,860)	673	(3,187)
Unrealized capital gains	2,777	(358)	2,419
Other	1,668	570	2,238
Net deferred tax liabilities	\$84,547	\$18,659	\$103,206

The deferred tax expense for the year can be reconciled to the accounting profit as follows:

For the year ended December 31,	2018	2017
Income before income taxes	\$206,649	\$123,419
Statutory tax rate	29.6%	29.6%
Income tax expense at statutory rates	61,147	36,557
Amounts not subject to tax	(58,730)	(33,521)
Income taxed at a lower amount	(3,478)	(2,288)
Effect of provincial tax rate changes	(17)	148
Other	(624)	(664)
Change to tax basis in excess of book basis	33,180	18,427
Total tax expense	\$31,478	\$18,659

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

21. Segmented Information

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

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

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

The accounting policies of these reportable segments are the same as those described in note 2. Reportable segment performance is analyzed based on NOI. The operating results, and assets and liabilities, of the reportable segments are as follows:

For the year ended December 31, 2018	Apartments	MHCs	Other	Total
Property revenue	\$190,048	\$15,850	\$10,061	\$215,959
Property operating expenses	(69,377)	(6,095)	(4,775)	(80,247)
Net operating income	\$120,671	\$9,755	\$5,286	\$135,712
For the year ended December 31, 2017	Apartments	MHCs	Other	Total
Property revenue	\$167,718	\$15,139	\$4,520	\$187,377
Property operating expenses	(63,767)	(5,762)	(2,628)	(72,157)
Net operating income	\$103,951	\$9,377	\$1,892	\$115,220
As at December 31, 2018	Apartments	MHCs	Other	Total
Total assets	\$2,492,830	\$177,795	\$153,781	\$2,824,406
Total liabilities	\$1,448,761	\$92,184	\$114,511	\$1,655,456
As at December 31, 2017	Apartments	MHCs	Other	Total
Total assets	\$2,108,686	\$154,549	\$47,975	\$2,311,210
Total liabilities	\$1,165,017	\$89,510	\$88,961	\$1,343,488

22. Supplemental Cash Flow Information

For the year ended December 31,	2018	2017
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	\$38,351	\$32,475
Interest paid on credit facilities	1,075	—
Interest paid on convertible debentures	—	715
	\$39,426	\$33,190
Net change in non-cash operating assets and liabilities		
Rent and other receivables	(\$670)	\$540
Other current assets	(1,043)	999
Accounts payable and other liabilities	3,303	7,991
	\$1,590	\$9,530

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

23. Financial Instruments and Financial Risk Management Objectives and Policies

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

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

(i) Interest Rate Risk

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

As at December 31, 2018, \$130.4 million of Killam's debt had variable interest rates, including two construction loans for \$60.5 million, a credit facility balance of \$53.4 million and six demand loans totaling \$16.5 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% or 125 bps above BAs (December 31, 2017 - prime plus 0.63% - 2.0%) and consequently, Killam is exposed to short-term interest rate risk on these loans.

Killam's fixed mortgage and vendor debt, which matures in the next 12 months, totals \$179.6 million. Assuming these mortgages are refinanced at similar terms, except at a 100 bps increase in interest rates, financing costs would increase by \$1.8 million per year.

(ii) Credit Risk

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

Credit assessments are conducted for all prospective tenants and Killam also obtains a security deposit to assist in potential recoveries. In addition, receivables balances are monitored on an ongoing basis. Killam's bad debt expense experience has historically been less than 0.4% of revenue. None of Killam's tenants account for more than 4% of the tenant receivables as at December 31, 2018 or 2017. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(iii) Liquidity Risk

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

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

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

During the year ended December 31, 2018, Killam refinanced \$76.0 million of maturing apartment mortgages with new mortgages totaling \$105.1 million, generating net proceeds of \$29.1 million. As well, Killam refinanced \$11.8 million of maturing MHC mortgages with new mortgages totaling \$20.9 million, for net proceeds of \$9.1 million. The following table presents the principal payments (excluding interest) and maturities of Killam's liabilities for the next five years and thereafter:

For the twelve months ending December 31,	Mortgage and Loans Payable	Construction Loans	Credit Facilities	Total
2019	\$232,394	\$60,502	\$13,350	\$306,246
2020	224,366	—	40,000	264,366
2021	156,678	—	—	156,678
2022	140,912	—	—	140,912
2023	193,431	—	—	193,431
Thereafter	375,187	—	—	375,187
	\$1,322,968	\$60,502	\$53,350	\$1,436,820

(1) Killam's \$70 million credit facility expires in December 2020.

Capital Management

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

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

As at	December 31, 2018	December 31, 2017
Mortgages and loans payable ⁽¹⁾	\$1,292,476	\$1,074,103
Credit facilities	53,350	—
Construction loans	60,502	41,046
Total debt	\$1,406,328	\$1,115,149
Total assets ⁽¹⁾	\$2,824,406	\$2,288,445
Total debt as a percentage of total assets	49.8%	48.7%

(1) Killam acquired the remaining 50% interest in The Alexander development on December 19, 2018, therefore, no adjustment to total debt or assets was required as at December 31, 2018 (December 31, 2017 - Total assets \$22.8 million, Total debt - \$14.4 million).

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

Fair Value of Financial Instruments

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

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

(ii) The fair value of the deferred unit-based compensation and the Exchangeable Units is estimated at the reporting date, based on the closing market price of the Trust Units listed on the TSX. The performance-based RTUs are determined using a pricing model. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and,

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

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

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

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

As at Classification	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets carried at FVTPL:				
Derivative asset ⁽¹⁾	\$530	\$530	\$659	\$659
Financial liabilities carried at amortized cost:				
Mortgages payable	\$1,292,476	\$1,319,513	\$1,088,507	\$1,119,922
Financial liabilities carried at FVTPL:				
Exchangeable Units	\$66,207	\$66,207	\$54,937	\$54,937
Deferred unit-based compensation	\$4,579	\$4,579	\$4,501	\$4,501

(1) The \$0.5 million derivative asset is included in other non-current assets within the consolidated statements of financial position.

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

As at	December 31, 2018	December 31, 2017
Mortgages - Apartments	2.88%	2.82%
Mortgages - MHCs	4.68%	4.52%

Assets and Liabilities Measured at Fair Value

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

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

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

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

As at	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment properties	—	—	\$2,799,693	—	—	\$2,279,763
Derivative asset	—	\$530	—	—	\$659	—
Liabilities						
Exchangeable Units	—	\$66,207	—	—	\$54,937	—
Deferred unit-based compensation	—	\$3,944	\$635	—	\$4,351	\$150

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

24. Commitments and Contingencies

Killam has entered into commitments for development costs of \$7.7 million as at December 31, 2018 (December 31, 2017 - \$25.8 million).

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

Killam owns a 10% interest in a development project in Calgary, Alberta. At the completion of construction and the achievement of certain conditions, Killam has a commitment in place to purchase three four-storey apartment buildings, containing 233 residential units.

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

Area	Utility	Usage Coverage	Term	Cost
Alberta	Hydro	50%	January 1, 2019 - December 31, 2019	\$56.66/MWh

25. Financial Guarantees

Killam is the guarantor on a joint and several basis for mortgage debt held through its joint operations. As at December 31, 2018, the maximum potential obligation resulting from these guarantees is \$128.5 million, related to long-term mortgage financing (December 31, 2017 - \$119.9 million). These loans are secured by a first ranking mortgage over the associated investment properties. Half of the total mortgages for these properties are recorded as a mortgage liability on the consolidated financial statements of financial position.

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

Notes to the Consolidated Financial Statements

Dollar amounts in thousands of Canadian dollars (except unit/share amounts, or as noted)

26. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year. Killam reclassified, on the consolidated statement of income and comprehensive income, amortization of deferred financing costs from "amortization of deferred financing costs" to "financing costs".

27. Related Party Transactions

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. Commencing in 2016, Killam and Halkirk began developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia. Construction of the development was managed by Killam, and the cost of construction was funded 50/50 by each partner. The building reached substantial completion in October 2018 and in December 2018 Killam purchased the remaining 50% interest for \$44.5 million. The purchase price, net of construction financing, was settled with the issuance of Trust and Exchangeable Units issued at \$16.51. Halkirk's portion of the unit issuance was 277,181 Trust Units and 180,217 Exchangeable Units.

Killam entered into a construction management agreement with APM Construction ("APM"), a company owned by a Trustee of Killam, to provide construction services related to the Shorefront apartment development in PEI. APM will be paid a market rate development and construction management fee. For the year ended December 31, 2018, APM was paid \$0.3 million in development and construction management fees (December 31, 2017 - \$nil).

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and Trustee of Killam. In addition, the property manager for the commercial complex was controlled by an executive and Trustee and paid an industry standard property management fee until July 3, 2018, when the Trustee sold the property management company.

The remuneration of directors and other key management personnel, which include the Board of Trustees, President & Chief Executive Officer, Executive Vice President, Chief Financial Officer and other Vice-Presidents of Killam, is as follows:

For the year ended December 31,	2018	2017
Salaries, board compensation and incentives	\$4,079	\$4,519
Deferred unit-based compensation	1,455	959
Total	\$5,534	\$5,478

28. Subsequent Events

On January 15, 2019, Killam announced a distribution of \$0.0533 per unit, payable on February 15, 2019, to unitholders of record on January 31, 2019.

On January 15, 2019, Killam acquired an 8-unit apartment building, adjacent to Westmount Place, in Waterloo, ON for \$1.5 million.

On February 12, 2019, the Board of Trustees approved a 3.1% increase to Killam's annual distribution, to \$0.66 per unit from \$0.64 per unit. The monthly distribution will be \$0.055 per unit, up from \$0.05333 per unit. The increase will become effective for the March 2019 distribution, to be paid in April 2019.

Killam has two properties located in Ottawa, Ontario that will be sold for \$14.8 million and Killam expects to generate net proceeds of \$7.4 million. The transaction is scheduled to close on April 1, 2019.

Five Year Summary

In thousands (except per unit and share data)

Statement of Income Information	2018	2017	2016	2015	2014
Net operating income	\$135,712	\$115,220	\$105,424	\$98,390	\$84,601
Other income	\$965	\$847	\$1,227	\$1,495	\$2,065
Financing costs	(\$42,648)	(\$34,846)	(\$37,698)	(\$38,957)	(\$36,320)
Administration	(\$14,201)	(\$12,958)	(\$12,733)	(\$11,898)	(\$8,525)
Depreciation	(\$859)	(\$787)	(\$884)	(\$802)	(\$644)
Fair value adjustments	\$127,877	\$56,202	(\$11,231)	(\$6,103)	\$4,768
Loss on disposition	(\$197)	(\$259)	(\$264)	(\$109)	(\$1,257)
Current tax recovery (expense)	\$ -	\$ -	\$ -	\$ -	\$1,451
Deferred tax recovery (expense)	(\$31,478)	(\$18,659)	\$27,598	(\$6,216)	(\$13,472)
Net income	\$175,171	\$104,760	\$71,439	\$35,800	\$32,667
Net income attributable to unitholders/common shareholders	\$175,144	\$104,732	\$67,982	\$34,557	\$29,772

Funds From Operations (FFO)

FFO	\$81,808	\$69,873	\$58,886	\$49,016	\$40,162
FFO per unit/share (diluted)	\$0.94	\$0.90	\$0.86	\$0.79	\$0.72

Statement of Financial Position Information

Total assets	\$2,824,406	\$2,311,210	\$1,987,929	\$1,876,826	\$1,775,234
Total liabilities	\$1,655,456	\$1,343,488	\$1,237,463	\$1,190,948	\$1,112,551
Total equity	\$1,168,950	\$967,722	\$750,466	\$685,328	\$662,683

Statement of Cash Flow Information

Cash provided by operating activities	\$89,738	\$82,916	\$64,011	\$50,947	\$51,524
Cash provided by financing activities	\$237,657	\$154,460	\$52,356	\$21,954	\$142,603
Cash used in investing activities	(\$335,606)	(\$250,028)	(\$106,013)	(\$79,378)	(\$202,958)

Unit Information ⁽¹⁾

Weighted average number of units ⁽²⁾	86,949	77,575	67,912	62,097	55,394
Units outstanding at December 31 ⁽²⁾	90,212	84,428	71,736	62,863	60,476
Unit price at December 31	\$15.89	\$14.22	\$11.94	\$10.51	\$10.26

(1) Killam converted to a real estate investment trust (REIT) effective January 1, 2016. References to REIT units prior to that date relate to common shares of Killam Properties Inc.

(2) Units outstanding include Trust Units and Exchangeable Units.

Board of Trustees

Timothy Banks
President & CEO,
APM Group of Companies
Charlottetown, Prince Edward Island

Philip Fraser
President & CEO,
Killam Apartment REIT
Halifax, Nova Scotia

Robert Kay⁽¹⁾
Chairman of the Board,
Killam Apartment REIT
Chairman,
Springwall Group International
and Springwall Sleep Products Inc.
Moncton, New Brunswick

Aldéa Landry⁽²⁾
President, Landel Inc.
Moncton, NB

James Lawley
President, Salters Gate Developments
Halifax, Nova Scotia

Arthur Lloyd⁽²⁾
Chief Development Officer,
Office, North America,
and Vice Chairman
Ivanhoé Cambridge
Calgary, Alberta

Karine MacIndoe ⁽¹⁾⁽³⁾
Trustee,
Toronto, Ontario

Robert Richardson, FCPA, FCA
Executive Vice President,
Killam Apartment REIT
Halifax, Nova Scotia

Manfred Walt, CPA, CA ⁽²⁾
President & CEO,
Walt & Co. Inc.
Toronto, Ontario

Wayne Watson, CPA, CA ⁽¹⁾⁽³⁾
Trustee,
Halifax, Nova Scotia

(1) member of the Audit Committee

*(2) member of the Governance, Nomination
and Succession Committee*

(3) member of the Compensation Committee

Trust Information

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

Computershare Investor Services Inc.
1500 Robert-Bourassa Blvd
7th Floor
Montreal, Quebec
H3A 3S8

Unit Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP.UN

Monthly Distribution

\$0.055 per unit

Head Office

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Suite 100
Halifax, NS B3K 4X8
902.453.9000
866.453.8900

Investor Inquiries

investorrelations@killamreit.com
902.442.0374

Annual Meeting

**The Annual Meeting of Unitholders
will be held on Friday, May 17,
2019, 9:30 am Atlantic Time at the
Delta Hotel Beausejour, 750 Main
Street, Moncton, New Brunswick.**



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