Q1-2019 Management's Discussion and Analysis

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

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PART I

Business Overview

Killam Apartment REIT ("Killam", the "Trust", or the "REIT"), based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing a $2.8 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, with a further two projects currently under construction.

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 90.5% of Killam’s net operating income ("NOI") for the three months ended March 31, 2019. As at March 31, 2019, Killam’s apartment portfolio consisted of 15,883 units, including 1,245 units jointly owned with institutional partners. Killam's 195 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, 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 lots to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 4.9% of Killam’s NOI for Q1-2019. Killam also owns commercial properties that accounted for 4.6% of Killam's NOI for the three months ended March 31, 2019.

Basis of Presentation

The following Management's Discussion and Analysis (“MD&A”) has been prepared by Management and focuses on key statistics from the condensed consolidated interim financial statements and pertains to known risks and uncertainties. This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 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 2018 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at May 1, 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 March 31, 2019, Killam was in compliance with all investment guidelines and operating policies.

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs and non-controlling interest. FFO are calculated in accordance with the REALpac definition. A reconciliation between net income and FFO is included on page 24.
- Adjusted funds from operations ("AFFO"), and applicable per unit amounts and payout ratios, are calculated by Killam as FFO less 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 26, and the calculation of the maintenance capex reserve is included on page 25.
- Adjusted cash flow from operations ("ACFO") is calculated by Killam as cash flow 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 27. ACFO is calculated in accordance with the REALpac definition.
- Earnings before interest, tax, depreciation and amortization ("EBITDA") is calculated by Killam as income before fair value adjustments, 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 2019 and 2018. Same property results represent 85% of the fair value of Killam's investment property portfolio as at March 31, 2019. Excluded from same property results in 2019 are acquisitions, dispositions and developments completed in 2018 and 2019 as well as non-stabilized commercial properties linked to development projects.

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.

Financial and Operational Highlights

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

	Three months ended March 31,		
Operating Performance	**2019**	2018	Change (2)
Property revenue	**$57,091**	$49,449	15.5%
Net operating income	**$33,545**	$28,423	18.0%
Net income	**$27,092**	$68,914	(60.7)%
FFO (1)	**$18,887**	$16,807	12.4%
FFO per unit - diluted (1)	**$0.21**	$0.20	5.0%
AFFO (1)	**$14,607**	$13,180	10.8%
AFFO per unit - diluted (1)	**$0.16**	$0.16	—%
Weighted average number of units outstanding - diluted (000s)	**91,938**	84,790	8.4%
Distributions paid per unit (annualized)(4)	**$0.64**	$0.62	3.2%
AFFO payout ratio - diluted (1)(5)	**102%**	101%	100 bps
AFFO payout ratio - rolling 12 months (1)	**84%**	85%	(100) bps
Portfolio Performance			
Same property NOI (1)	**$28,484**	$27,301	4.3%
Same property NOI margin	**58.1%**	57.5%	60 bps
Same property apartment weighted average rental increase (3)	**2.9%**	2.2%	70 bps
Same property apartment occupancy	**97.2%**	96.5%	70 bps

As at	**March 31, 2019**	December 31, 2018	Change
Leverage Ratios and Metrics			
Debt to total assets	**46.4%**	49.8%	(340) bps
Weighted average mortgage interest rate	**2.97%**	2.95%	2 bps
Weighted average years to debt maturity	**4.5**	4.4	0.1 years
Normalized debt to EBITDA (1)	**10.04x**	10.62x	(5.5)%
Debt service coverage (1)	**1.56x**	1.58x	(1.3)%
Interest coverage (1)	**3.17x**	3.22x	(1.6)%

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

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

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

(4) The Board of Trustees approved a 3.1% increase in Killam's distribution on an annualized basis to $0.66 per unit effective for the March 2019 distribution.

(5) Q1-2019 AFFO payout ratio of over 100% is reflective of Killam's seasonality. Please refer to page 26 for further discussion.

Summary of Q1-2019 Results and Operations

FFO per Unit Growth of 5.0%
Killam generated FFO per unit of $0.21 in Q1-2019, 5.0% higher than $0.20 per unit generated in Q1-2018. FFO growth was attributable to increased NOI due to strong same property performance and incremental contributions from recent acquisitions and completed developments. This growth was partially offset by higher administrative and deferred financing costs in the quarter and an 8.4% increase in the weighted average number of units outstanding from an aggregate of $143.8 million of equity issued in June 2018 and March 2019.

Increasing Rental Rates Lead Same Property Revenue Growth
Same property revenue increased 3.3%, compared to Q1-2018, as a result of a 2.9% increase in the average rental rate for the apartment portfolio, a 70 bps increase in average apartment occupancy, a decrease in rental incentives and 1.7% top-line growth within the MHC portfolio. With continued high occupancy levels, increasing rental rates is a key focus for revenue growth. Rental rate increases on unit turns and lease renewals averaged 5.1% and 1.9% during Q1-2019, up from 4.6% and 1.5% during Q1-2018. New Brunswick and Halifax lead the apartment performance, where same property apartment revenues increased by 4.1% and 4.4%, respectively, compared to Q1-2018.

Same Property NOI Growth of 4.3% and Improved Operating Margin
Despite a 1.9% increase in property operating expenses during Q1-2019, Killam achieved 4.3% growth in NOI and a 60 bps improvement in its operating margin. The first quarter typically has the highest volatility in heating costs, and during Q1-2019, utility and fuel expenses increased 1.3% quarter-over-quarter. The increase was due primarily to higher natural gas prices in Nova Scotia and Ontario, coupled with increased fuel consumption as a result of significantly colder temperatures in February across the portfolio. Partially offsetting the increase in fuel expense, electricity costs were down as a result of reduced consumption following energy efficiency capital investments throughout 2018.

Cap-rate Compression and Rental Rate Growth Support Fair Value Gains
Killam recorded $27.4 million of fair value gains related to its investment property portfolio during the quarter as a result of NOI strength across the portfolio driven by rental rate growth and a cap-rate compression in Killam's Halifax and Moncton apartment portfolios. This cap-rate compression resulted in a decrease in KIllam's weighted average cap-rate for its apartment portfolio to 5.11%. The fair value gains are supported by strong apartment fundamentals across Killam's core markets and continued downward pressure on cap-rates across the industry.

Successful Repositioning Program Generating Strong Returns
Killam's expanded unit repositioning program is on track to meet its budgeted investment of $5.0 million in 2019. During Q1-2019, completed repositionings have generated monthly rental lifts averaging $308 per unit, a 22% increase from the average lift of $253 per unit during 2018. The average return on investment ("ROI") on unit repositionings during the first quarter was approximately 14%, based on an average cost of $23,000 per unit. Killam targets completing 300 repositionings during 2019 and estimates these repositionings could generate an additional $1.0 million in NOI on an annualized basis and $20 million in net asset value ("NAV") growth.

Robust Development Activity Continues
The Alexander and Saginaw Park developments completed in 2018 contributed positively to FFO per unit growth in Q1-2019, together contributing $0.7 million to increased FFO. Killam continues to make progress on two additional developments, investing $2.8 million during Q1-2019. Phase 1 of Killam's joint development project, Frontier, located in Ottawa, ON is expected to be completed in Q2-2019. This 228-unit building is currently 54% pre-leased given the strong demand during the pre-leasing period. Killam expects the building to be fully leased by the end of 2019. Killam's Shorefront development located in Charlottetown, PEI, is progressing on schedule. This 78-unit building is expected to be completed by mid-2020. During Q1-2019 Killam also acquired an additional parcel of land adjacent to its Westmount Place commercial property in Waterloo, ON, further expanding its future development opportunity at this location.

Strengthened Balance Sheet
Killam completed an $86.3 million equity raise in March at a unit price of $17.10 per unit. Proceeds were used to repay $53.3 million outstanding on its credit facility, $34.0 million of its construction loan related to the Alexander development and $2.2 million of variable rate debt. The equity raise and subsequent repayment of the credit facility and other debt contributed to a reduction in Killam's debt levels, ending the quarter at a historic low of 46.4% to total assets.

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

Strategic Targets

Growth in Same Property NOI	
2019 Target	Same property NOI growth of 3% to 5%.
2019 Performance to-date	Killam achieved same property NOI growth of 4.3% in Q1-2019. Growth is attributable to increased rental rates, lower rental incentives and higher occupancy across the portfolio.

Expanded Portfolio	
2019 Target	Grow the portfolio to over $3.0 billion by the end of 2019, with a minimum acquisition target of $100 million.
2019 Performance to-date	Killam completed one acquisition during Q1-2019 for $1.5 million, further expanding the land for development adjacent Westmount Place, located in Waterloo, ON. Subsequent to the quarter-end, Killam completed the acquisition of a 59-unit apartment building located in Fredericton, NB, for $8.1 million. As well, Killam waived conditions and agreed to purchase a 50% interest in the Charlottetown Mall for $23.7 million and its joint venture partner's 50% interest in Grid 5 located in Calgary, and 1355 Silver Spear including the adjacent development site located in Mississauga for $73.5 million. With the completion of these acquisitions in Q2-2019, Killam’s minimum acquisition target of $100 million will be met.

Geographic Diversification	
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
2019 Performance to-date	During Q1-2019, approximately 29% of Killam's NOI was generated outside Atlantic Canada.

Development of High-Quality Properties	
2019 Target	To complete phase one (Frontier) of the Ottawa development, break ground on Silver Spear II, plus one additional development project.
2019 Performance to-date	The Frontier is nearing completion and is expected to open in Q2-2019. The Silver Spear II development project is expected to break ground in Q2-2019.

Strengthened Balance Sheet	
2019 Target	Manage debt as a percentage of assets ratio below 49%.
2019 Performance to-date	Debt as a percentage of total assets decreased to 46.4% at March 31, 2019, from 49.8% at December 31, 2018. Following the repayment of $53.3 million on Killam's credit facility and an additional $34.0 million on its construction facility, Management expects debt to total assets to increase with the addition of mortgage debt on The Alexander during Q2-2019.

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 younger 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 NAV 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 in 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 control 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 six 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 Q1-2019 NOI generated outside Atlantic Canada was 29.0%, up from 24.2% in Q1-2018. Looking forward, Killam's strong acquisition and development pipeline in Ontario should enable Killam 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. Killam completed two projects in 2018, now fully leased; these properties will 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 scheduled 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 mid-2020.

Additionally, Killam has land supporting a development pipeline of approximately 2,600 units, representing a potential investment of $800 million (net of land costs). 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.

Focus on Improving Debt Metrics and Increasing Capital Flexibility
Killam manages its balance sheet to maximize capital flexibility. Killam continues 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, expected to be paid out and added to the unencumbered asset pool.

Repositioning of Brewery Market Expected to Drive NAV Growth
Killam continues to reposition its 158,000 square foot ("SF") commercial asset, the Brewery Market in Halifax, located adjacent Killam's 240-unit Alexander apartment property. Integrating these two properties is expected to both generate long-term growth in 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 tenant turnover, 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.

Increasing Interest Expense on Refinancings
At the end of 2018, Management had expected to refinance mortgage maturities in 2019 at higher interest rates; however, interest rates have decreased and are currently less than originally forecasted. Killam has apartment mortgages maturities of $113.5 million throughout the remainder of 2019, having a weighted average interest rate of 2.85%, slightly higher than the 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. Although interest rates may come down on refinancings, due to up-financing opportunities on mortgage renewals, interest expense is expected to increase.

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.

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

PART III

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at March 31, 2019:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,753	63	$12,338	36.8%
Sydney	139	2	$328	1.0%
	5,892	65	$12,666	37.8%
New Brunswick				
Moncton	1,629	31	$2,247	6.7%
Fredericton	1,422	21	$2,319	6.9%
Saint John	1,202	14	$1,224	3.6%
Miramichi	96	1	$151	0.5%
	4,349	67	$5,941	17.7%
Ontario				
Ottawa	1,124	10	$2,309	6.9%
London	523	5	$1,265	3.8%
Cambridge-GTA	826	7	$2,368	7.1%
	2,473	22	$5,942	17.7%
Newfoundland & Labrador				
St. John's	915	12	$1,676	5.0%
Grand Falls	148	2	$166	0.5%
	1,063	14	$1,842	5.5%
Prince Edward Island				
Charlottetown	1,015	19	$1,681	5.0%
Summerside	86	2	$129	0.4%
	1,101	21	$1,810	5.4%
Alberta				
Calgary	531	3	$1,169	3.5%
Edmonton	474	3	$989	2.9%
	1,005	6	$2,158	6.4%
Total Apartments	**15,883**	**195**	**$30,359**	**90.5%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$1,094	3.3%
Ontario	2,284	17	$525	1.6%
New Brunswick	170	1	($47)	(0.1)%
Newfoundland & Labrador	224	2	$79	0.2%
Total MHCs	**5,427**	**37**	**$1,651**	**4.9%**
Commercial Portfolio (3)				
	Square Footage	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Halifax, NS	254,000	5	$441	1.3%
Waterloo, ON	297,000	1	$1,093	3.3%
Total Commercial	**551,000**	**6**	**$1,535**	**4.6%**
Total Portfolio		**238**	**$33,545**	**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 three months ended March 31, 2019.

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

Core Market Update

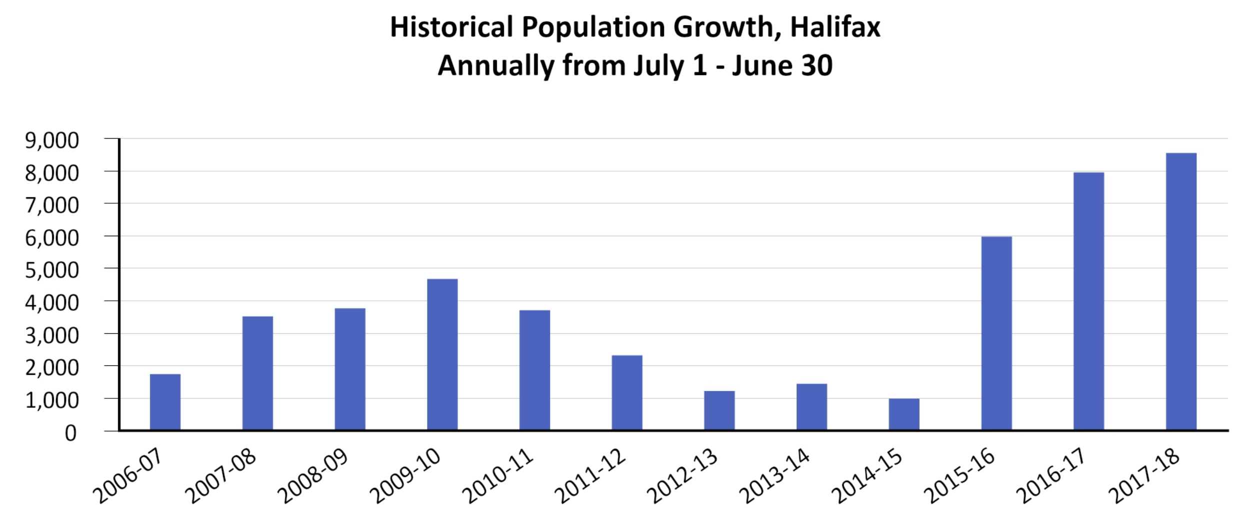
Halifax

Thirty-seven 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 Arctic patrol ship program 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 public funding recently announced for local tech incubators.

The following chart summarizes population growth from 2005 to 2018, the most recent year for which detailed population growth data is available:



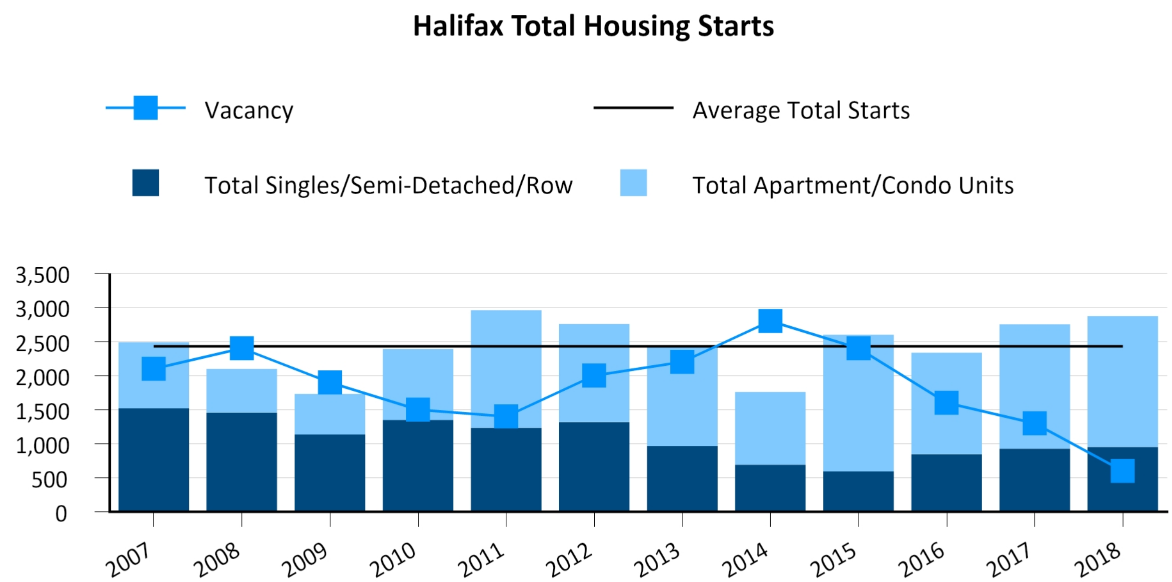
(1) Source: Statistics Canada

According to Statistics released in early 2019, Halifax is now among the fastest growing cities in Canada. Halifax's population growth in each of the last three years was 1.6%, 1.9% and 2.0%, primarily driven by immigration and urbanization. Halifax has seen an increase in international immigration, representing 63% of Halifax's population growth in 2018. In addition, a higher percentage of immigrants are locating to Atlantic Canada. Statistics Canada reports that 4.2% of new immigrants were received in Atlantic Canada in 2018, up from 2.2% in 2013.

Halifax has seen an increase in interprovincial migration in recent years, as well as attracting a younger demographic, with 30% of the population growth in 2018 being between the ages of 20 and 29.

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.

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



Source: CMHC

New Brunswick
Eighteen percent 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. According to the Conference Board of Canada’s 2018 Autumn Provincial Outlook, large corporations are in the process of setting up customer and business service centres, which will drive economic growth. Moncton and Fredericton each represent 7% of Killam’s NOI, with the Saint John market representing 4%.

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
Five percent of Killam’s apartment NOI is generated in St. John's, 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 such as Husky Energy’s White Rose project 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. Recent population statistics from Stats Canada show that St.John's population has been relatively flat over the last year.

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. Stats Canada reported that Charlottetown's population increased by 3.0%, well above the national average of 1.4%.

Ontario

Killam's Ontario apartment portfolio generated 18% of NOI in Q1-2019. 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.

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 and Ottawa's population grew by 2.5% in 2018, up from 2.4% in 2017 and one of the highest in Canada. 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-Waterloo-Cambridge

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. The population of Kitchener-Waterloo-Cambridge increased by 2.6% in 2018, up from 2.1% in 2017.

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. Population growth has been increasing in London, with 2.4% growth in 2018, compared to 2.2% in 2017 and 1.7% in 2016.

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

Six percent of Killam's 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. Calgary's population grew by 1.8% in 2018, up from 1.5% in 2017.

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. Population growth has also been stronger in Edmonton, up 2.1% in 2018.

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

PART IV

Q1-2019 Financial Overview

Consolidated Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$57,091**	$49,449	15.5%	**$49,054**	$47,491	3.3%	**$8,037**	$1,958	310.5%
Property operating expenses									
General operating expenses	**8,929**	7,992	11.7%	**7,759**	7,595	2.2%	**1,170**	397	194.4%
Utility and fuel expenses	**7,754**	7,220	7.4%	**7,106**	7,014	1.3%	**648**	206	215.1%
Property taxes	**6,863**	5,814	18.0%	**5,705**	5,581	2.2%	**1,158**	233	397.8%
Total operating expenses	**$23,546**	$21,026	12.0%	**$20,570**	$20,190	1.9%	**$2,976**	$836	256.1%
NOI	**$33,545**	$28,423	18.0%	**$28,484**	$27,301	4.3%	**$5,061**	$1,122	351.0%
Operating margin %	**58.8%**	57.5%	130 bps	**58.1%**	57.5%	60 bps	**63.0%**	57.3%	570 bps

Same property results included properties owned during comparable 2019 and 2018 periods. Same property results represent 85.4% of the fair value of Killam's investment property portfolio as at March 31, 2019 (93.7% of apartment units and 95.2% of MHC sites). Non-same property results include acquisitions, dispositions and developments completed in 2018 and 2019, commercial assets acquired for future residential development, as well as adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 3.3% for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018. This growth is attributable to higher rental rates, improved occupancy, and lower rental incentive offerings. Total same property operating expenses for the three months ended March 31, 2019 were 1.9% higher than Q1-2018. Utility savings resulting from Killam's energy efficiency program were offset by higher natural gas prices in Ontario and Nova Scotia and increased consumption due to colder temperatures in Q1-2019. KIllam also saw an increase in property tax expense quarter-over-quarter and general inflationary operating cost pressures. Despite the increase in operating expenses, same property NOI grew by 4.3% quarter-over-quarter, and the same property operating margin increased by 60 bps.

Killam's net operating margin percentage has increased steadily over the past five years, reaching 58.8% in Q1-2019, a 130 bps improvement from Q1-2018. The improvement can be attributed to higher rental revenues and only moderate expense growth through efficiency projects as well as the acquisition and development of higher quality and more efficient properties, which generate higher margins.

Historical Consolidated Operating Margin

For the three months ended March 31,

	2015	2016	2017	2018	**2019**
Consolidated Operating Margin	52.2%	55.5%	56.3%	57.5%	**58.8%**
Consolidated Same Property Operating Margin	51.6%	55.3%	55.9%	56.9%	**58.1%**

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

Apartment Results

For the three months ended March 31,	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$50,937**	$45,368	12.3%	**$45,789**	$44,288	3.4%	**$5,148**	$1,080	376.7%
Property operating expenses									
General operating expenses	**7,377**	6,813	8.3%	**6,864**	6,711	2.3%	**513**	102	402.9%
Utility and fuel expenses	**7,166**	6,708	6.8%	**6,743**	6,650	1.4%	**423**	58	628.8%
Property taxes	**6,035**	5,425	11.2%	**5,512**	5,389	2.3%	**523**	36	1,352.8%
Total operating expenses	**$20,578**	$18,946	8.6%	**$19,119**	$18,750	2.0%	**$1,459**	$196	644.2%
NOI	**$30,359**	$26,422	14.9%	**$26,670**	$25,538	4.4%	**$3,689**	$884	317.3%
Operating margin %	**59.6%**	58.2%	140 bps	**58.2%**	57.7%	50 bps	**71.7%**	81.9%	N/A

Apartment Revenue

Total apartment revenue for the three months ended March 31, 2019, was $50.9 million, an increase of 12.3% over the three months ended March 31, 2018. Revenue growth was augmented by contributions from recently acquired properties, higher rental rates and improved occupancy.

Same property apartment revenue increased 3.4% for the three months ended March 31, 2019, with strong demand contributing to a 2.9% increase in average rental rates and a 70 bps improvement in same property occupancy. Rental incentives for the three months ended March 31, 2019, were lower than Q1-2018, as fewer incentives were offered given strong market conditions.

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

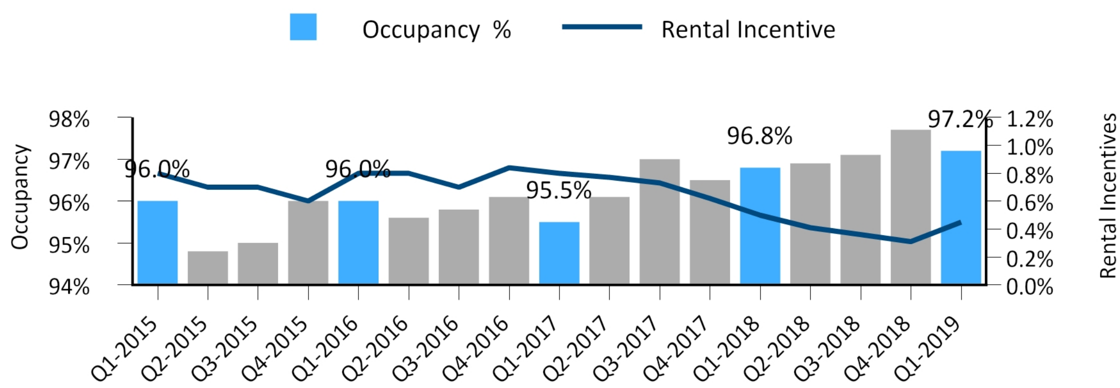
For the three months ended March 31,	# of Units	Total Occupancy 2019	Total Occupancy 2018	Change (bps)	Same Property Occupancy 2019	Same Property Occupancy 2018	Change (bps)
Nova Scotia							
Halifax	5,753	**98.0%**	97.4%	60	**98.1%**	97.5%	60
Ontario							
Ottawa	1,124	**96.7%**	95.9%	80	**96.9%**	95.9%	100
London	523	**96.7%**	97.2%	(50)	**96.7%**	97.2%	(50)
Cambridge-GTA	826	**98.5%**	98.7%	(20)	**98.4%**	98.6%	(20)
New Brunswick							
Moncton	1,629	**97.6%**	96.6%	100	**97.6%**	96.6%	100
Fredericton	1,422	**98.8%**	96.4%	240	**98.8%**	96.4%	240
Saint John	1,202	**96.4%**	96.2%	20	**96.4%**	96.2%	20
Newfoundland and Labrador							
St. John's	915	**90.6%**	94.1%	(350)	**90.6%**	94.1%	(350)
Prince Edward Island							
Charlottetown	1,015	**99.6%**	99.6%	—	**99.6%**	99.6%	—
Alberta							
Calgary	531	**93.9%**	90.9%	300	**91.1%**	90.9%	20
Edmonton	474	**90.1%**	85.2%	490	**90.7%**	85.2%	550
Other Atlantic	469	**98.2%**	93.1%	510	**98.2%**	93.1%	510
Total Apartments (weighted average)	15,883	**97.1%**	96.5%	60	**97.2%**	96.5%	70

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

For discussion on changes in occupancy levels during the quarter, refer to page 18 of this MD&A under section "Apartment Same Property NOI by Region".

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 March 31,

		Average Rent			Same Property Average Rent		
	# of Units	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia							
Halifax	5,753	**$1,106**	$1,047	5.6%	**$1,061**	$1,026	3.4%
Ontario							
Ottawa	1,124	**$1,524**	$1,454	4.8%	**$1,504**	$1,454	3.4%
London	523	**$1,274**	$1,239	2.8%	**$1,274**	$1,239	2.8%
Cambridge-GTA	826	**$1,454**	$1,335	8.9%	**$1,430**	$1,378	3.8%
New Brunswick							
Moncton	1,629	**$874**	$846	3.3%	**$874**	$846	3.3%
Fredericton	1,422	**$965**	$940	2.7%	**$965**	$940	2.7%
Saint John	1,202	**$814**	$780	4.4%	**$814**	$780	4.4%
Newfoundland & Labrador							
St. John's	915	**$983**	$975	0.8%	**$983**	$975	0.8%
Prince Edward Island							
Charlottetown	1,015	**$1,016**	$935	8.7%	**$957**	$935	2.4%
Alberta							
Calgary	531	**$1,244**	$1,140	9.1%	**$1,175**	$1,140	3.1%
Edmonton	474	**$1,444**	$1,502	(3.9)%	**$1,449**	$1,502	(3.5)%
Other Atlantic	469	**$895**	$879	1.8%	**$895**	$879	1.8%
Total Apartments (weighted average)	15,883	**$1,082**	$1,026	5.5%	**$1,048**	$1,018	2.9%

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

Same Property Rental Increases - Tenant Renewal versus Unit Turn

Killam turns approximately 33% of its units each year. Upon turn, Killam will typically generate rental increases by investing capital to upgrade units and by raising rates to market. The following chart details the average rental increases realized upon turns and lease renewals on a same property basis:

	Same Property Rental Increases		
For the three months ended March 31,	**2019**	2018	Change (bps)
Lease renewal	**1.9%**	1.5%	40
Unit turn - regular	**5.1%**	4.6%	50
Unit turn - repositioned	**27.8%**	21.9%	590
Weighted average rental increase	**2.9%**	2.2%	70

Apartment Expenses

Total operating expenses for the three months ended March 31, 2019, were $20.6 million, an 8.6% increase over Q1-2018, due primarily to acquisitions and completed developments over the past twelve months. Killam's apartment operating margin increased by 140 bps quarter-over-quarter as revenues associated with additions to the portfolio and higher occupancy more than offset the incremental costs of operating the portfolio.

Killam managed the increase in total same property operating expenses for the three months ended March 31, 2019 to 2.0%. Cost saving initiatives, including Killam's energy efficiency program, helped to mitigate increases in natural gas costs resulting from higher consumption from colder weather and variable pricing during the winter heating season. Property taxes increased 2.3% due to increased assessments; however, Killam continues to appeal tax assessment increases whenever possible. Overall, the same property operating margin improved by 50 bps during the three months ended March 31, 2019.

Apartment Utility and Fuel Expenses - Same Property

For the three months ended March 31,

	2019	2018	% Change
Natural gas	**$2,835**	$2,632	7.7%
Electricity	**2,122**	2,253	(5.8)%
Water	**1,248**	1,173	6.4%
Oil & propane	**525**	582	(9.8)%
Other	**13**	10	30.0%
Total utility and fuel expenses	**$6,743**	$6,650	1.4%

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 35% of Killam’s total apartment same property operating expenses for the three months ended March 31, 2019. Total same property utility and fuel expenses were only 1.4% higher than the three months ended March 31, 2018.

Same property natural gas expense for Q1-2019 was 7.7% higher than Q1-2018. The increased cost compared to the prior quarter was attributable primarily to Nova Scotia, where natural gas expense was up 19% from Q1-2018 due to higher pricing as well as increased consumption as a result of colder temperatures. Natural gas prices were higher in Nova Scotia and Ontario in the quarter compared to Q1-2018, while quarter-over-quarter pricing was down in New Brunswick. Killam also switched to natural gas from propane and oil at certain properties, further increasing natural gas expense in the quarter.

Electricity costs for the three months ended March 31, 2019, were 5.8% lower than March 31, 2018, due primarily to savings from LED lighting retrofits completed at many properties over the past twelve months, more than offsetting rising rates.

Water expense increased by 6.4% for the three months ended March 31, 2019, compared to the three months ended March 31, 2018, due primarily to municipal water rate increases across the portfolio. 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 was completed across all eligible Killam buildings at the end of 2018.

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

Heating oil and propane costs decreased by 9.8% in Q1-2019 compared to Q1-2018 due to increased efficiencies from boiler upgrades and switching to natural gas at certain properties.

Apartment Same Property NOI by Region

For the three months ended March 31,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2018**	2017	% Change
Nova Scotia									
Halifax	**17,541**	16,809	4.4%	**(7,171)**	(6,682)	7.3%	**10,370**	10,127	2.4%
	17,541	16,809	4.4%	**(7,171)**	(6,682)	7.3%	**10,370**	10,127	2.4%
Ontario									
Ottawa	**3,232**	3,115	3.8%	**(1,166)**	(1,282)	(9.0)%	**2,066**	1,833	12.7%
London	**1,941**	1,891	2.6%	**(733)**	(726)	1.0%	**1,208**	1,165	3.7%
Cambridge-GTA	**3,033**	2,918	3.9%	**(963)**	(959)	0.4%	**2,070**	1,959	5.7%
	8,206	7,924	3.6%	**(2,862)**	(2,967)	(3.5)%	**5,344**	4,957	7.8%
New Brunswick									
Moncton	**4,465**	4,342	2.8%	**(2,223)**	(2,234)	(0.5)%	**2,242**	2,108	6.4%
Fredericton	**4,252**	4,020	5.8%	**(1,933)**	(1,914)	1.0%	**2,319**	2,106	10.1%
Saint John	**2,957**	2,850	3.8%	**(1,726)**	(1,740)	(0.8)%	**1,231**	1,110	10.9%
	11,674	11,212	4.1%	**(5,882)**	(5,888)	(0.1)%	**5,792**	5,324	8.8%
Newfoundland & Labrador									
St. John's	**2,487**	2,565	(3.0)%	**(807)**	(798)	1.1%	**1,680**	1,767	(4.9)%
	2,487	2,565	(3.0)%	**(807)**	(798)	1.1%	**1,680**	1,767	(4.9)%
Prince Edward Island									
Charlottetown	**2,570**	2,515	2.2%	**(1,164)**	(1,186)	(1.9)%	**1,406**	1,329	5.8%
	2,570	2,515	2.2%	**(1,164)**	(1,186)	(1.9)%	**1,406**	1,329	5.8%
Alberta									
Calgary	**825**	807	2.2%	**(290)**	(262)	10.7%	**535**	545	(1.9)%
Edmonton	**1,159**	1,202	(3.6)%	**(378)**	(435)	(13.1)%	**781**	767	1.9%
	1,984	2,009	(1.2)%	**(668)**	(697)	(4.2)%	**1,316**	1,312	0.3%
Other Atlantic locations	**1,327**	1,254	5.8%	**(565)**	(532)	6.2%	**762**	722	5.5%
	$45,789	$44,288	3.4%	**($19,119)**	($18,750)	2.0%	**$26,670**	$25,538	4.4%

Halifax
Halifax is Killam's largest rental market, contributing 38.9% of apartment same property NOI for the three months ended March 31, 2019. Same property apartment revenue increased 4.4% for the three months ended March 31, 2019, due to a 3.4% increase in average rental rates and a 60 bps improvement in same property occupancy, despite increased supply in the region.

Total operating expenses for the three months ended March 31, 2019, were 7.3% higher than Q1-2018. The increased expenses were driven by higher natural gas pricing and consumption, higher contract service costs and increased property tax assessments. These increased costs were partially offset by lower electricity expense. The net impact was a 2.4% increase in NOI for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018.

Ontario
Killam's Ontario portfolio generated 20.0% of Killam's same property NOI for the three months ended March 31, 2019. Revenue increased by 3.6% over the three months ended March 31, 2018, driven by a 3.4% increase in average rental rates and a 30 bps increase in occupancy.

Total operating expenses for the quarter were 3.5% lower than the same period in 2018, due primarily to lower utility costs related to reduced consumption and improved pricing as a result of using a third-party manager for electricity and natural gas supply as well as lower repairs and maintenance and contract service costs. These reductions were slightly offset by increased property tax assessments. In aggregate, same property NOI was 7.8% higher than the three months ended March 31, 2018.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for 21.7% of apartment same property NOI for the three months ended March 31, 2019. Same property revenue increased 4.1%, due to rental rate growth in Moncton, Fredericton and Saint John of 3.3%, 2.7% and 4.4%, respectively, and occupancy gains in the quarter across all three regions.

Total operating expenses for the quarter were 0.1% lower than the same period in 2018. The slight decrease is due primarily to reduced utility costs as a result of lower natural gas pricing in New Brunswick, offset by increases in insurance costs and property tax assessments.

Newfoundland and Labrador

Killam's Newfoundland properties accounted for 6.3% of apartment same property NOI for the three months ended March 31, 2019. Same property revenue decreased 3.0% for the three months ended March 31, 2019. While rental rates increased by 0.8%, occupancy is 350 bps lower due to softness in the economy and flat population growth.

Total operating expenses for the three months ended March 31, 2019, were 1.1% higher than Q1-2018 due primarily to increased electricity costs and property tax assessments. 2019 is a property tax assessment year in St. John's, which runs on a three-year cycle, resulting in the increased expense. These costs were partially offset by lower contract services and repairs and maintenance costs.

Prince Edward Island

Killam's Charlottetown portfolio contributed 5.3% of apartment same property NOI for the three months ended March 31, 2019. Charlottetown achieved 2.2% revenue growth for the three months ended March 31, 2019, compared to the same period in 2018, due to rental rate growth and close to maximum occupancy of 99.6%.

Total operating expenses for the three months ended March 31, 2019 were down 1.9% due to lower electricity costs from LED lighting upgrades and lower repairs and maintenance costs. Overall, Charlottetown achieved 5.8% NOI growth in Q1-2019 compared to Q1-2018.

Alberta

Killam's Calgary properties accounted for 2.0% of apartment same property NOI for the three months ended March 31, 2019 and achieved a 2.2% increase in revenue compared to Q1-2018, due to rental rate growth of 3.1% and a 20 bps improvement in occupancy. Total operating expenses for the three months ended March 31, 2019 were up 10.7% as increased staffing and contract services costs, property tax assessments and repairs and maintenance costs more than offset increased revenues, resulting in a 1.9% decrease in NOI.

Killam's Edmonton portfolio accounted for 2.9% of apartment same property NOI for the three months ended March 31, 2019. Same property revenues decreased 3.6% in Q1-2019 as a result of a 3.5% reduction in rental rates partially offset by a 560 bps improvement in occupancy. Killam's full lease-up of the two Edmonton properties acquired in 2017, Waybury and Tisbury, has taken longer than expected as the Edmonton market continues to experience high vacancy rates. CMHC's 2018 Outlook expects vacancy to gradually decrease into 2019 and 2020, as Edmonton's economic recovery is stronger than other parts of Alberta and this should also support increasing rental rates.

Same property operating expenses declined 13.1% due to lower electricity costs as a result of engaging a third-party manager to optimize pricing as well as lower repairs and maintenance and contract services costs. Overall, Edmonton achieved 1.9% NOI growth compared to Q1-2018.

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

MHC Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,109**	$2,984	4.2%	**$3,032**	$2,980	1.7%	**$77**	$4	N/A
Property operating expenses	**1,458**	1,346	8.3%	**1,352**	1,345	0.5%	106	1	N/A
NOI	**$1,651**	$1,638	0.8%	**$1,680**	$1,635	2.8%	**($29)**	$3	N/A
Operating margin %	**53.1%**	54.9%	(180) bps	**55.4%**	54.9%	50 bps	**—%**	—%	—

The MHC business generated 4.9% of Killam's NOI for the three months ended March 31, 2019. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year due to the contribution from its seven seasonal communities that generate approximately 60% of their NOI between July and September.

MHC same property revenue increased 1.7% in Q1-2019, compared to Q1-2018, as rents rose by 2.0%, to $254 per site from $249 per site in Q1-2018. Occupancy of 97.8% for the three months ended March 31, 2019, was comparable quarter-over-quarter.

Total same property expenses were relatively flat quarter-over-quarter. The slight increase of 0.5% for Q1-2019, as compared to Q1-2018, was due primarily to operating cost inflation and increased property tax assessments. Overall, the MHC portfolio generated same property NOI growth of 2.8% quarter-over-quarter.

Commercial Results

For the three months ended March 31,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,045**	$1,097	177.6%	**$233**	$223	4.5%	**$2,812**	$874	221.7%
Property operating expenses	**1,510**	734	105.7%	**100**	95	5.3%	**1,410**	639	120.7%
NOI	**$1,535**	$363	322.9%	**$133**	$128	3.9%	**$4,222**	$1,513	179.0%

Killam's commercial property portfolio contributed $1.5 million, or 4.6%, of Killam's total NOI for the three months ended March 31, 2019. Occupancy was 94.8% during the quarter, compared to 95.4% for the three months ended March 31, 2018.

Killam's commercial property portfolio consists of five properties located in Halifax, NS, totaling 254,000 SF of leaseable space, and two assets located in Ontario, totaling 297,000 SF. The largest commercial property in Halifax is The Brewery Market (158,000 SF), centrally located beside the 240-unit Alexander apartment building. 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 tenant turnover, 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.

Other commercial assets located in Halifax include two office buildings, both which are slated for redevelopment in the future, and two commercial buildings in north-end Halifax, one of which is Killam's head office. All three of these Halifax properties are excluded from same property results in 2019 due to their redevelopment plans.

Killam completed the acquisition of Westmount Place, an office and retail complex totaling 297,000 SF located in Waterloo, ON, at the end of March 2018. This grocery-anchored plaza is 97.5% occupied and included land for future development.

Killam also has another 118,000 SF of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

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

PART V

Other Income and Expenses

Other Income

For the three months ended March 31,

	2019	2018	% Change
	$197	$295	(33.2)%

Other income includes property management fees for jointly held properties, interest on bank balances, and net revenue associated with the sale of homes in Killam's MHC segment. The 33.2% decrease quarter-over-quarter is due primarily to less interest income on bank balances.

Financing Costs

For the three months ended March 31,

	2019	2018	% Change
Mortgage, loan and construction loan interest	**$10,191**	$8,670	17.5%
Interest on credit facility	**449**	32	1,303.1%
Interest on Exchangeable Units	**671**	604	11.1%
Interest on lease liabilities	**73**	—	N/A
Amortization of deferred financing costs	**895**	487	83.8%
Amortization of fair value adjustments on assumed debt	**40**	11	263.6%
Amortization of loss on interest rate hedge	**—**	15	(100.0)%
Unrealized loss (gain) on derivative liability	**195**	(32)	(709.4)%
Capitalized interest	**(673)**	(832)	(19.1)%
	$11,841	$8,955	32.2%

Total financing costs were $2.9 million, or 32.2%, higher for the three months ended March 31, 2019, as compared to the same period of 2018.

Mortgage and loan interest expense was $10.2 million for the three months ended March 31, 2019, an increase of $1.5 million, or 17.5%, compared to the same period of 2018. Killam's mortgage and loan payable balance increased by $145.3 million over the past twelve months as Killam secured financing for various acquisitions and developments. The average interest rate on refinancings in the three months ended March 31, 2019, was 3.16%, 47 bps higher than the average interest rate on expiring debt.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to financings and refinancings. These costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. Deferred financing amortization costs increased 83.8% for the three months ended March 31, 2019, following mortgage refinancings and debt related to property acquisitions over the past 12 months, as well as $0.1 million related to expensing unamortized CMHC premiums for two CMHC refinancings in Q1-2019. Based on the current portfolio, normalized deferred financing costs are expected to be approximately $0.7 million per quarter. This expense may fluctuate with refinancings.

Capitalized interest decreased $0.2 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018. 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.

Financing costs associated with the lease liabilities were $0.07 million for the quarter. This interest expense relates to the new requirements under IFRS 16 to present value lease obligations and recognize interest expense over the life of the right-of-use asset. Refer to Note 8 of the condensed consolidated interim financial statements for the three months ended March 31, 2019, for further details.

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

Depreciation Expense

For the three months ended March 31,

	2019	2018	% Change
	$157	$122	28.7%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer equipment. 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 three months ended March 31, 2019, compared to the same period in 2018, was due primarily to costs associated with new vehicles, computer equipment and upgrades to Killam's head office building.

Administration Expenses

For the three months ended March 31,

	2019	2018	% Change
Administration	**$3,864**	$3,441	12.3%
As a percentage of total revenues	**6.7%**	6.9%	(20) bps

Administration expenses include expenses that are not specific to individual properties, including TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses.

During the three months ended March 31, 2019, total administration expenses increased by $0.4 million compared to the three months ended March 31, 2018, due to increased software costs associated with Killam's new customer relationship management (CRM) software and Yardi platform costs, and higher compensation costs as a result of increased staffing related to portfolio growth, including higher restricted trust unit ("RTU") expense related to stronger REIT performance. Administration expenses as a percentage of total revenues is 6.7%, 20 bps lower than Q1-2018.

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

Fair Value Adjustments

For the three months ended March 31,

	2019	2018	% Change
Investment properties	**$27,395**	$60,714	(54.9)%
Deferred unit-based compensation	**(1,240)**	238	(621.0)%
Exchangeable units	**(14,371)**	1,314	(1,193.7)%
	$11,784	$62,266	(81.1)%

Killam recognized $27.4 million in fair value gains on investment properties for the three months ended March 31, 2019, compared to $60.7 million in fair value gains for the three months ended March 31, 2018. The fair value gains recognized during Q1-2019 were due primarily to revenue growth and overall strong operating performance in Killam's core markets as well as cap-rate compression for 22 apartments in the Halifax and Moncton regions and cap-rate compression of 50 bps related to permanent MHCs in Ontario. The weighted average cap-rate for the apartment portfolio declined 4 bps to 5.11% at March 31, 2019, compared to 5.15% at December 31, 2018.

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 three months ended March 31, 2019, there was an unrealized fair value adjustment of $1.2 million, versus a $0.2 million fair value gain in Q1-2018, due to appreciation in the market price of Killam's trust units.

During the quarter, Killam also recorded a fair value adjustment associated with its exchangeable units. 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 three months ended March 31, 2019, there was an unrealized fair value adjustment on remeasurement of $14.4 million, compared to a $1.3 million gain in Q1-2018, due to appreciation in the market price of Killam's trust units.

Deferred Tax Expense

For the three months ended March 31,			
	2019	2018	% Change
	$2,572	$9,369	(72.5)%

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.

Killam's deferred tax expense decreased $6.8 million in Q1-2019 compared to Q1-2018 mainly as a result of the decrease in fair value gains on investment property quarter-over-quarter.

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:

	Weighted Average Number of Units (000s)			**Outstanding Number of Units (000s)**
For the three months ended March 31,	**2019**	2018	% Change	**2019**
Trust units	**87,592**	80,698	8.5%	**91,365**
Exchangeable units	**4,153**	3,862	7.5%	**4,154**
Basic number of units	**91,745**	84,560	8.5%	**95,519**
Plus:				
Units under RTU plan	**193**	230	(16.3)%	—
Diluted number of units	**91,938**	84,790	8.4%	**95,519**

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. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the three month periods ended March 31, 2019 and 2018 are calculated as follows:

For the three months ended March 31,

	2019	2018	% Change
Net income	**$27,092**	$68,914	(60.7)%
Fair value adjustments	**(11,784)**	(62,266)	(81.1)%
Loss on disposition	**—**	183	(100.0)%
Non-controlling interest	**(3)**	(7)	(57.1)%
Deferred tax expense	**2,572**	9,369	(72.5)%
Interest expense related to exchangeable units	**671**	604	11.1%
Change in principal related to lease liabilities	**32**	—	N/A
Unrealized loss (gain) on derivative liability	**195**	(32)	(707.8)%
Depreciation on owner-occupied building	**34**	42	(19.0)%
Internal leasing costs	**79**	—	NA
FFO	**$18,887**	$16,807	12.4%
FFO unit - basic	**$0.21**	$0.20	5.0%
FFO unit - diluted	**$0.21**	$0.20	5.0%
Weighted average number of units - basic (000s)	**91,745**	84,560	8.5%
Weighted average number of units - diluted (000s)	**91,938**	84,790	8.4%

Killam earned FFO of $18.9 million, or $0.21 per unit (diluted), for the three months ended March 31, 2019, compared to $16.8 million or $0.20 per unit (diluted), for the three months ended March 31, 2018. The 5.0% increase in FFO per unit is attributable to NOI contributions from acquisitions and completed developments ($3.9 million) and same property NOI growth ($1.1 million). These increases were partially offset by higher financing costs ($2.8 million), higher administration costs ($0.5 million), other variances ($0.2 million) and an 8.4% increase in the weighted average number of units outstanding from the equity raises in June 2018 and February 2019.

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

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 31, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 37 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:

<u>Maintenance Capex Reserve - Apartments</u>

	2018	2017	2016
Total Capital Investments	$39,912	$26,959	$30,139
Value-enhancing Capital Spend			
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. 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.

<u>Maintenance Capex Reserve - MHCs and Commercial</u>

The MHC portfolio was also reviewed 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 and Management selected $300 per MHC site for its maintenance capex reserve. 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.

Killam's current commercial portfolio includes six properties totaling 551,000 SF. Killam began taking a maintenance capex allowance for its commercial properties in Q2-2018, following its purchase of Westmount Place, a 297,000 SF office and retail complex in Waterloo, in March 2018. Based on the expected average annual maintenance capital investment in these assets, Killam has taken an annual capex reserve of $0.70 per SF. 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 three months ended March 31,			
	2019	2018	% Change
FFO	**$18,887**	$16,807	12.4%
Maintenance Capital Expenditures			
Apartments	**(3,435)**	(3,240)	6.0%
MHCs	**(448)**	(387)	15.8%
Commercial	**(96)**	—	N/A
Commercial leasing costs	**(195)**	—	N/A
Commercial straight-line rent adjustment	**(106)**	—	N/A
AFFO	**$14,607**	$13,180	10.8%
AFFO per unit - basic	**$0.16**	$0.16	—%
AFFO per unit - diluted	**$0.16**	$0.16	—%
AFFO payout ratio - diluted	**102%**	101%	100 bps
AFFO payout ratio - rolling 12 months [(1)]	**84%**	85%	(100) bps
Weighted average number of units - basic (000s)	**91,745**	84,560	8.5%
Weighted average number of units - diluted (000s)	**91,938**	84,790	8.4%

[(1)] Based on Killam's annual distribution of $0.64163 for the 12-month period ended March 31, 2019, and $0.62167 for the 12-month period ended March 31, 2018. The calculation uses a maintenance capex reserve for apartments of $900 for the rolling 12 months ending March 31, 2019 and 2018.

The payout ratio of 102% in Q1-2019, compared to the rolling 12-month payout ratio of 84%, corresponds with the seasonality of Killam's business. Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months. In addition, 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 each year.

The improvement in the AFFO payout ratio is attributable to a 10.8% 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.

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

Adjusted Cash Flow from Operations

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

Killam calculates ACFO in accordance with the REALpac definition but may differ from other 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 condensed consolidated interim statements of cash flows for the three months ended March 31, 2019 and 2018) to ACFO is as follows:

For the three months ended March 31,

	2019	2018	% Change
Cash generated from operating activities	**$19,574**	$18,768	4.3%
Adjustments:			
Changes in non-cash working capital not indicative of sustainable cash flows	**1,375**	(656)	(309.6)%
Maintenance capital expenditures	**(3,979)**	(3,627)	9.7%
Amortization of deferred financing costs	**(895)**	(487)	83.8%
Non-controlling interest	**(3)**	(7)	(57.1)%
Interest expense related to lease liability	**32**	—	N/A
Leasing costs	**(142)**	—	N/A
ACFO	**$15,961**	$13,991	14.1%
Distributions declared (1)	**15,059**	13,429	12.1%
Excess of ACFO over cash distributions	**$902**	$562	60.5%
ACFO Payout Ratio - diluted (2)	**94%**	96%	(200) bps

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 36.
(2) Based on Killam's monthly distribution of $0.055 per unit for March 2019, $0.05333 per unit from March 2018 to February 2019 and $0.05167 per unit from January 2018 to February 2018.

Killam's ACFO payout ratio of 94% for the three months ended March 31, 2019, has improved 200 bps from the payout of 96% for the three months ended March 31, 2018. Similar to the AFFO payout ratio, Killam's first quarter typically has the highest payout ratio due to the lower operating margin in the period attributable to higher heating costs in the winter months and the fact the MHC portfolio generates its highest revenues and NOI during the second and third quarters of the year.

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 three months ended March 31,

	2019	2018
Net income	**$27,092**	$68,914
Cash flow from operating activities	**$19,574**	$18,768
Total distributions declared	**$15,059**	$13,429
Excess of net income over total distributions declared	**$12,033**	$55,485
Excess of net income over net distributions paid	**$15,519**	$58,917
Excess of cash flow from operating activities over total distributions declared	**$4,515**	$5,339

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

PART VII

Investment Properties

As at

	March 31, 2019	December 31, 2018	% Change
Investment properties	**$2,731,931**	$2,701,502	1.1%
Investment properties under construction ("IPUC")	**40,058**	37,163	7.8%
Land for development	**59,975**	61,028	(1.7)%
	$2,831,964	$2,799,693	1.2%

Continuity of Investment Properties

As at

	March 31, 2019	December 31, 2018	% Change
Balance, beginning of period	**$2,701,502**	$2,171,372	24.4%
Impact of change in accounting policy	**7,115**	—	N/A
Acquisition of properties	**—**	248,186	(100.0)%
Transfer from IPUC	**—**	104,283	(100.0)%
Capital expenditures	**10,589**	46,488	(77.2)%
Fair value adjustment - Apartments	**25,601**	118,601	(78.4)%
Fair value adjustment - MHCs	**2,011**	5,271	(61.8)%
Fair value adjustment - Other	**212**	7,301	(97.1)%
Transfer to held for sale	**(15,099)**	—	N/A
Balance, end of period	**$2,731,931**	$2,701,502	1.1%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at March 31, 2019 and 2018, and December 31, 2018, is as follows:

Capitalization Rates

	March 31, 2019			December 31, 2018			March 31, 2018		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.72%**	**8.00%**	**5.11%**	3.75%	8.00%	5.15%	3.75%	8.00%	5.25%
MHCs	**5.75%**	**8.00%**	**6.62%**	5.75%	8.00%	6.76%	5.75%	8.00%	6.82%

2019 Acquisitions - Investment Properties

					Purchase Price [1]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Income-producing Properties**	**Properties Under Construction**
9 Dietz	Waterloo, ON	15-Jan-19	100%	Land for Development	$—	$1,500

(1) Purchase price does not include transaction costs.

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

Investment Properties Under Construction

As at

	March 31, 2019	December 31, 2018	% Change
Balance, beginning of period	**$37,163**	$80,226	(53.7)%
Capital expenditures	**2,742**	53,336	(94.9)%
Interest capitalized	**153**	1,692	(91.0)%
Transfer to investment properties	**—**	(104,283)	(100.0)%
Transfer from land for development	**—**	1,273	(100.0)%
Fair value adjustment	**—**	4,919	(100.0)%
Balance, end of period	**$40,058**	$37,163	7.8%

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 and expected to be completed in Q2-2019. The total cost to develop Phase I is budgeted at $73 million ($36.5 million for Killam's 50% interest). As at March 31, 2019, Killam has invested $34.2 million in the first phase of the project. 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-storey 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 60–100 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. As at March 31, 2019, Killam has invested $3.5 million in the project.

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 and expects to break ground mid-2019. The budget for this project is $49 million ($24.5 million for Killam's 50% interest), or $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.

Land for Development

As at

	March 31, 2019	December 31, 2018	% Change
Balance, beginning of year	**$61,028**	$28,165	116.7%
Fair value adjustment on investment properties	**(429)**	1,800	(123.8)%
Acquisitions	**1,574**	28,347	(94.4)%
Dispositions	**—**	(1,460)	(100.0)%
Transfer to IPUC	**—**	(1,273)	(100.0)%
Capital expenditure on IPUC	**1,683**	3,972	(57.6)%
Interest capitalized on IPUC	**520**	1,477	(64.8)%
Transfer to held for sale	**(4,401)**	—	N/A
Balance, end of year	**$59,975**	$61,028	(1.7)%

During Q1-2019 Killam acquired an 8-unit apartment building adjacent Westmount Place, further expanding the future development opportunity at this location. Killam is also in the process of disposing of the land held for future development in Edmonton, AB. This parcel of land was reclassified to assets held for sale as at March 31, 2019, and the transaction is expected to closed during the second quarter.

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

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.

Approximately 70% of Killam's development pipeline is outside Atlantic Canada (57% in Ontario and 15% in Alberta). Killam targets yields of 5.0% to 6.0% on development, 50–150 bps higher than the expected cap-rate value on completion. Building out the $800 million pipeline at a 100 bps spread would create approximately $200 million in NAV growth for unitholders. Killam has a robust development pipeline. As at May 1, 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
Developments expected to start in the next 24 months					
Silver Spear II (2)	Mississauga, ON	50%	64	Approved; to break ground in Q2-2019	2021
Weber Scott Pearl	Kitchener, ON	100%	178	In design	2021
Gloucester (Ph 2)	Ottawa, ON	50%	104	Broke ground in Q1-19	2021
Westmount (Ph 1)	Waterloo, ON	100%	106	In design	2022
The Governor	Halifax, NS	100%	12	In design and approval process	TBD
Developments expected to start in 2021-2025					
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
Westmount Place (Ph 2-5)	Waterloo, ON	100%	908	In design	2028
Additional future development projects					
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	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			**2,793**		

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

(2) Killam has a 50% interest in the Silver Spear II land; however, has an agreement to purchase the remaining 50% interest in Q2-2019. The total development potential at this site is 128 units.

Assets Held for Sale

Killam determined that two apartments and a parcel of land for development met the criteria for classification as assets held for sale as at March 31, 2019. The sales to unrelated third parties are expected to close in Q2-2019. The properties have a carrying value of $10.5 million (net of mortgage debt of $9.0 million).

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 three months ended March 31, 2019, Killam invested $10.6 million, compared to $7.4 million for the three months ended March 31, 2018. 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 three months ended March 31,

	2019	2018	% Change
Apartments	**$10,118**	$6,723	50.5%
MHCs	**429**	303	41.6%
Commercial	**42**	402	(89.6)%
	$10,589	$7,428	42.6%

Apartments - Capital Spend

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

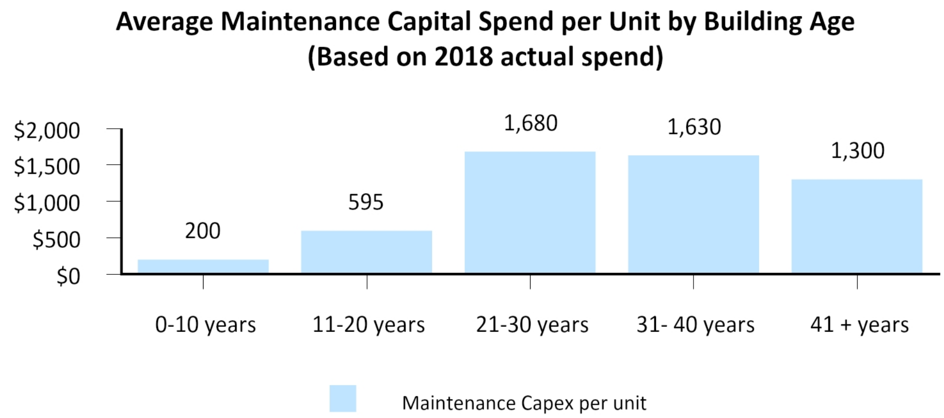
For the three months ended March 31,

	2019	2018	% Change
Building improvements	**$5,763**	$3,438	67.6%
Suite renovations	**3,189**	2,251	41.7%
Appliances	**416**	288	44.4%
Boilers and heating equipment	**427**	515	(17.1)%
Other	**323**	231	39.8%
Total capital spend	**$10,118**	$6,723	50.5%
Average number of units outstanding	**15,891**	15,034	5.7%
Capital spend - $ per unit	**$637**	$447	42.5%

Killam invested $637 per unit for the three months ended March 31, 2019, compared to $447 per unit for the same period of 2018.

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.



Building Improvements

Of the $10.1 million total capital investment in the apartment segment for the three months ended March 31, 2019, approximately 57% was invested in building improvements, compared to 51% of the total capital spend for the three months ended March 31, 2018. 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 quarter-over-quarter variance relates primarily to the timing of multi-phased building envelope projects and an increase in energy efficiency investments.

Suite Renovations and Repositionings

Killam invested $3.2 million in suite renovations and repositionings during the three months ended March 31, 2019, a 41.7% increase over the total spend of $2.3 million for the three months ended March 31, 2018, due to the acceleration of Killam's repositioning program. Killam continues to focus on unit renovations 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.

Killam accelerated its suite repositioning program in 2018, investing approximately $3.0 million. To date in 2019, Killam has invested approximately $1.2 million. Killam categorizes suite renovations over $10,000 as suite repositions. 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. In Q1-2019, Killam commenced upgrades of 74 units, with an expected average investment of $23,000 per suite, an average ROI of 14% and average monthly rental increase of $266 per unit upon completion.

Killam is targeting repositioning 300 units in 2019, which Management expects to generate $1.0 million additional annualized revenue. The opportunity to reposition units within Killam's current portfolio is approximately 3,000 units, which could generate an estimated $10.0 million in additional annualized revenue and approximately $195 million in increased NAV.

Energy Efficiencies

Killam continues to execute on its energy efficiency plan in 2019, with a budget of $5.0 million and projected annualized savings of $0.8 million. Projects will target the installation of LED lighting ($1.1 million), pump upgrades ($0.2 million), and heating efficiency ($3.7 million), including condensing gas boilers, system recommissioning, insulation upgrades, and thermostat replacements. These projects are estimated to generate $0.8 million in annualized savings, with an average payback of 6 years. During Q1-2019, Killam spent $0.7 million on these energy initiatives.

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

MHCs - Capital Spend

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

For the three months ended March 31,

	2019	2018	% Change
Water and sewer upgrades	**$329**	$231	42.4%
Site expansion and land improvements	**2**	—	N/A
Other	**98**	72	36.1%
Total capital spend - MHCs	**$429**	$303	41.6%
Average number of sites outstanding	**5,427**	5,165	5.1%
Capital spend - $ per site	**$79**	$59	33.9%

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 invested during the three months ended March 31, 2019 was $0.4 million, up from $0.3 million in the three months ended March 31, 2018. The increase in capital investment is due to timing of water and sewer upgrades. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

As at	**March 31, 2019**	December 31, 2018	Change
Weighted average years to debt maturity	**4.5**	4.4	0.1 years
Total debt to total assets	**46.4%**	49.8%	(340) bps
Interest coverage	**3.17x**	3.22x	(1.6)%
Debt service coverage	**1.56x**	1.58x	(1.3)%
Normalized debt to EBITDA [(1)]	**10.04x**	10.62x	(5.5)%
Weighted average mortgage interest rate	**2.97%**	2.95%	2 bps
Weighted average interest rate of total debt	**3.01%**	3.10%	(9) bps

(1) Ratio calculated net of cash

Killam’s long-term debt consists largely of fixed-rate, long-term mortgages. Mortgages are secured by a first charge against individual properties. Killam’s weighted average interest rate on mortgages as at March 31, 2019, was 2.97%, slightly higher than the rate at December 31, 2018.

Total debt as a percentage of total assets decreased to 46.4% at March 31, 2019, from 49.8% at December 31, 2018, following the repayment of $53.3 million repayment of Killam's credit facility and a $34.0 million repayment on the Alexander construction loan with the funds received from the March 2019 equity raise. Killam expects this ratio to increase in Q2-2019, once permanent financing is placed on The Alexander. 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 March 31, 2019 would have impacted the ratio of debt as a percentage of total assets by 90 bps.

Normalized debt to EBITDA of 10.04x as at March 31, 2019 decreased from 10.62x as at December 31, 2018, due to timing of acquisitions and reduction in debt.

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

Refinancings

For the three months ended March 31, 2019, Killam refinanced the following mortgages:

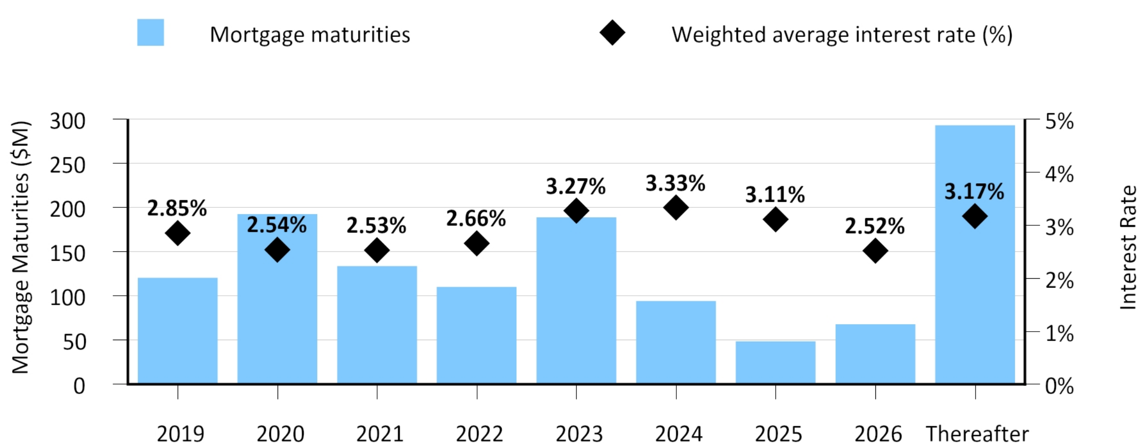
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$40,538	2.69%	$64,586	3.16%	7.7 years	$24,048
MHCs	—	—	—	—	—	—
	$40,538	2.69%	$64,586	3.16%	7.7 years	$24,048

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

	Apartments			MHC		Total	
Year of Maturity	Balance March 31	Weighted Avg Int. Rate %	% CMHC Insured	Balance March 31	Weighted Avg Int. Rate %	Balance March 31	Weighted Avg Int. Rate %
2019	$120,280	2.85%	90.9%	$17,215	3.85%	$137,495	2.97%
2020	192,342	2.54%	57.7%	6,338	3.52%	198,680	2.57%
2021	133,585	2.53%	85.2%	6,584	3.29%	140,169	2.56%
2022	110,004	2.66%	68.2%	23,519	3.67%	133,523	2.84%
2023	188,836	3.27%	77.2%	20,332	4.17%	209,168	3.35%
2024	94,229	3.33%	92.3%	—	—%	94,229	3.33%
Thereafter	409,058	3.10%	100.0%	—	—%	409,058	3.06%
	$1,248,334	2.92%	84.6%	$73,988	3.80%	$1,322,322	2.97%

(1) Excludes $14.3 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at March 31, 2019.

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 March 31, 2019, approximately 84.6% of Killam's apartment mortgages were CMHC-insured (79.9% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2018 - 85% and 79.7%). The weighted average interest rate on the CMHC-insured mortgages was 2.84% as at March 31, 2019 (December 31, 2018 - 2.95%).

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

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

Remaining 2019 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	29	$13,895	$113,525
MHCs with debt maturing	7	2,409	16,887
	36	$16,304	$130,412

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 March 31, 2019, the timing of Killam's future contractual debt obligations is as follows:

For the twelve months ending March 31,	Mortgage and Loans Payable	Construction Loans	Total
2019	$228,003	$28,867	$256,870
2020	198,125	—	198,125
2021	182,587	—	182,587
2022	123,270	—	123,270
2023	191,780	—	191,780
Thereafter	412,869	—	412,869
	$1,336,634	**$28,867**	**$1,365,501**

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $1.5 million (March 31, 2018 - $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 March 31, 2019, Killam has assets with a carrying value of $83.9 million pledged as first mortgage ranking and $332.4 million pledged as second mortgage ranking to the line and a balance outstanding of $nil (December 31, 2018 - $53.4 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at March 31, 2019.

The $5.0 million facility bears interest at prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at March 31, 2019, Killam had assets with a carrying value of $2.1 million pledged as collateral (December 31, 2018 - $2.1 million) and letters of credit totaling $0.9 million outstanding against the facility (December 31, 2018 - $1.0 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at March 31, 2019.

As at March 31, 2019	Maximum Loan Amount (1)	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	—	—	$90,000
$5.0 million demand facility	5,000	—	873	4,127
Total	**$95,000**	**—**	**$873**	**$94,127**

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

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

Construction Loans

As at March 31, 2019, Killam had 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 March 31, 2019, $28.9 million was drawn on the construction loans (December 31, 2018 - $60.5 million). The weighted-average interest rate was 3.89% (December 31, 2018 - 4.28%). In Q1-2019, Killam repaid $34.0 million on the construction loan related to the Alexander development project. Permanent financing is expected to be placed on this property during Q2-2019.

Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three months ended March 31, 2019, no unitholders redeemed units.

During the quarter, Killam increased its monthly distribution by 3.1% to $0.055 ($0.66 annualized), effective for the March 2019 distribution. 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.

Distribution Reinvestment Plan and Net Distributions Paid

For the three months ended March 31,

	2019	2018	% Change
Distributions declared on trust units	**$14,318**	$12,750	12.3%
Distributions declared on exchangeable units	**671**	604	11.1%
Distributions declared on awards outstanding under RTU plan	**70**	75	(6.7)%
Total distributions declared	**$15,059**	$13,429	12.1%
Less:			
Distributions on trust units reinvested	**(3,416)**	(3,357)	1.8%
Distributions on RTUs reinvested	**(70)**	(75)	(6.7)%
Net distributions paid	**$11,573**	$9,997	15.8%
Percentage of distributions reinvested	**23.1%**	25.6%	

Liquidity and Capital Resources

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

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

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

(ii) Killam's $70.0 million revolving credit facility has an accordion feature to increase the facility up to $90.0 million. Including this feature, Killam's credit facilities, using 60% mortgage leverage, provide over $225 million of acquisition capacity.

(iii) Planned placement of a CMHC-insured mortgage on The Alexander in Q2-2019 is expected to result in a net cash inflow of $40 million following the repayment of the related construction facility.

(iv) The retained portion of annual ACFO, mortgage refinancings and construction loans are expected to be sufficient to fund value enhancing capex, principal repayments and developments.

(v) Construction facilities to fund development projects.

(vi) 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 condensed consolidated interim statement of financial position and (ii) the historical cost of the assets of Killam. Total debt as a percentage of assets as at March 31, 2019 was 46.4%.

PART VIII
Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the Management's Discussion and Analysis of Killam's 2018 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2018, and any changes in the accounting policies applied have been described in note 2 to the condensed consolidated interim financial statements for the three months ended March 31, 2019.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions. Significant areas of judgment, estimates and assumptions are set out in note 3 to the audited consolidated financial statements found in Killam's 2018 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

IFRS 16*, Leases*
On January 13, 2016 the International Accounting Standards Board (IASB) issued IFRS 16, replacing IAS 17 and related interpretations. IFRS 16 provides a comprehensive framework for recognition, measurement and disclosure for accounting for leases. Lessor accounting under IFRS 16 is substantially unchanged and lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where Killam is the lessor.

Killam adopted the standard on January 1, 2019 using the modified retrospective approach and elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Killam has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

As part of the adoption of this standard, Killam reviewed all lease contracts in which they are a lessee and concluded that all leases, with the exception of three ground leases, were assets of low value and therefore had no impact upon adoption. The implementation of IFRS 16 resulted in a right-of-use asset and lease liability being recorded in the amount of $7.1 million. Refer to Note 8 to the condensed consolidated interim financial statements for additional information.

In accordance with IFRS 16, at the commencement date of any new leases, Killam will recognize a liability to reflect the present value of the lease obligations and an asset representing the right to use the underlying asset during the lease term. Land leases meet the definition of investment property under IAS 40; therefore, the fair value model is applied to these assets. Interest expense on the lease liability and the fair value gain or loss on the right-of-use asset is recognized separately on the statement of income and comprehensive income.

Killam measures lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Killam uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities are remeasured if there are modifications, a change in the lease terms, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment*
In June 2017, the IASB issued IFRIC 23 which 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 collectively;
- 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 the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The IFRIC Interpretation did not have a material impact on Killam's condensed consolidated interim financial statements.

Disclosure Controls, Procedures and Internal Controls

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

Related Party Transactions

Killam has 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 three months ended March 31, 2019, APM was paid $0.3 million in development and construction management fees (March 31, 2018 - $nil).

Subsequent Events

On April 15, 2019, Killam announced a distribution of $0.055 per unit, payable on May 15, 2019, to unitholders of record on April 30, 2019.

On April 16, 2019, Killam waived conditions on the purchase a 50% interest in the Charlottetown Mall for $23.7 million. The transaction is expected to close on May 17, 2019, and the purchase price will be satisfied with cash.

On April 18, 2019, Killam acquired a 59-unit apartment building in Fredericton, NB for $8.1 million. The purchase price is funded through a $6.3 million CMHC-insured mortgage, with the balance in cash.

On April 22, 2019, Killam waived conditions and agreed to purchase its joint venture partner's 50% interest in Grid 5 located in Calgary, and 1355 Silver Spear including the adjacent development site located in Mississauga for $73.5 million. The transaction is expected to close by the end of May 2019, and the purchase price will be satisfied with the assumption of $41.0 million of mortgage debt and the remainder in cash.