Q2-2019 Management's Discussion and Analysis

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

TABLE OF CONTENTS

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 $3.1 billion portfolio of apartments, manufactured home communities ("MHC") and commercial 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 eleven 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 89.0% of Killam’s net operating income ("NOI") for the six months ended June 30, 2019. As at June 30, 2019, Killam’s apartment portfolio consisted of 16,153 units, including 968 units jointly owned with institutional partners. Killam's 196 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, St. John’s and Charlottetown), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), and Alberta (Calgary and Edmonton). Killam is Atlantic Canada’s largest residential landlord, owning a 13% share of multi-family rental units in its core markets. Killam plans to continue increasing its presence in Ontario and Alberta through acquisitions and developments and will continue to invest strategically in Atlantic Canada to maintain its market presence.

In addition, Killam owns 5,427 sites in 37 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 6.5% of Killam’s NOI for the six months ended June 30, 2019. Killam also owns nine commercial properties that accounted for 4.5% of Killam's NOI for the six months ended June 30, 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 August 13, 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 June 30, 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 27.
- 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 28.
- 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 29. 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 86% of the fair value of Killam's investment property portfolio as at June 30, 2019. Excluded from same property results in 2019 are acquisitions, dispositions and developments completed in 2018 and 2019, non-stabilized commercial properties linked to development projects, and other adjustments to normalize for revenue or expense items that relate to prior periods or are not operational.

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 June 30,			Six months ended June 30,		
Operating Performance	**2019**	2018	Change (2)	**2019**	2018	Change (2)
Property revenue	**$59,139**	$52,937	11.7%	**$116,230**	$102,386	13.5%
Net operating income	**$37,510**	$33,916	10.6%	**$71,055**	$62,340	14.0%
Net income	**$82,789**	$34,864	137.5%	**$109,880**	$103,778	5.9%
FFO (1)	**$23,752**	$21,035	12.9%	**$42,640**	$37,842	12.7%
FFO per unit - diluted (1)	**$0.25**	$0.25	—%	**$0.45**	$0.45	—%
AFFO (1)	**$19,510**	$17,231	13.2%	**$34,119**	$30,431	12.1%
AFFO per unit - diluted (1)	**$0.20**	$0.20	—%	**$0.36**	$0.36	—%
Weighted average number of units outstanding - diluted (000s)	**95,807**	85,236	12.4%	**93,883**	85,026	10.4%
Distributions paid per unit (3)	**$0.17**	$0.16	6.3%	**$0.33**	$0.32	3.1%
AFFO payout ratio - diluted (1)	**81%**	79%	200 bps	**90%**	88%	200 bps
AFFO payout ratio - rolling 12 months (1)	**84%**	84%	— bps			
Portfolio Performance						
Same property NOI (1)	**$31,836**	$30,688	3.7%	**$60,168**	$57,853	4.0%
Same property NOI margin	**63.5%**	63.3%	20 bps	**60.9%**	60.5%	40 bps
Same property apartment weighted average rental increase (4)	**3.2%**	2.4%	70 bps			
Same property apartment occupancy	**97.1%**	96.6%	50 bps			

As at	**June 30, 2019**	December 31, 2018	Change (2)
Leverage Ratios and Metrics			
Debt to total assets	**47.7%**	49.8%	(210) bps
Weighted average mortgage interest rate	**2.95%**	2.95%	— bps
Weighted average years to debt maturity	**4.6**	4.4	0.2 years
Normalized debt to EBITDA (1)	**10.35x**	10.62x	(2.5)%
Debt service coverage (1)	**1.57x**	1.58x	(0.6)%
Interest coverage (1)	**3.21x**	3.22x	(0.3)%

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

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

(3) 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.

(4) Year-over-year, as at June 30.

Summary of Q2-2019 Results and Operations

Same Property NOI Growth of 3.7% and Improved Operating Margin
Killam achieved 3.7% growth in NOI and a 20 bps improvement in its operating margin during the quarter. This growth was driven by a 3.2% increase in rental rates and 50 bps improvement in occupancy. Operating expenses increased 3.1% due primarily to higher natural gas prices coupled with increased fuel consumption as a result of colder spring temperatures. Killam's same property apartment NOI increased 3.9% during the second quarter, with Ontario and Halifax leading the NOI growth at 5.9% and 5.5%. New Brunswick markets also performed well, generating 5.0% NOI growth in the quarter.

Rental Rate Growth of 3.2% Augmenting Top Line Performance
Same property revenue increased 3.5%, compared to Q2-2018, as a result of a 3.2% increase in the average rental rate for the apartment portfolio, a 50 bps increase in average apartment occupancy, a decrease in rental incentives and 2.0% top-line growth within the MHC portfolio. With continued high occupancy levels, increasing rental rates is a key focus for revenue optimization. Same property rental rate growth has accelerated over the last six quarters, from 1.8% at Q4-2017 to 3.2% at Q2-2019. Rental rate increases on unit turns and lease renewals averaged 5.6% and 2.0%, up from 4.5% and 1.6% a year earlier. Ontario and Halifax led the apartment performance, where same property apartment revenues increased by 5.1% and 4.6%, compared to Q2-2018.

Successful Repositioning Program Continues to Generate Above Average Returns
During Q2-2019, repositionings generated monthly rental lifts averaging $280 per unit (30% lift), an 11% increase over the average lift of $253 per unit (24% lift) during 2018. The average return on investment ("ROI") on unit repositionings during the second quarter was approximately 13%, based on an average cost of $26,000 per unit. To date, Killam has invested $2.7 million in repositionings and expects to meet its target of 300 repositionings by the end of 2019. These repositionings could generate an additional $1.0 million in NOI on an annualized basis and $20 million in NAV growth.

Cap-rate Compression and Rental Rate Growth Generate Fair Value Gains
Killam recorded $70.4 million in fair value gains related to its investment properties during the quarter ($97.8 million for the six months ended June 30, 2019) as a result of NOI strength driven by rental rate growth, and cap-rate compression in its MHC and Ontario apartment portfolios. Killam's weighted average cap-rate for its apartment and MHC portfolios at June 30, 2019 was 5.05% and 5.62%, a decrease of 10 bps and 114 bps compared to December 31, 2018. The fair value gains are supported by growth in rental rates, strong apartment fundamentals across Killam's core markets, recent comparable transactions for MHC properties, and continued downward pressure on cap-rates across the industry.

FFO and AFFO per Unit in Line with Q2-2018
Killam generated FFO per unit of $0.25 and $0.45 for the three and six months ended June 30, 2019, consistent with results for the comparable periods of 2018. FFO was $23.8 million in Q2-2019, a 12.9% increase over Q2-2018, offset by a 12.4% increase in the weighted average number of units outstanding from an aggregate of $143.8 million in equity issued in June 2018 and March 2019.

FFO growth was attributable to increased NOI from strong same property performance, plus incremental contributions from recent acquisitions and completed developments. This growth was partially offset by short-term equity dilution from the timing of deployment of funds raised for acquisitions and $0.7 million of timing differences and one-time costs (including $0.5 million in timing of energy costs, which is expected to reverse in Q4, and $0.2 million in marketing costs associated with the lease-up of the Frontier).

$134 Million in Acquisitions Increase Portfolio to Over $3.0 Billion
Killam completed $134 million in acquisitions during Q2 ($135.9 million for the six months ended June 30, 2019), including $73.5 million for the remaining 50% interest in three properties, including Grid 5 (a 307-unit building located in Calgary), Silver Spear (a 199-unit building located in Mississauga) and the development site for a 128-unit apartment adjacent Silver Spear. Identifying an opportunity to generate NAV growth, Killam acquired a 50% interest in the Charlottetown Mall for $23.8 million, representing a 6.7% all cash yield. Charlottetown Mall is a stabilized, grocery-anchored, enclosed mall which is located on 32 acres in the heart of Prince Edward Island's busiest retail node with future multi-family development opportunities of up to 300 units. In April 2019, Killam closed on a newly constructed 59-unit apartment building in Fredericton for $8.3 million and an all cash yield of 5.8%. In addition, on June 27, 2019, Killam purchased a 127-unit apartment and 45,500 square foot commercial complex in Moncton for $28.9 million and a blended all cash yield of 5.7%.

Frontier Development Completed and Contributing to NAV Growth
Phase I of Killam's 228-unit joint development project, Frontier, located in Ottawa, reached substantial completion in June 2019 and is currently 75% leased. Killam expects the building to be fully leased by the end of 2019 at rents 11% above the original pro forma. The project was completed at an expected yield of 5.25%, a 100-125 bps premium over the market cap-rate, leading Killam to recognize $6.9 million in fair value gains on this property during the quarter. Overall, Killam has recognized $9.2 million in fair value gains on the Frontier development to-date.

The Alexander and Saginaw Park developments completed in 2018 both contributed positively to FFO per unit growth in Q2-2019, together contributing $1.1 million to increased FFO. Killam continues to make progress on two additional developments, investing $2.9 million during Q2-2019. Killam's Shorefront development located in Charlottetown, PE, with green features of sub-metered water and a solar photovoltaic power generating panel, is progressing on schedule. This 78-unit building is expected to be completed by mid-2020. During Q2-2019, Killam also broke ground on the second phase of the jointly-owned Gloucester City Centre development in Ottawa, which like Phase I, has sub-metered water and a geothermal heating and cooling system.

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 4.0% during the first six months of 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	As at June 30, 2019, Killam has met this target with over $3.0 billion in portfolio assets. Killam completed $135.9 million in acquisitions during the first six months of 2019, and recorded $97.8 million in fair value gains contributing to this growth. In addition, Killam recycled $7.1 million of capital with the disposition of two non-core Ottawa properties in May.

Geographic Diversification	
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
2019 Performance to-date	Killam is on track to meet this target as year-to-date approximately 28% of Killam's NOI and 55% of the acquisitions completed year-to-date were outside Atlantic Canada.

Development of High-Quality Properties	
2019 Target	To complete Phase I (Frontier) of the Ottawa development, break ground on Silver Spear II, plus one additional development project.
2019 Performance to-date	The Frontier reached substantial completion in June 2019. Phase II of the Gloucester City Centre development broke ground in Q2-2019, and Killam began site work on Silver Spear II during 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 was 47.7% as at June 30, 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 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.

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 optimizing 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 $7–$9 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 having repositioning potential. Killam plans to continue to expand 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, $25.0 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 optimization 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 Q2-2019 NOI generated outside Atlantic Canada was approximately 28%, up from 26% in Q2-2018. Looking forward, Killam's recently completed acquisitions and developments and strong 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, and these properties are expected to contribute positively to Killam's earnings growth during the second half of 2019. Phase I of Killam's joint development project, Frontier, located in Ottawa, reached substantial completion in June 2019 and is currently 75% leased. Killam expects the building to be fully leased by the end of 2019. Killam has two additional projects underway in Charlottetown and Ottawa, and has begun site work at its 128-unit Mississauga development.

Additionally, Killam owns land supporting its development pipeline of approximately 2,250 units, representing a potential investment of $700 million (net of land costs). 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 improve its key debt metrics and increase its pool of unencumbered assets. Management 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 FFO and NAV Growth Beyond 2019
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 provided Killam with an opportunity to redevelop the vacant space and attract a more diverse tenant base, at higher net rents, which 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.

Lower Interest Rates Expected on Refinancings During the Second Half of 2019
Killam has apartment mortgages maturities of $68.9 million throughout the remainder of 2019, having a weighted average interest rate of 2.86%, approximately 60–70 bps 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 above current market rates. Although interest rates may come down on refinancings, due to up-financing opportunities on mortgage renewals, interest expense on the refinanced portfolio is expected to increase.

The average interest rate on apartment mortgages maturing between 2020 and 2022 is currently approximately 30–40 bps above current market rates. Management has laddered its debt maturities and reduced its overall leverage to lessen its exposure to potentially rising interest rates. 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 June 30, 2019:

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia				
Halifax	5,753	63	$25,542	35.9%
Sydney	139	2	$699	1.0%
	5,892	65	$26,241	36.9%
New Brunswick				
Moncton	1,756	33	$4,803	6.8%
Fredericton	1,481	22	$4,970	7.0%
Saint John	1,202	14	$2,760	3.9%
Miramichi	96	1	$313	0.4%
	4,535	70	$12,845	18.1%
Ontario				
Ottawa	1,216	9	$4,569	6.4%
London	523	5	$2,597	3.7%
Cambridge-GTA	818	6	$4,930	6.9%
	2,557	20	$12,095	17.0%
Newfoundland & Labrador				
St. John's	915	12	$3,414	4.8%
Grand Falls	148	2	$359	0.5%
	1,063	14	$3,773	5.3%
Prince Edward Island				
Charlottetown	1,015	19	$3,563	5.0%
Summerside	86	2	$275	0.4%
	1,101	21	$3,838	5.4%
Alberta				
Calgary	531	3	$2,014	2.8%
Edmonton	474	3	$2,408	3.4%
	1,005	6	$4,422	6.2%
Total Apartments	**16,153**	**196**	**$63,214**	**89.0%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$2,293	3.2%
Ontario	2,284	17	$2,200	3.1%
New Brunswick(4)	170	1	($42)	(0.1)%
Newfoundland & Labrador	224	2	$170	0.2%
Total MHCs	**5,427**	**37**	**$4,620**	**6.5%**
Commercial Portfolio (3)				
	Square Footage(1)	Number of Properties (1)	NOI ($) (2)	NOI (2) (% of Total)
Prince Edward Island	176,225	1	$210	0.3%
Ontario	297,000	1	$1,093	1.5%
Nova Scotia	254,000	5	$1,913	2.7%
New Brunswick(4)	33,215	1	$5	—%
Total Commercial	**760,440**	**8**	**$3,221**	**4.5%**
Total Portfolio		**241**	**$71,055**	**100.0%**

(1) Unit count and square footage include properties held through Killam's joint arrangements. Killam has a 50% ownership interest in two apartment properties in Ontario, representing a proportionate ownership of 484 units of the 968 units in these properties. Killam manages the operations of all the co-owned apartment properties. Killam also has a 50% interest in a commercial property located in Prince Edward Island which is managed by the co-owner.

(2) For the six months ended June 30, 2019.

(3) Killam also has 148,000 square feet of ancillary commercial space in various residential properties across the portfolio, which is included in apartment results.

(4) Killam's New Brunswick MHC community has seasonal operations which commence in mid-May annually. The seasonality of the operations accounts for the negative year-to-date NOI at this property. Killam's New Brunswick commercial property was acquired June 27, 2019 and the NOI reflects 5 days of income during the period.

Core Market Update

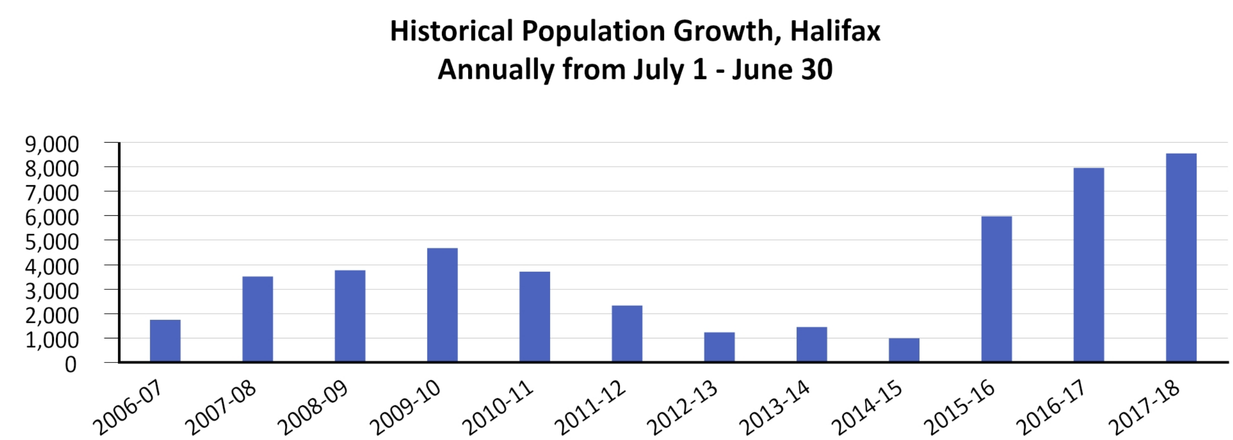
Halifax

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

Halifax Partnerships' quarterly economic snapshot for May 2019 highlights Halifax's GDP growth is forecasted to average 2.2% from 2019 to 2023, outpacing the Canadian expected average of 1.8% over the same period. 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.

Over 300 companies are participating in ocean-sector business in Nova Scotia, with more than 80 innovators of new, high-tech products and services. The Ocean Frontier Institute provides funds for ocean research and advancement to faculty at Dalhousie University, creating new opportunities for Dalhousie researchers. There is tremendous opportunity to leverage science and technology in Canada's ocean sectors, furthering the knowledge-based ocean economy. Canada's Ocean Supercluster aims to build Canada's ocean economy into one of the country's most significant and sustainable economic segments, through federal government and private sector co-investment of more than $300 million over the next four years. Technology is another expanding sector of growth for Halifax, with public funding recently announced for local tech incubators. The Halifax Index 2019 reported that more than 60 start-up companies have been founded in Halifax over the past five years, and Halifax ranked 8th among Canadian cities for both number and value of venture and private equity investment deals in 2018.

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



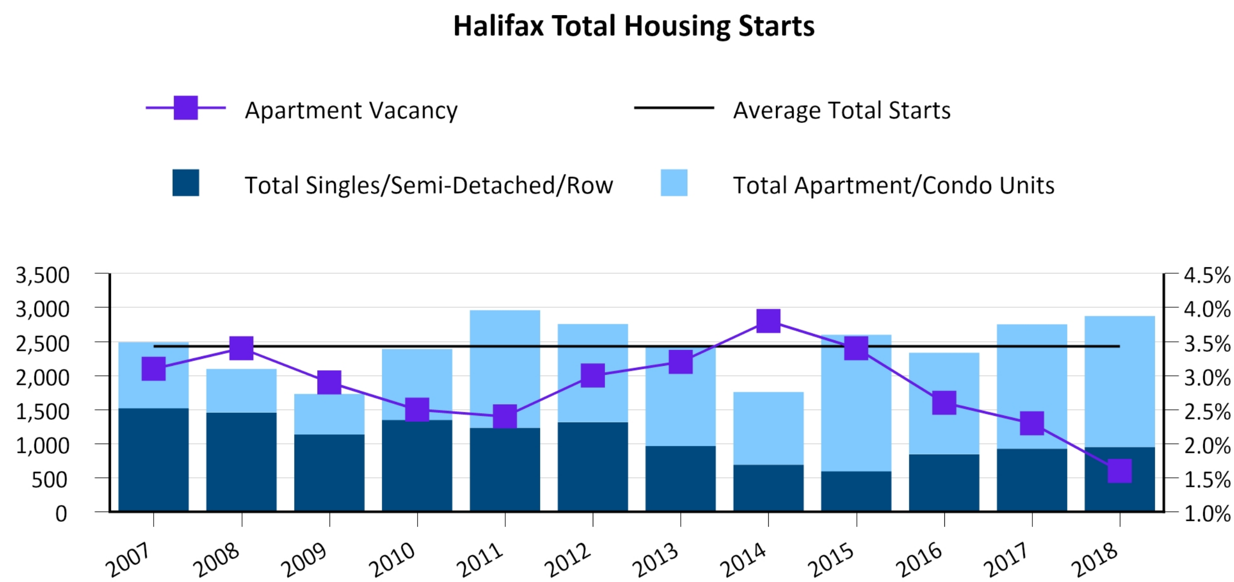
(1) Source: Statistics Canada

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. Over this three-year period, Statistics Canada has reported that Halifax's overall population grew by over 22,000 people. Halifax has seen an increase in international immigration, representing 63% of Halifax's population growth in 2018. 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 also 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.

According to CMHC's Housing Now report, the city had 2,142 multi-unit housing construction starts in 2018, which was a 128-unit increase over 2017 and well above the ten-year average of 1,170 per year. Year-over-year growth in international migration paired with positive interprovincial migration and an aging population seeking downsizing options will support on-going 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. TD Bank announced in April 2018 that it was planning to create over 1,000 new jobs in the Moncton, Dieppe and Riverview areas over the next three years. As of July 2019, they have filled over 500 of these positions, and are ahead of schedule in the process. 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 NOI is generated in St. John's, Newfoundland. 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 their 2018 Rental Market Report, CMHC reported a second straight year-over-year improvement in 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 Statistics 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 the 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. Statistics 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 17% of NOI in Q2-2019. 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 saw vacancy rates decrease between 2014 and 2017 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 primarily 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 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 was expecting vacancy to continue decreasing gradually over 2019 and 2020, however, to date Killam's assets in Edmonton have not seen this level of recovery.

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

PART IV

Q2-2019 Financial Overview

Consolidated Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$59,139**	$52,937	11.7%	**$50,147**	$48,448	3.5%	**$8,992**	$4,489	100.3%
Property operating expenses									
General operating expenses	**8,588**	7,661	12.1%	**7,152**	6,972	2.6%	**1,436**	689	108.4%
Utility and fuel expenses	**6,019**	5,009	20.2%	**5,452**	5,259	3.7%	**567**	(250)	326.8%
Property taxes	**7,022**	6,351	10.6%	**5,707**	5,529	3.2%	**1,315**	822	60.0%
Total operating expenses	**$21,629**	$19,021	13.7%	**$18,311**	$17,760	3.1%	**$3,318**	$1,261	163.1%
NOI	**$37,510**	$33,916	10.6%	**$31,836**	$30,688	3.7%	**$5,674**	$3,228	75.8%
Operating margin %	**63.4%**	64.1%	(70) bps	**63.5%**	63.3%	20 bps	**63.1%**	71.9%	(880) bps

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$116,230**	$102,386	13.5%	**$98,856**	$95,605	3.4%	**$17,374**	$6,781	156.2%
Property operating expenses									
General operating expenses	**17,517**	15,653	11.9%	**14,828**	14,456	2.6%	**2,689**	1,197	124.6%
Utility and fuel expenses	**13,773**	12,229	12.6%	**12,492**	12,237	2.1%	**1,281**	(8)	16,113%
Property taxes	**13,885**	12,164	14.1%	**11,367**	11,060	2.8%	**2,518**	1,104	128.1%
Total operating expenses	**$45,175**	$40,046	12.8%	**$38,688**	$37,752	2.5%	**$6,488**	$2,293	182.9%
NOI	**$71,055**	$62,340	14.0%	**$60,168**	$57,853	4.0%	**$10,886**	$4,488	142.6%
Operating margin %	**61.1%**	60.9%	20 bps	**60.9%**	60.5%	40 bps	**62.7%**	66.2%	(350) bps

Same property results included properties owned during comparable 2019 and 2018 periods. Same property results represent 86% of the fair value of Killam's investment property portfolio as at June 30, 2019. 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 3.5% and 3.4% for the three and six months ended June 30, 2019, as compared to the same periods of 2018. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings as a result of strong market fundamentals and execution of Killam's rent maximization program. Total same property operating expenses increased 3.1% and 2.5% for the three and six months ended June 30, 2019. In the quarter, this expense growth was driven by a 3.7% increase in utility and fuel expenses, as a result of commodity price increases in New Brunswick and Ontario, and increased consumption as a result of colder weather, and a 3.2% increase in property taxes as a result of higher reassessments, which Killam actively appeals whenever possible. Overall, same property NOI grew by 3.7% and 4.0% for the three and six months ended June 30, 2019, as compared to 2018, and Killam's operating margin improved by 20 bps and 40 bps, respectively.

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

Apartment Results

For the three months ended June 30,

	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$51,493**	$46,091	11.7%	**$45,773**	$44,166	3.6%	**$5,720**	$1,925	197.1%
Property operating expenses									
General operating expenses	**6,984**	6,263	11.5%	**6,190**	6,063	2.1%	**794**	200	297.0%
Utility and fuel expenses	**5,540**	4,518	22.6%	**5,181**	4,965	4.3%	**359**	(447)	180.3%
Property taxes	**6,114**	5,554	10.1%	**5,512**	5,337	3.3%	**602**	217	177.4%
Total operating expenses	**$18,638**	$16,335	14.1%	**$16,883**	$16,366	3.2%	**$1,755**	($30)	5,950.0%
NOI	**$32,855**	$29,756	10.4%	**$28,890**	$27,800	3.9%	**$3,965**	$1,955	102.8%
Operating margin %	**63.8%**	64.6%	(80) bps	**63.1%**	62.9%	20 bps	**69.3%**	101.6%	(3,230) bps

For the six months ended June 30,

	Total			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$102,430**	$91,560	11.9%	**$91,217**	$88,120	3.5%	**$11,213**	$3,440	226.0%
Property operating expenses									
General operating expenses	**14,361**	13,085	9.8%	**12,976**	12,669	2.4%	**1,385**	416	232.9%
Utility and fuel expenses	**12,706**	11,226	13.2%	**11,859**	11,551	2.7%	**847**	(325)	360.6%
Property taxes	**12,149**	10,979	10.7%	**10,977**	10,677	2.8%	**1,172**	302	288.1%
Total operating expenses	**$39,216**	$35,290	11.1%	**$35,812**	$34,897	2.6%	**$3,404**	$393	766.2%
NOI	**$63,214**	$56,270	12.3%	**$55,405**	$53,223	4.1%	**$7,809**	$3,047	156.3%
Operating margin %	**61.7%**	61.5%	20 bps	**60.7%**	60.4%	30 bps	**69.6%**	88.6%	(1,900) bps

Apartment Revenue

Total apartment revenue for the three and six months ended June 30, 2019, was $51.5 million and $102.4 million, an increase of 11.7% and 11.9% over the same periods in 2018. Revenue growth was augmented by contributions from recently acquired and developed properties, higher rental rates and improved occupancy.

Same property apartment revenue increased 3.6% and 3.5% for the three and six months ended June 30, 2019, with strong fundamentals and leasing activity contributing to a 50 bps improvement in same property occupancy year-to-date and a 3.2% increase in average rental rates. As well, rental incentives for the three and six months ended June 30, 2019, declined compared to the same periods of 2018, as fewer incentives were offered, given strong market conditions. Ancillary revenue also increased, including parking and laundry revenue.

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

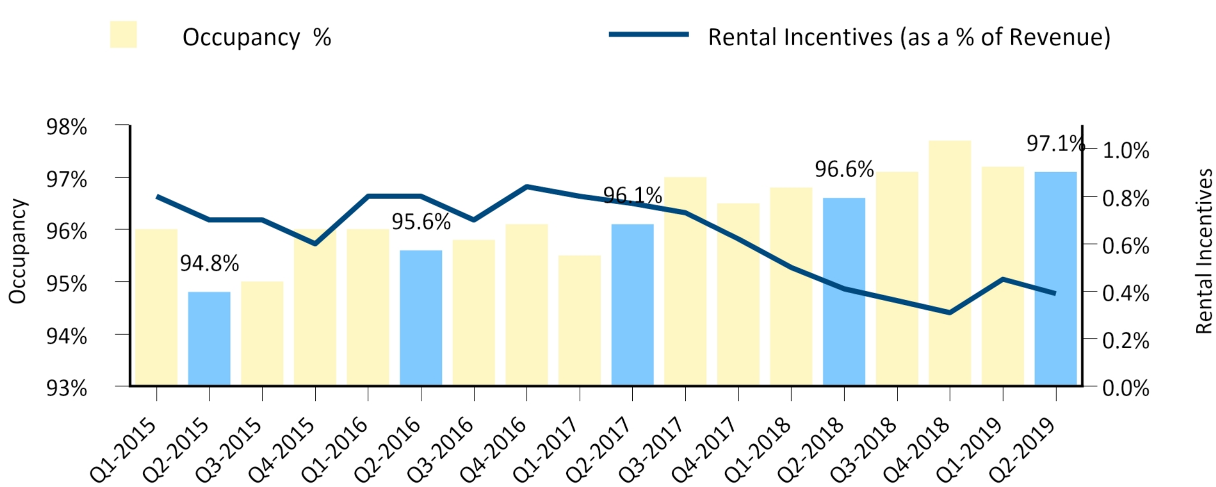
Apartment Occupancy Analysis by Core Market (% of Residential Rent) [(1)]

		Total Occupancy			Same Property Occupancy		
For the three months ended June 30,	# of Units	**2019**	2018	Change (bps)	**2019**	2018	Change (bps)
Nova Scotia							
Halifax	5,753	**97.9%**	97.3%	60	**97.9%**	97.4%	50
Ontario							
Ottawa [(2)]	1,216	**93.1%**	97.2%	(410)	**97.5%**	97.8%	(30)
London	523	**96.2%**	94.0%	220	**96.2%**	94.0%	220
Cambridge-GTA	818	**98.7%**	88.4%	1,030	**98.5%**	97.9%	60
New Brunswick							
Moncton	1,756	**98.4%**	97.5%	90	**98.4%**	97.5%	90
Fredericton	1,481	**97.5%**	96.7%	80	**97.5%**	96.7%	80
Saint John	1,202	**97.2%**	96.6%	60	**97.2%**	96.6%	60
Newfoundland and Labrador							
St. John's	915	**91.5%**	94.3%	(280)	**91.5%**	94.3%	(280)
Prince Edward Island							
Charlottetown	1,015	**99.3%**	99.5%	(20)	**99.3%**	99.5%	(20)
Alberta							
Calgary	531	**94.0%**	95.5%	(150)	**92.4%**	95.5%	(310)
Edmonton	474	**88.1%**	85.6%	250	**86.4%**	88.8%	(240)
Other Atlantic	469	**97.5%**	93.9%	360	**97.5%**	93.9%	360
Total Apartments (weighted average)	16,153	**96.7%**	96.0%	70	**97.1%**	96.6%	50

(1) Occupancy as a percentage of residential rent is calculated as vacancy (in dollars) divided by gross potential residential rent (in dollars) for the period.
(2) Total occupancy is impacted by Frontier, which is undergoing initial lease-up.

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

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



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

Average Rent Analysis by Core Market

As at June 30,		Average Rent			Same Property Average Rent		
	# of Units	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia							
Halifax	5,753	**$1,116**	$1,055	5.8%	**$1,072**	$1,034	3.7%
Ontario							
Ottawa	1,216	**$1,724**	$1,615	6.7%	**$1,668**	$1,615	3.3%
London	523	**$1,288**	$1,248	3.2%	**$1,288**	$1,248	3.2%
Cambridge-GTA	818	**$1,451**	$1,408	3.1%	**$1,439**	$1,384	4.0%
New Brunswick							
Moncton	1,756	**$901**	$853	5.6%	**$882**	$853	3.4%
Fredericton	1,481	**$983**	$946	3.9%	**$975**	$946	3.1%
Saint John	1,202	**$824**	$789	4.4%	**$824**	$789	4.4%
Newfoundland and Labrador							
St. John's	915	**$985**	$978	0.7%	**$985**	$978	0.7%
Prince Edward Island							
Charlottetown	1,015	**$1,020**	$940	8.5%	**$962**	$940	2.3%
Alberta							
Calgary	531	**$1,228**	$1,142	7.5%	**$1,190**	$1,149	3.6%
Edmonton	474	**$1,452**	$1,478	(1.8)%	**$1,461**	$1,478	(1.2)%
Other Atlantic	469	**$900**	$883	1.9%	**$900**	$883	1.9%
Total Apartments (weighted average)	16,153	**$1,103**	$1,044	5.7%	**$1,059**	$1,026	3.2%

Same Property Rental Increases - Tenant Renewal versus Unit Turn

Killam turns approximately 30%-35% of its units each year. Upon turn, Killam will typically generate rental increases by raising rates to market and where market demand exists, by upgrading units for returns of 10-15% on capital invested. Killam has increased its same property weighted average rental increases by 80 bps to 3.2% in the first six months of 2019, compared to 2.4% for the same period of 2018. Given strong fundamentals and Killam's rent optimization program, there has been a notable increase in rental rates on unit turns. 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 six months ended June 30,	**2019**	2018	Change (bps)
Lease renewal	**2.0%**	1.6%	40
Unit turn - regular	**5.6%**	4.5%	110
Unit turn - repositioned	**30.0%**	23.7%	630
Weighted average rental increase	**3.2%**	2.4%	80

Apartment Expenses

Total operating expenses for the three and six months ended June 30, 2019, were $18.6 million and $39.2 million, a 14.1% and 11.1% increase over the same periods of 2018, due primarily to incremental costs associated with recent acquisitions and developments, property tax increases and increases in commodity pricing. During the quarter, the apartment operating margin decreased by 80 bps as heating costs were higher following a refinement to Killam's accrual process for electricity and natural gas costs. This process improvement resulted in a timing difference of costs associated with winter related heating costs. This temporary timing difference of $0.5 million will be reversed in the fourth quarter. Excluding this timing difference, the apartment operating result for the quarter and year-to-date would be 64.8% and 62.2% (this change was normalized for same property results).

Total same property operating expenses for the three and six months ended June 30, 2019, were 3.2% and 2.6% higher than the same periods of 2018. The increase was driven by higher utility and fuel costs resulting from increases in both consumption and variable pricing during the heating season. Property tax expense increased 3.3% and 2.8% for the three and six months ended June 30, 2019, Killam continues to appeal tax assessment increases whenever possible. Killam realized general operating expense increases of 2.1% and 2.4% for the three and six months ended June 30, 2019, due to general inflationary cost pressures partially offset by operating cost management initiatives. In total, the same property margin improved by 20 bps and 30 bps during the three and six months ended June 30, 2019.

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

Apartment Utility and Fuel Expenses - Same Property

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Natural gas	**$1,880**	$1,689	11.3%	**$4,692**	$4,295	9.2%
Electricity	**1,795**	1,743	3.0%	**3,897**	3,978	(2.0)%
Water	**1,157**	1,232	(6.1)%	**2,384**	2,385	(0.1)%
Oil & propane	**334**	289	15.9%	**859**	871	(1.3)%
Other	**14**	12	19.3%	**27**	22	20.9%
Total utility and fuel expenses	**$5,181**	$4,965	4.3%	**$11,859**	$11,551	2.7%

Killam’s apartments are heated with natural gas (60%), electricity (31%), oil (6%), steam (2%), geothermal (1%) 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 31% of Killam’s total apartment same property operating expenses during the quarter and 33% year-to-date. Total same property utility and fuel expenses increased 4.3% and 2.7% for the three and six months ended June 30, 2019.

Same property natural gas expense increased by 11.3% and 9.2% in the three and six months ended June 30, 2019. The increased costs compared to the prior periods were primarily attributable to higher distribution rates and increases in commodity prices in New Brunswick and Ontario of 11.7% and 24.8%, along with higher consumption due to colder temperatures in April and May 2019 compared to 2018 in most regions. Nova Scotia gas pricing decreased by 3.4% in Q2-2019, compared to Q2-2018, partially offsetting higher consumption realized in that province.

Electricity costs increased 3.0% in Q2-2019 due to higher rates, but were 2.0% lower for the six months ended June 30, 2019, primarily due to savings from LED lighting retrofits, more than offsetting rising rates.

Water expense decreased by 6.1% in Q2-2019, and is flat year-to-date, despite municipal water rate increases across Killam's regions. 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 in water consumption savings.

Heating oil and propane costs increased by 15.9% quarter-over-quarter, as a result of colder temperatures in May 2019 and fluctuation in global oil prices, but decreased 1.3% for the six months ended June 30, 2019, compared to the same period of 2018, as a result of lower consumption during the first quarter of 2019 due to increased efficiencies from boiler upgrades and switching to natural gas at certain properties.

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

Apartment Same Property NOI by Region

Three months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$17,668**	$16,888	4.6%	**($6,323)**	($6,130)	3.1%	**$11,345**	$10,758	5.5%
	17,668	16,888	**4.6%**	**(6,323)**	(6,130)	3.1%	**11,345**	10,758	5.5%
Ontario									
Ottawa	**2,906**	2,819	3.1%	**(880)**	(917)	(4.0)%	**2,026**	1,902	6.5%
London	**1,948**	1,837	6.0%	**(608)**	(562)	8.2%	**1,340**	1,275	5.1%
Cambridge-GTA	**3,098**	2,913	6.4%	**(983)**	(914)	7.5%	**2,115**	1,999	5.8%
	7,952	7,569	5.1%	**(2,471)**	(2,393)	3.3%	**5,481**	5,176	5.9%
New Brunswick									
Moncton	**4,530**	4,402	2.9%	**(2,041)**	(2,047)	(0.3)%	**2,489**	2,355	5.7%
Fredericton	**4,223**	4,076	3.6%	**(1,690)**	(1,650)	2.4%	**2,533**	2,426	4.4%
Saint John	**2,999**	2,887	3.9%	**(1,458)**	(1,418)	2.8%	**1,541**	1,469	4.9%
	11,752	11,365	3.4%	**(5,189)**	(5,115)	1.4%	**6,563**	6,250	5.0%
Newfoundland & Labrador									
St. John's	**2,505**	2,576	(2.8)%	**(766)**	(711)	7.7%	**1,739**	1,865	(6.8)%
	2,505	2,576	(2.8)%	**(766)**	(711)	7.7%	**1,739**	1,865	(6.8)%
Prince Edward Island									
Charlottetown	**2,575**	2,522	2.1%	**(999)**	(945)	5.7%	**1,576**	1,577	(0.1)%
	2,575	2,522	2.1%	**(999)**	(945)	5.7%	**1,576**	1,577	(0.1)%
Alberta									
Calgary	**850**	843	0.8%	**(237)**	(253)	(6.3)%	**613**	590	3.9%
Edmonton	**1,137**	1,143	(0.5)%	**(435)**	(372)	16.9%	**702**	771	(8.9)%
	1,987	1,986	0.1%	**(672)**	(625)	7.5%	**1,315**	1,361	(3.4)%
Other Atlantic locations	**1,334**	1,260	5.8%	**(463)**	(447.4)	3.5%	**871**	813	7.1%
	$45,773	$44,166	3.6%	**($16,883)**	($16,366)	3.2%	**$28,890**	$27,800	3.9%

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

Apartment Same Property NOI by Region

Six months ended June 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Nova Scotia									
Halifax	**$35,209**	$33,688	4.5%	**($13,495)**	($12,822)	5.2%	**$21,714**	$20,866	4.1%
	35,209	33,688	4.5%	**(13,495)**	(12,822)	5.2%	**$21,714**	$20,866	4.1%
Ontario									
Ottawa	**5,794**	5,616	3.2%	**(1,854)**	(1,977)	(6.2)%	**3,940**	3,639	8.3%
London	**3,889**	3,728	4.3%	**(1,283)**	(1,257)	2.1%	**2,606**	2,471	5.5%
Cambridge-GTA	**6,131**	5,831	5.1%	**(2,004)**	(1,904)	5.3%	**4,127**	3,927	5.1%
	15,814	15,175	4.2%	**(5,141)**	(5,138)	0.1%	**10,673**	10,037	6.3%
New Brunswick									
Moncton	**8,995**	8,737	3.0%	**(4,264)**	(4,281)	(0.4)%	**4,731**	4,456	6.2%
Fredericton	**8,475**	8,095	4.7%	**(3,624)**	(3,564)	1.7%	**4,851**	4,531	7.1%
Saint John	**5,956**	5,737	3.8%	**(3,185)**	(3,157)	0.9%	**2,771**	2,580	7.4%
	23,426	22,569	3.8%	**(11,073)**	(11,002)	0.6%	**12,353**	11,567	6.8%
Newfoundland & Labrador									
St. John's	**4,992**	5,140	(2.9)%	**(1,573)**	(1,505)	4.5%	**3,419**	3,635	(5.9)%
	4,992	5,140	(2.9)%	**(1,573)**	(1,505)	4.5%	**3,419**	3,635	(5.9)%
Prince Edward Island									
Charlottetown	**5,145**	5,037	2.1%	**(2,163)**	(2,130)	1.5%	**2,982**	2,907	2.6%
	5,145	5,037	2.1%	**(2,163)**	(2,130)	1.5%	**2,982**	2,907	2.6%
Alberta									
Calgary	**1,675**	1,650	1.5%	**(527)**	(515)	2.3%	**1,148**	1,135	1.1%
Edmonton	**2,295**	2,345	(2.1)%	**(813)**	(806)	.9%	**1,482**	1,539	(3.7)%
	3,970	3,995	(0.6)%	**(1,340)**	(1,321)	1.4%	**2,630**	2,674	(1.6)%
Other Atlantic locations	**2,661**	2,516	5.8%	**(1,027)**	(979)	4.9%	**1,634**	1,537	6.3%
	$91,217	$88,120	3.5%	**($35,812)**	($34,897)	2.6%	**$55,405**	$53,223	4.1%

Halifax
Halifax is Killam's largest rental market, contributing 39.2% of apartment same property NOI for the three and six months ended June 30, 2019. Same property apartment revenue increased 4.6% and 4.5% for the three and six months ended June 30, 2019, due to a 3.7% increase in average rent and a 50 bps increase in occupancy to 97.9% in the quarter.

Total operating expenses for the three and six months ended June 30, 2019, were 3.1% and 5.2% higher than the same periods of 2018. The increased expenses were driven by higher natural gas costs as a result of increased fuel consumption, higher property taxes and increased insurance premiums. The net impact was 5.5% and 4.1% growth in NOI for the three and six months ended June 30, 2019.

Ontario
Killam's Ontario portfolio generated approximately 19.0% of apartment same property NOI for the three and six months ended June 30, 2019. Revenue increased by 5.1% and 4.2% for the three and six months ended June 30, 2019, driven by a 3.5% increase in average rental rates, improved occupancy in both London and Cambridge-GTA and increased parking revenue.

Total operating expenses were 3.3% higher for the quarter, primarily due to increases in contract service costs, repairs and maintenance and insurance premiums, partially offset by decreased utility consumption and lower property taxes due to successful tax recoveries. Year-to-date, total operating expenses were relatively flat compared to the same period of 2018, as decreased utility consumption and lower property taxes as recoveries offset inflationary increases. In aggregate, same property NOI was 5.9% and 6.3% higher than the three and six months ended June 30, 2018.

New Brunswick

Killam's apartments in Moncton, Fredericton and Saint John accounted for approximately 22% of apartment same property NOI for the three and six months ended June 30, 2019. In aggregate, same property revenue increased 3.4% and 3.8% for the three and six months ended June 30, 2019, due to rental rate growth in Moncton, Fredericton and Saint John of 3.4%, 3.1% and 4.4%, respectively, and occupancy gains in the quarter across all three regions.

Total operating expenses were only 1.4% and 0.6% higher for the three and six months ended June 30, 2019, compared to the same periods in 2018. Increased natural gas costs as a result of higher natural gas pricing in New Brunswick, increased property tax and insurance premiums were partially offset by lower general property operating expenses.

Newfoundland and Labrador

Killam's St. John's properties accounted for approximately 6% of apartment same property NOI for the three and six months ended June 30, 2019. Same property revenue decreased 2.8% and 2.9% for the three and six months ended June 30, 2019, as compared to the same periods of 2018. While rental rates have increased by 0.7%, occupancy is 280 bps lower quarter-over-quarter. This lower occupancy is due to softness in the economy, driven by reduced activity in the offshore oil sector and declines in other natural resource sectors, which the Newfoundland economy is heavily reliant on.

Total operating expenses for the three and six months ended June 30, 2019, were 7.7% and 4.5% higher than the same periods of 2018. The increase in operating expenses was primarily due to higher staffing costs with an expanded leasing team, a 6.8% average increase in electricity rates in Newfoundland effective July 1, 2018, as well as property taxes. In aggregate, same property NOI was 6.8% and 5.9% lower for the three and six months ended June 30, 2019.

Prince Edward Island

Killam's Charlottetown portfolio contributed approximately 5% of apartment same property NOI for the three and six months ended June 30, 2019. Charlottetown achieved 2.1% revenue growth for the three and six months ended June 30, 2019, as rental rates grew 2.3% and occupancy remained above 99%.

Total operating expenses for the three and six months ended June 30, 2019 were 5.7% and 1.5% higher compared to 2018. A colder spring, along with increased heating oil rates resulted in higher heating costs and increased snow removal costs in Q2-2019, slightly offset by lower repairs and maintenance costs. Overall, Charlottetown saw a slight decrease in NOI of 0.1% for the three months ended June 30, 2019, but achieved 2.6% NOI growth for the six months ended June 30, 2019, compared to the same period in 2018.

Alberta

Killam's Calgary properties accounted for approximately 2% of apartment same property NOI for the three and six months ended June 30, 2019. Despite a 310 bps decrease in occupancy for the quarter, Calgary achieved same property revenue increases of 0.8% and 1.5% for the three and six months ended June 30, 2019, compared to the same periods of 2018, due to rental rate growth of 3.6%.

Total operating expenses for the three months ended June 30, 2019 were down 6.3% as a result of lower snow removal and property efficiencies. Year-to-date operating expenses increased 2.3%, as a result of increased staffing and higher property tax assessments, slightly offset by decreases in natural gas costs and contract services costs. Overall, Calgary achieved a 3.9% and 1.1% increase in NOI for the three and six months ended June 30, 2019.

Killam's Edmonton portfolio accounted for approximately 3% of apartment same property NOI for the three and six months ended June 30, 2019. Same property revenues decreased 0.5% and 2.1% for the three and six months ended June 30, 2019, as a result of a 1.2% reduction in rental rates and a 240 bps decrease in occupancy. The 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.

Same property operating expenses increased 16.9% and 0.9% for the three and six months ended June 30, 2019. The increase in operating expenses during the quarter were due to the addition of on-site leasing staff and increased property tax assessments, slightly offset by decreased natural gas costs. Year-to-date the increased costs relate to those items noted for the quarter, largely offset by lower natural gas, repairs and maintenance and contract service costs. Overall, Edmonton saw decreased NOI of 8.9% and 3.7% for the three and six months ended June 30, 2019.

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

MHC Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$4,434**	$4,058	9.3%	**$4,139**	$4,056	2.0%	**$295**	$2	N/A
Property operating expenses	**1,465**	1,371	6.9%	**1,341**	1,301	3.1%	**124**	69	N/A
NOI	**$2,969**	$2,687	10.5%	**$2,798**	$2,755	1.6%	**$171**	($67)	N/A
Operating margin %	**67.0%**	66.2%	80 bps	**67.6%**	67.9%	(30) bps	**58.0%**	—%	—

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$7,543**	$7,042	7.1%	**$7,171**	$7,036	1.9%	**$372**	$6	N/A
Property operating expenses	**2,923**	2,718	7.5%	**2,693**	2,673	0.7%	**230**	44	N/A
NOI	**$4,620**	$4,324	6.8%	**$4,478**	$4,363	2.6%	**$142**	($38)	N/A
Operating margin %	**61.2%**	61.4%	(20) bps	**62.4%**	62.0%	40 bps	**38.2%**	—%	—

The MHC business generated 6.5% of Killam's NOI for the six months ended June 30, 2019. The MHC portfolio generates its highest revenues and NOI during the second and third quarters of each year due to the contribution from its eight seasonal communities that earn approximately 60% of their NOI between July and September.

MHC same property revenue increased 2.0% and 1.9% for the three and six months ended June 30, 2019, compared to the same periods in 2018. Rents rose by 1.9%, to $256 per site from $251 per site in June 2018, due primarily to rental increases at permanent communities as well as strong revenue growth in the seasonal communities. Occupancy for Q2-2019 was 97.8%, consistent with Q2-2018.

Total same property expenses increased by 3.1% in Q2-2019, as compared to Q2-2018, primarily due to increases in property tax assessments and increased repairs and maintenance costs, partially offset by lower electricity and water costs. Total operating costs for the six months ended June 30, 2019, increased modestly by 0.7% as lower water and electricity consumption partially offset higher property tax assessments and increased insurance premiums. Overall, the MHC portfolio generated same property NOI growth of 1.6% and 2.6% for the three and six months ended June 30, 2019.

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

Commercial Results

For the three months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$3,212**	$2,788	15.2%	**$235**	$225	4.4%	**$2,977**	$2,563	16.2%
Property operating expenses	**1,526**	1,315	16.0%	**87**	93	(6.5)%	**1,439**	1,222	17.8%
NOI	**$1,686**	$1,473	14.5%	**$148**	$132	12.1%	**$1,538**	$1,341	14.7%

For the six months ended June 30,

	Total Portfolio			Same Property			Non-Same Property		
	2019	2018	% Change	**2019**	2018	% Change	**2019**	2018	% Change
Property revenue	**$6,257**	$3,784	65.4%	**$467**	$449	4.0%	**$5,790**	$3,335	73.6%
Property operating expenses	**3,036**	2,038	49.0%	**183**	181	1.1%	**2,853**	1,857	53.6%
NOI	**$3,221**	$1,746	84.5%	**$284**	$268	6.0%	**$2,937**	$1,478	98.7%

Killam's commercial property portfolio contributed $3.2 million, or 4.5%, of Killam's total NOI for the six months ended June 30, 2019. Killam's commercial property portfolio consists of nine properties totaling 760,440 SF located in four of Killam's core markets. The majority of Killam's commercial properties are not included in the same property results as they were recently acquired or are slated for redevelopment and not operating as stabilized properties. Occupancy was 88.6% during the quarter and 91.4% year-to-date, compared to 96.9% and 95.6% for the same periods of 2018. The decrease in occupancy is primarily due to the redevelopment of the 158,000 SF Brewery Market in Halifax, resulting in increased vacancy during the turnover process.

In early Q2-2019, planned tenant turnover at the Brewery Market 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 this 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. Following the lease-up of the renovated space at the Brewery Market, management expects NOI to increase by an annualized amount of $0.3 million, or 17.7%, from pre-renovated levels.

Killam expanded its commercial portfolio in Q2-2019 with two acquisitions. During May 2019, Killam completed the acquisition of a 50% interest in the Charlottetown Mall, a grocery anchored enclosed retail complex totaling 352,450 SF located in Charlottetown, PE. This grocery-anchored plaza is 89.2% occupied. Killam is in the process of preparing a redevelopment plan for the property, which is a 32-acre commercial site with future apartment development opportunities for approximately 300 units.

At the end of the second quarter, Killam completed the acquisition of three residential apartment buildings totaling 127 units, one mixed-use commercial and residential building and an adjacent IGA-branded grocery store totaling 33,215 SF located in Dieppe, NB. The commercial space is currently 100% occupied.

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

PART IV

Other Income and Expenses

Other Income

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$270	$216	25.0%	**$466**	$511	(8.8)%

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 25.0% increase for the three months ended June 30, 2019, was due primarily to leasing fee revenue associated with the initial lease-up of the Frontier, which was substantially complete in June 2019. The 8.8% decrease for the six months ended June 30, 2019, was due primarily to decreased interest income on bank balances year-to-date, compared to the same period in 2018.

Financing Costs

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Mortgage, loan and construction loan interest	**$10,239**	$9,216	11.1%	**$20,429**	$17,831	14.6%
Interest on credit facilities	**89**	344	(74.1)%	**538**	460	17.0%
Interest on Exchangeable Units	**685**	613	11.7%	**1,357**	1,218	11.4%
Amortization on deferred financing costs	**740**	561	31.9%	**1,636**	1,048	56.1%
Amortization of fair value adjustments on assumed debt	**34**	28	21.4%	**75**	11	581.8%
Amortization of loss on interest rate hedge	**—**	15	(100.0)%	**—**	29	(100.0)%
Unrealized loss (gain) on derivative asset	**118**	1	N/A	**312**	(32)	1,075.0%
Interest on lease liabilities	**72**	—	N/A	**145**	—	N/A
Capitalized interest	**(610)**	(804)	(24.1)%	**(1,284)**	(1,636)	(21.5)%
	$11,367	$9,974	14.0%	**$23,208**	$18,929	22.6%

Total financing costs increased $1.4 million, or 14.0%, and $4.3 million, or 22.6%, for the three and six months ended June 30, 2019, as compared to the same periods of 2018.

Mortgage and loan interest expense was $10.2 million for the three months ended June 30, 2019, an increase of $1.0 million, or 11.1%, compared to the same period of 2018, while year-to-date mortgage loan and construction interest increased $2.6 million, or 14.6%. Killam's mortgage, loan and construction loan liability balance increased by $216.0 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages and obtained financing for acquisitions and developments. The average interest rate on refinancings for the six months ended June 30, 2019, was 2.87%, 15 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 31.9% and 56.1% for the three and six months ended June 30, 2019, following mortgage refinancings and debt related to property acquisitions over the past twelve months. 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 and $0.4 million for the three and six months ended June 30, 2019, compared to the same periods of 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 $72 thousand for the quarter. This interest expense relates to the new requirements under IFRS 16 to record lease obligations at their present value 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 and six months ended June 30, 2019, for further details.

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

Depreciation Expense

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
	$168	$123	36.6%	**$325**	$246	32.1%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment, 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 decrease in depreciation expense for the three and six months ended June 30, 2019, compared to the same periods in 2018, was primarily due to the timing of depreciation of software costs.

Administration Expenses

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Administration	**$3,436**	$3,545	(3.1)%	**$7,299**	$6,881	6.1%
As a percentage of total revenues	**5.8%**	6.7%	(90) bps	**6.3%**	6.7%	(40) 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.

For the three months ended June 30, 2019, total administration expenses decreased by $0.1 million, or 3.1%. For the six months ended June 30, 2019, administration expenses increased $0.4 million, or 6.1%, compared to the comparable period of 2018, due to increased Yardi platform costs, higher compensation and training costs as a result of increased staffing related to portfolio growth, and higher restricted trust unit ("RTU") expense related to stronger REIT performance. Administration expense as a percentage of total revenues is 5.8%, 90 bps lower than Q2-2018.

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

Fair Value Adjustments

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Investment properties	**$70,440**	$24,359	189.2%	**$97,835**	$85,073	15.0%
Deferred unit-based compensation	**87**	(182)	147.8%	**(1,153)**	57	(2,122.8)%
Exchangeable units	**2,535**	(4,219)	160.1%	**(11,837)**	(2,906)	(307.3)%
	$73,062	$19,958	266.1%	**$84,845**	$82,224	3.2%

Killam recognized $70.4 million in fair value gains on investment properties in Q2-2019, compared to $24.4 million in fair value gains for Q2-2018. Year-to-date, Killam has realized $97.8 million in fair value gains on investment property, recognizing the strength of the accelerated revenue growth achieved over the period and overall strong operating performance in Killam's core markets, as well as cap-rate compression in both Killam's apartment and MHC portfolio's.

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 June 30, 2019, there was an unrealized fair value gain of $0.1 million, compared to a $0.2 million adjustment in Q2-2018. For the six months ended June 30, 2019, there was an unrealized fair value adjustment of $1.2 million, versus a $0.1 million gain in the six months ended June 30, 2018, due to changes in the market price of the underlying Killam trust 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 June 30, 2019, there was an unrealized gain on remeasurement of $2.5 million, compared to an unrealized adjustment of $4.2 million. Year-to-date, there was an unrealized adjustment of $11.8 million, compared to an unrealized adjustment of $2.9 million in the same period of 2018, due to an appreciation in the market price of Killam's trust units.

Loss on Disposition

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
	(994)	—	N/A	**(994)**	(183)	443.2%

During the second quarter Killam disposed of two apartment properties located in Ottawa. The loss on disposition in investment properties for the three and six months ended June 30, 2019 represents the difference between the proceeds from disposition compared to the fair value of the properties less the carrying costs of the related mortgages, as well as deferred financing fees, professional fees and any other directly attributable costs.

Deferred Tax Expense

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
	12,088	5,480	120.6%	**14,660**	14,849	(1.3)%

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 increased $6.6 million for the three ended June 30, 2019, compared to the same period of 2018, primarily due to the fair value gain recorded on Killam's investment properties. Killam's deferred tax expense decreased $0.2 million for the six months ended June 30, 2019, relatively consistent with the same periods of 2018.

PART V

Per Unit Calculations

As Killam is an open-ended mutual fund trust, 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) as at June 30,
	Three months ended June 30,			Six months ended June 30,			
	2019	2018	% Change	**2019**	2018	% Change	**2019**
Trust units	**91,458**	81,162	12.7%	**89,535**	80,930	10.6%	**91,575**
Exchangeable units	**4,154**	3,836	8.3%	**4,154**	3,862	7.6%	**4,154**
Basic number of units	**95,612**	84,998	12.5%	**93,689**	84,792	10.5%	**95,729**
Plus:							
Units under RTU plan	**213**	238	(10.5)%	**194**	234	(17.1)%	**—**
Diluted number of units	**95,825**	85,236	12.4%	**93,883**	85,026	10.4%	**95,729**

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 and six months ended June 30, 2019 and 2018 are calculated as follows:

	Three months ended June 30,			**Six months ended June 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Net income	**$82,789**	$34,864	137.5%	**$109,880**	$103,778	5.9%
Fair value adjustments	**(73,062)**	(19,958)	266.1%	**(84,845)**	(82,224)	3.2%
Loss on disposition	**994**	—	N/A	**994**	183	443.2%
Non-controlling interest	**(7)**	(6)	10.3%	**(10)**	(14)	(29.4)%
Internal commercial leasing costs	**79**	—	N/A	**159**	—	N/A
Deferred tax expense	**12,088**	5,480	120.6%	**14,660**	14,849	(1.3)%
Interest expense on exchangeable units	**685**	613	11.7%	**1,357**	1,218	11.4%
Unrealized loss (gain) on derivative liability	**118**	1	N/A	**312**	(31)	1,106.5%
Depreciation on owner-occupied building	**36**	41	(12.2)%	**71**	83	(14.8)%
Change in principal related to lease liabilities	**32**	—	N/A	**63**	—	N/A
FFO	**$23,752**	$21,035	12.9%	**$42,640**	$37,842	12.7%
FFO unit - basic	**$0.25**	$0.25	—%	**$0.46**	$0.45	2.2%
FFO unit - diluted	**$0.25**	$0.25	—%	**$0.45**	$0.45	—%
Weighted average number of units - basic (000s)	**95,611**	84,998	12.5%	**93,689**	84,792	10.5%
Weighted average number of units - diluted (000s)	**95,807**	85,236	12.4%	**93,883**	85,026	10.4%

Killam earned FFO of $23.8 million, or $0.25 per unit (diluted), for the three months ended June 30, 2019, compared to $21.0 million, or $0.25 per unit (diluted), for the three months ended June 30, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($2.0 million) and same property NOI growth ($0.7 million). These increases were offset by higher deferred financing costs ($0.2 million), higher interest expenses ($0.1 million), non-recurring marketing fees for Frontier ($0.2 million) and a 12.4% increase in the weighted average number of units outstanding from the equity raises completed in June 2018 and March 2019.

Killam earned FFO of $42.6 million, or $0.45 per unit (diluted), for the six months ended June 30, 2019, compared to $37.8 million, or $0.45 per unit (diluted), for the six months ended June 30, 2018. FFO growth is primarily attributable to contributions from acquisitions and completed developments ($4.5 million) and same property NOI growth ($1.7 million). These increases were partially offset by higher administration costs ($0.4 million), higher deferred financing costs ($0.6 million), higher interest expense ($0.8 million) and a 10.4% increase in the number of weighted average number of units outstanding from the equity raises completed in June 2018 and March 2019.

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 the earning capacity of an asset compared to the capital expenditures that generate higher rents or more efficient operations.

Killam uses a rolling three-year historic average of actual maintenance capex for its apartment and MHC portfolios to calculate AFFO. This includes a maintenance capex reserve of $900 per apartment unit ($900 per unit in 2018), $300 per MHC site ($300 per site in 2018) and $0.70 per SF for commercial properties ($0.70 per SF in 2018). Killam uses an annual capex of $0.70 per SF for its commercial portfolio. Details regarding the maintenance capex calculation are included in Killam's 2018 MD&A.

The weighted average number of units, sites and square footage owned during the quarter was used to determine the capital adjustment applied to FFO to calculate AFFO:

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
FFO	**$23,752**	$21,035	12.9%	**$42,640**	$37,842	12.7%
Maintenance capital expenditures						
Apartments	**(3,450)**	(3,276)	5.3%	**(6,885)**	(6,495)	6.0%
MHCs	**(448)**	(387)	15.8%	**(896)**	(775)	15.6%
Commercial	**(112)**	(96)	16.7%	**(208)**	(96)	116.7%
Commercial straight-line rent adjustment	**(105)**	(45)	133.3%	**(210)**	(45)	366.7%
Internal commercial leasing costs	**(127)**	—	N/A	**(322)**	—	N/A
AFFO	**$19,510**	$17,231	13.2%	**$34,119**	$30,431	12.1%
AFFO per unit - basic	**$0.20**	$0.20	—%	**$0.36**	$0.36	—%
AFFO per unit - diluted	**$0.20**	$0.20	—%	**$0.36**	$0.36	—%
AFFO payout ratio - diluted	**81%**	79%	200 bps	**90%**	88%	200 bps
AFFO payout ratio - rolling 12 months [(1)]	**84%**	84%	— bps			
Weighted average number of units - basic (000s)	**95,611**	84,998	12.5%	**93,689**	84,792	10.5%
Weighted average number of units - diluted (000s)	**95,807**	85,236	12.4%	**93,883**	85,026	10.4%

[(1)] Based on Killam's annual distribution of $0.64664 for the rolling 12-month period ended June 30, 2019, and $0.6267 for the 12-month period ended June 30, 2018. The calculation uses a maintenance capex reserve of $900 for the rolling 12 months ended June 30, 2019, and an average of $900 for the rolling 12 months ended June 30, 2018.

The payout ratio of 81% in Q2-2019, 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 seasonal communities that generate approximately 60% of their NOI between July and September each year.

The change in the AFFO payout ratio during the quarter and year-to-date is attributable to flat AFFO per unit results, compared to the 3.1% increase in the per unit distribution in March 2019.

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 provided by operating activities (refer to the condensed consolidated interim statements of cash flows for the three and six months ended June 30, 2019 and 2018) to ACFO is as follows:

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Cash provided by operating activities	**$17,270**	$24,935	(30.7)%	**$36,841**	$43,942	(16.2)%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**6,695**	(3,691)	(281.4)%	**7,899**	(3,701)	(313.4)%
Maintenance capital expenditures						
Apartments	**(3,450)**	(3,276)	5.3%	**(6,885)**	(6,495)	6.0%
MHCs	**(448)**	(387)	15.8%	**(896)**	(775)	15.6%
Commercial	**(112)**	(96)	16.7%	**(208)**	(96)	116.7%
Internal commercial leasing costs	**(127)**	—	N/A	**(322)**	—	N/A
Amortization of deferred financing costs	**(740)**	—	-	**(1,636)**	—	-
Interest expense related to lease liability	**31**	—	-	**63**	—	-
Non-controlling interest	**(7)**	(6)	16.7%	**(10)**	(14)	(28.6)%
ACFO	**$19,112**	$17,479	9.3%	**$34,846**	$32,861	6.0%
Distributions declared [1]	**15,982**	13,975	14.4%	**31,042**	27,404	13.3%
Excess of ACFO over cash distributions	**$3,176**	$3,504	(9.4%)	**$4,084**	$5,457	(25.2)%
ACFO payout ratio - diluted [2]	**84%**	80%	400 bps	**89%**	83%	600 bps

[1] Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 39.
[2] Based on Killam's monthly distribution of $0.055 per unit for March-June 2019, $0.05333 per unit from March 2018 to February 2019 and $0.05167 per unit from January-February 2018.

Killam's ACFO payout ratio is 84% and 89% for the three and six months ended June 30, 2019, an increase of 400 bps and 600 bps from the payout ratio for the three and six months ended June 30, 2018. Similarly to the AFFO payout ratio, Killam's first quarter typically has the highest ACFO 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 Provided by 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 provided by operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Net income	**$82,789**	$34,864	**$109,880**	$103,778
Cash provided by operating activities	**$17,270**	$24,935	**$36,841**	$43,942
Total distributions declared	**$15,982**	$13,975	**$31,042**	$27,404
Excess of net income over total distributions declared	**$66,807**	$20,889	**$78,838**	$76,374
Excess of net income over net distributions paid	**$71,339**	$23,554	**$86,857**	$82,471
Excess of cash provided by operating activities over total distributions declared	**$1,288**	$10,960	**$5,799**	$16,538

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

PART VI

Investment Properties

As at

	June 30, 2019	December 31, 2018	% Change
Investment properties	**$2,987,716**	$2,701,502	10.6%
Investment properties under construction ("IPUC")	**20,059**	37,163	(46.0)%
Land for development	**36,346**	61,028	(40.4)%
	$3,044,121	$2,799,693	8.7%

Continuity of Investment Properties

As at

	June 30, 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	**130,571**	248,186	(47.4)%
Transfer to assets held for sale	**(15,099)**	—	N/A
Transfer from IPUC	**36,506**	104,283	(65.0)%
Capital expenditures	**27,121**	46,488	(41.7)%
Fair value adjustment - Apartments	**70,104**	118,601	(40.9)%
Fair value adjustment - MHCs	**29,953**	5,271	468.3%
Fair value adjustment - Other	**(57)**	7,301	(100.8)%
Balance, end of period	**$2,987,716**	$2,701,502	10.6%

The key valuation assumption in the determination of fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at June 30, 2019 and 2018, and December 31, 2018, is as follows:

Capitalization Rates

	June 30, 2019			December 31, 2018			June 30, 2018		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.50%**	**8.00%**	**5.05%**	3.75%	8.00%	5.15%	3.75%	8.00%	5.22%
MHCs	**5.00%**	**6.50%**	**5.62%**	5.75%	8.00%	6.76%	5.75%	8.00%	6.82%

Killam's weighted average cap-rate for its apartment and MHC portfolios at June 30, 2019 was 5.05% and 5.62%, a decrease of 10 bps and 114 bps compared to December 31, 2018. The cap-rate compression related to recent comparable transactions for MHC properties, and continued downward pressure on cap-rates across the industry.

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

2019 Acquisitions - Investment Properties

						Purchase Price [1]	
Property	**Location**	**Acquisition Date**	**Ownership Interest**	**Property Type**	**Units/SF**	**Income-producing Properties**	**Land for Development**
9 Dietz	Waterloo, ON	15-Jan-19	100%	Development land	—	**$—**	**$1,500**
11 Harold Doherty	Fredericton, NB	18-Apr-19	100%	Apartment	59	**8,100**	**—**
Charlottetown Mall	Charlottetown, PE	17-May-19	50%	Retail	176,225	**23,750**	**—**
Grid 5 [2]	Calgary, AB	14-Jun-19	100%	Apartment	154	**42,700**	**—**
Silver Spear [2]	Mississauga, ON	14-Jun-19	100%	Apartment & development land	100	**27,200**	**3,600**
Dieppe Village [3]	Moncton, NB	27-Jun-19	100%	Apartment & retail	127	**28,000**	**900**
59 Irvin	Kitchener, ON	21-Jun-19	100%	Development land	—	**—**	**150**
Total Acquisitions						**$129,750**	**$6,150**

[1] Purchase price does not include transaction costs.

[2] Killam acquired a 50% interest in each property and now holds 100% ownership. The units shown above represent 50% of the total apartment units.

[3] Dieppe Village includes 127 apartment units ($21.4M) and 45,500 square feet of commercial space ($6.6M).

11 Harold Doherty
On April 18, 2019, Killam completed the acquisition of a newly constructed 59-unit concrete apartment building in Fredericton, NB, for $8.1 million, representing an all-cash yield of 5.8%.

Charlottetown Mall
On May 17, 2019, Killam completed its previously announced acquisition of a 50% interest in the Charlottetown Mall, located in Charlottetown, PE, from RioCan REIT at a purchase price of $23.8 million for an all cash yield of 6.69%. This stabilized, grocery-anchored, enclosed mall is a 352,448 square foot retail complex and is the dominant shopping centre in Prince Edward Island. It is located on 32 acres with future multi-family development opportunities of up to 300 units. The retail portion of the property will continue to be managed by RioCan, with the future residential project being managed by Killam.

Grid 5 / Silver Spear
On June 14, 2019, Killam acquired its joint venture partner's 50% interest in Grid 5 (Calgary, AB) and 1355 Silver Spear (Mississauga, ON) plus the development site located adjacent to the Silver Spear property. The purchase price includes $4.0 million for the development site and $69.5 million for the remaining 50% interest in the two apartment buildings. The purchase price of the apartments represents a cap-rate of approximately 4.2%.

Dieppe Village
On June 27, 2019, Killam purchased a 127-unit apartment and 45,500 square feet commercial complex in Dieppe, NB for $28.9 million. This Moncton property consists of three four-storey wood frame residential apartment buildings, a mixed-use building with retail and residential, and an IGA-branded anchored grocery store. The purchase also included 2.5 acres of vacant land for future residential development. The residential occupancy is 99% and the average rent is $1,143 ($1.03 per square foot).

2019 Dispositions - Investment Properties

						Sale Price [1]	
Property	**Location**	**Disposition Date**	**Ownership Interest**	**Property Type**	**Units**	**Income-producing Properties**	**Land for Development**
350 Mayfield	Ottawa, ON	15-May-19	100%	Apartment	61	**$6,728**	$—
50 Selkirk	Ottawa, ON	15-May-19	100%	Apartment	75	**8,272**	—
Total Dispositions						**$15,000**	$—

[1] Sale price does not include transaction costs. Outstanding mortgages were repaid in the amount of $6.9 million with proceeds from the dispositions.

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

Investment Properties Under Construction

As at

	June 30, 2019	December 31, 2018	% Change
Balance, beginning of period	**$37,163**	$80,226	(53.7)%
Fair value adjustment	**—**	4,919	(100.0)%
Capital expenditures	**4,082**	53,336	(92.3)%
Interest capitalized	**270**	1,692	(84.0)%
Transfer to investment properties	**(36,506)**	(104,283)	(65.0)%
Transfer from land for development	**15,050**	1,273	1,082.2%
Balance, end of period	**$20,059**	$37,163	(46.0)%

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

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 is 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, was completed on time and on budget in June 2019. The total cost of the development of Phase I was approximately $75.0 million ($37.5 million for Killam's 50% interest), resulting in an all-cash yield of approximately 5.25%. The building is currently 75% leased. Construction of Phase II, containing 209 units, broke ground during Q2-2019 and is expected to take 24 months to complete. The total cost of Phase II is budgeted at $87.2 million ($43.6 million for Killam's 50% interest). To date, Killam has invested $5.5 million in Phase II.

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 expected all-cash yield of approximately 5.6%, 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 for completion in 2020. As at June 30, 2019, Killam has invested $4.6 million in the project.

Silver Spear II ("The Kay")
During 2018, Killam received final approval from the city of Mississauga to proceed with The Kay development on land adjacent to its existing 199-unit building. The budget for this development is $49.0 million, or $383,000 per door, with an anticipated all-cash yield of 5.0%, approximately a 125–175 bps premium over the market cap-rate for a similar quality asset. Site preparation work is underway, with construction expected to start during Q3-2019.

Land for Development

As at

	June 30, 2019	December 31, 2018	% Change
Balance, beginning of period	**$61,028**	$28,165	116.7%
Fair value adjustment	**(2,165)**	1,800	(220.3)%
Capital expenditures	**3,720**	3,972	(6.3)%
Interest capitalized	**1,014**	1,477	(31.3)%
Acquisitions	**6,200**	28,347	(78.1)%
Dispositions	**—**	(1,460)	(100.0)%
Transfer from investment properties	**(15,050)**	(1,273)	1,082.2%
Transfered to held for sale	**(18,401)**	—	N/A
Balance, end of period	**$36,346**	$61,028	(40.4)%

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

During Q2-2019 Killam acquired a parcel of land adjacent Weber Scott Pearl, to be used as parkland dedication for the development project. Killam is also in the process of disposing of land held for future development in Edmonton, AB. With a firm offer in place, this parcel of land is classified under assets held for sale as at June 30, 2019, this transaction is expected to close during the third quarter. In addition, Killam's 40% interest in a development site in Calgary is currently being marketed and was transferred to assets held for sale during Q2-2019. The expected sales in Killam's Alberta development reflect Management's expectations of higher near-term returns (on a risk-adjusted basis) in other markets, with a focus in Ontario.

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

Approximately 64% of Killam's development pipeline is outside Atlantic Canada. 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 $700 million pipeline at a 100 bps spread would create approximately $175 million in NAV growth for unitholders. Killam has a robust development pipeline. As at August 13, 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					
The Governor (2)	Halifax, NS	100%	12	In design and approval process	2021
Nolan Hill	Calgary, AB	10%	23	In design and approval process	2021
Weber Scott Pearl	Kitchener, ON	100%	170	In design and approval process	2022
Westmount Place (Ph 1)	Waterloo, ON	100%	118	In design	2022
Developments expected to start in 2021-2025					
Haviland Street	Charlottetown, PE	100%	99	In design	2022
Gloucester Park (Ph 3-4)	Ottawa, ON	50%	185	In design	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
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			**2,244**		

(1) Represents Killam's interest/# of units in the potential development units.
(2) This development is adjacent The Alexander, Killam's newly completed development, and will include 12 large-scale luxury suites.

Assets Held for Sale

Killam determined that two parcels of land for development met the criteria for classification as assets held for sale as at June 30, 2019. One parcel has a signed purchase offer, which is expected to close during the third quarter. Disposition of the second parcel, located in Calgary, is expected to close before the end of the year. The properties have a carrying value of $18.4 million. In Q2-2019, Killam completed the sale of two properties previously classified as held for sale.

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 and six months ended June 30, 2019, Killam invested $14.2 million and $27.1 million, compared to $9.2 million and $17.4 million for the three and six months ended June 30, 2018. Killam expects to invest between $60 and $65 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.

	Three months ended June 30,			**Six months ended June 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Apartments	**$12,853**	$8,001	60.6%	**$25,304**	$15,927	58.9%
MHCs	**894**	817	9.4%	**1,323**	1,120	18.1%
Commercial	**448**	338	32.5%	**494**	382	29.3%
	$14,195	$9,156	55.0%	**$27,121**	$17,429	55.6%

Apartments - Capital Spend

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

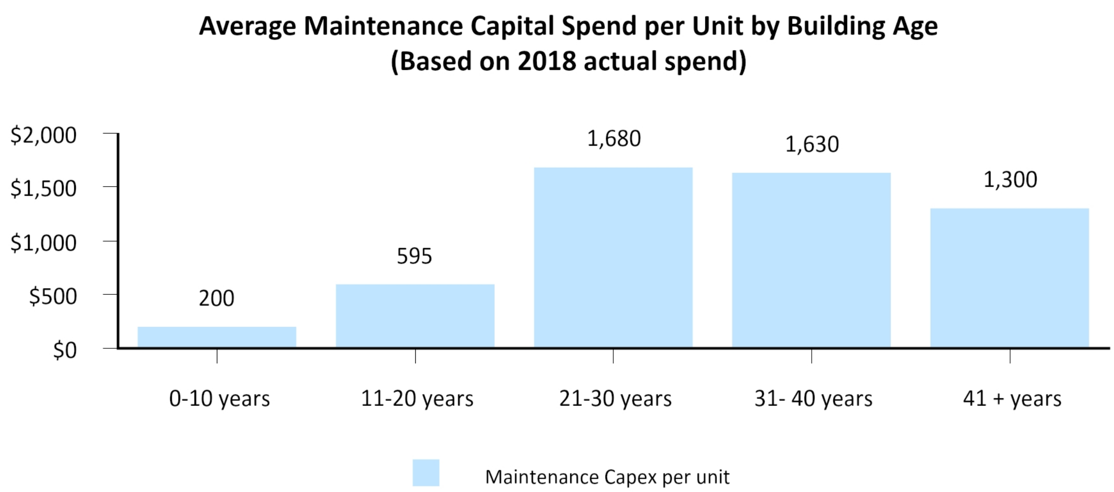
	Three months ended June 30,			**Six months ended June 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Building improvements	**$7,222**	$4,371	65.2%	**$15,318**	$9,011	70.0%
Suite renovations	**4,092**	2,518	62.5%	**7,281**	4,769	52.7%
Appliances	**600**	290	106.9%	**1,016**	578	75.8%
Boilers and heating equipment	**659**	588	12.1%	**1,086**	1,102	(1.5)%
Other	**280**	234	19.7%	**603**	467	29.1%
Total capital spend	**$12,853**	$8,001	60.6%	**$25,304**	$15,927	58.9%
Average number of units outstanding (1)	**15,332**	14,563	5.3%	**15,299**	14,438	6.0%
Capital spend - $ per unit	**$838**	$549	52.6%	**$1,654**	$1,103	50.0%

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

Killam invested $838 and $1,654 per unit for the three and six months ended June 30, 2019, compared to $549 and $1,103 per unit for the same periods 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 lower.

Maintenance capital requirements vary significantly by age of 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 units that were 40+ years old.



Building Improvements
Of the $12.9 million and $25.3 million total capital investment in the apartment segment for the three and six months ended June 30, 2019, approximately 56% and 61% was invested in building improvements, compared to 51% and 53% of the total capital spend for the three and six months ended June 30, 2018. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades, common area renovations and energy and water efficiency investments, such as LED lighting upgrades, to increase the quality and efficiency of Killam's portfolio. The quarter-over-quarter variance relates primarily to the timing of multi-phase building envelope projects and an increase in energy efficiency investments.

Suite Renovations and Repositionings
Killam invested $4.1 million and $7.3 million in suite renovations during the three and six months ended June 30, 2019, a 62.5% and 52.7% increase over the total investment of $2.5 million and $4.8 million for the three and six months ended June 30, 2018 due to the recent acceleration of Killam's repositioning program. Killam continues to focus on unit renovations to maximize occupancy and rental increases. Killam targets a minimum return on investment of 10% for its suite renovations. The timing of suite renovation investment is influenced by tenant turnover, market conditions and individual property requirements. 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. In 2019, Killam has invested approximately $2.7 million year-to-date. Killam categorizes suite renovations over $10,000 as suite repositions. Killam is targeting 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 net asset value of the portfolio. Year-to-date, Killam commenced upgrades to 186 units, with an expected average investment of $26,000 per suite, with an average ROI of 13% and an expected average monthly rental increase of $280 per unit upon completion.

Killam is on target to complete a minimum of 300 repositioned units in 2019, which Management expects will generate $1.0 million in 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 increase in 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 $0.9 million. Projects will target the installation of LED lighting ($1.1 million), low-flow fixtures ($0.9 million), and heating efficiency ($2.9 million), including condensing gas boilers, system recommissioning, insulation upgrades, and thermostat replacements. These projects are estimated to generate $0.9 million in annualized savings, with an average payback of 5.6 years. Year-to-date Killam has invested $1.3 million in these initiatives, including the installation of LED lighting ($0.5 million) and heating efficiencies ($0.8 million).

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:

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% Change	**2019**	2018	% Change
Water and sewer upgrades	**$216**	$293	(26.3)%	**$545**	$524	4.0%
Site expansion and land improvements	**51**	64	(20.3)%	**53**	57	(7.0)%
Other	**426**	336	26.8%	**518**	401	29.2%
Roads and paving	**95**	95	—%	**96**	92	4.3%
Equipment	**106**	29	265.5%	**111**	46	141.3%
Total capital spend - MHCs	**$894**	$817	9.4%	**$1,323**	$1,120	18.1%
Average number of sites	**5,427**	5,165	5.1%	**5,427**	5,165	5.1%
Capital spend - $ per site	**$165**	$158	4.4%	**$244**	$217	12.4%

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 various community enhancements. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital spend during the three and six months ended June 30, 2019 was $0.9 million and $1.3 million, up from $0.8 million and $1.1 million in the three and six months ended June 30, 2018. The increase in capital spend is due to increased investment in various community enhancements. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

Mortgages and Other Loans

The table below outlines Killam's key debt metrics:

As at	**June 30, 2019**	December 31, 2018	Change
Weighted average years to debt maturity	**4.6**	4.4	0.2 years
Total debt to total assets	**47.7%**	49.8%	(210) bps
Interest coverage	**3.21x**	3.22x	(0.3)%
Debt service coverage	**1.57x**	1.58x	(0.6)%
Normalized debt to EBITDA [1]	**10.35x**	10.62x	(2.5)%
Weighted average mortgage interest rate	**2.95%**	2.95%	— bps
Weighted average interest rate of total debt	**3.04%**	3.10%	(6) 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 or second charge against individual properties. Killam's weighted average interest rate on mortgages as at June 30, 2019, was 2.95%, consistent with the rate as at December 31, 2018.

Total debt as a percentage of total assets was 47.7% at June 30, 2019 compared to 49.8% at December 31, 2018, due primarily to higher valuations associated with investment properties. 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 June 30, 2019 would have impacted the ratio of debt as a percentage of total assets by 80 bps.

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

Refinancings

For the six months ended June 30, 2019, Killam refinanced the following mortgages:

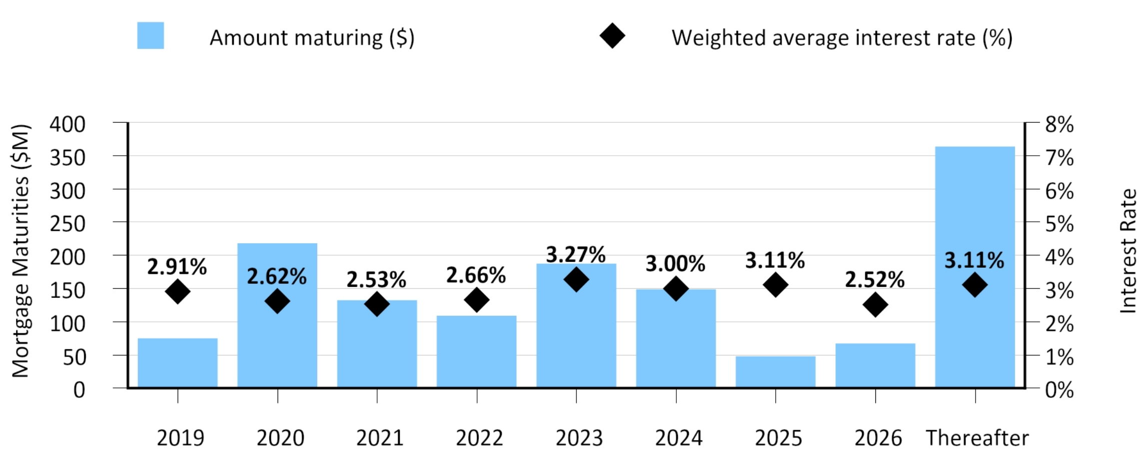
	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$85,163	2.72%	$124,494	2.87%	6.5 years	$39,331
MHCs	—	—	—	—	—	—
	$85,163	2.72%	$124,494	2.87%	6.5 years	$39,331

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			MHCs		Total	
Year of Maturity	Balance June 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance June 30	Weighted Avg Int. Rate %	Balance June 30(1)	Weighted Avg Int. Rate %
2019	$74,858	2.91%	85.9%	$17,021	3.84%	$91,879	3.08%
2020	217,925	2.62%	50.4%	6,265	3.52%	224,190	2.65%
2021	132,366	2.53%	85.2%	6,519	3.29%	138,885	2.56%
2022	109,067	2.66%	68.1%	23,291	3.67%	132,359	2.84%
2023	187,284	3.27%	77.2%	20,156	4.17%	207,440	3.35%
2024	148,876	3.00%	95.1%	—	—%	148,876	3.00%
Thereafter	478,491	3.03%	100.0%	—	—%	478,491	3.03%
	$1,348,867	2.91%	83.9%	$73,253	3.80%	$1,422,121	2.95%

(1) Excludes $14.3 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at June 30, 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 June 30, 2019, approximately 84% of Killam's apartment mortgages were CMHC-insured (79.5% 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 2.82% as at June 30, 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 in 2019 and 2020:

Remaining 2019 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	19	$8,441	$68,895
MHCs with debt maturing	7	2,409	16,887
	26	$10,850	$85,782

Remaining 2020 Debt Maturities	Number of Properties	Estimated NOI	Principal Balance (at maturity)
Apartments with debt maturing	41	$21,682	$212,031
MHCs with debt maturing	4	967	6,075
	45	$22,649	$218,106

Future Contractual Debt Obligations

As at June 30, 2019, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending June 30,	Mortgage and Loans Payable	Construction Loans	Credit Facilities	Total
2020	$258,383	$19,305	$—	$277,688
2021	176,070	—	48,000	224,070
2022	197,847	—	—	197,847
2023	178,076	—	—	178,076
2024	208,282	—	—	208,282
Thereafter	417,773	—	—	417,773
	$1,436,431	**$19,305**	**$48,000**	**$1,503,736**

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $5.0 million (December 31, 2018 - $70.0 million and $5.0 million) that can be used for acquisition and general business purposes.

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 June 30, 2019, Killam has assets with a carrying value of $84.1 million pledged as first mortgage ranking and $338.1 million pledged as second mortgage ranking to the line and a balance outstanding of $48.0 million (December 31, 2018 - $53.4 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at June 30, 2019.

The $5.0 million facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at June 30, 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 $1.1 million outstanding against the facility (December 31, 2018 - $1.0 million). The agreement includes certain covenants and undertakings with which Killam was in compliance as at June 30, 2019.

As at June 30, 2019	Maximum Loan Amount[1]	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$90,000	$48,000	$—	$42,000
$5.0 million demand facility	5,000	—	1,101	3,899
Total	**$95,000**	**$48,000**	**$1,101**	**$45,899**

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

(1) Maximum loan includes a $20.0 million accordion option, for which collateral is pledged.

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

Construction Loans

As at June 30, 2019, Killam had access to a floating rate non-revolving demand construction loan, for the purpose of financing a joint development project, totaling $28.0 million (50%). Payments are made monthly on an interest-only basis. The construction loan has an interest rate of 125 bps above BAs. Once construction is complete and rental targets achieved, the construction loan will be repaid in full and replaced with conventional mortgages. Killam has an asset with a carrying value of $37.1 million (50%) pledged as collateral against this loan.

As at June 30, 2019, $19.3 million was drawn on the construction loan (December 31, 2018 - $60.5 million relating to two construction loans). The weighted-average interest rate was 3.23% (December 31, 2018 - 4.28%).

Unitholders' Equity

As Killam is 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 purposes of financial statement classification and presentation, trust units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32.

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three and six months ended June 30, 2019, no unitholders redeemed units.

During Q1-2019, Killam increased its monthly distribution by 3.1% to $0.055, effective for the March 2019 distribution ($0.66 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution reinvested. The price per unit is calculated by reference to the 10-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

	Three months ended June 30,			**Six months ended June 30,**		
	2019	2018	% Change	**2019**	2018	% Change
Distributions declared on trust units	**$15,227**	$13,285	14.6%	**$29,545**	$26,035	13.5%
Distributions declared on exchangeable units	**685**	614	11.6%	**1,357**	1,218	11.4%
Distributions declared on awards outstanding under RTU plan	**70**	76	(7.9)%	**140**	151	(7.3)%
Total distributions declared	**$15,982**	$13,975	14.4%	**$31,042**	$27,404	13.3%
Less:						
Distributions on trust units reinvested	**(4,462)**	(2,589)	72.3%	**(7,878)**	(5,946)	32.5%
Distributions on RTUs reinvested	**(70)**	(76)	(7.9)%	**(141)**	(151)	(6.6)%
Net distributions paid	**$11,450**	$11,310	1.2%	**$23,023**	$21,307	8.1%
Percentage of distributions reinvested	**28.4%**	19.1%		**25.8%**	22.2%	

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 acquisition capacity over $120 million.

(iii) 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.

(iv) Construction facilities to fund development projects.

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of Killam's assets as shown on the most recent condensed consolidated interim statement of financial position and (ii) the historical cost of Killam's assets. Total debt as a percentage of assets as at June 30, 2019 was 47.7%.

PART VII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the MD&A of Killam's 2018 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors continue to 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 Killam's most recently issued Annual Report, 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 and six months ended June 30, 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 principles similar to those 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 it is 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 recognizes 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 in 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 six months ended June 30, 2019, APM was paid $0.5 million in development and construction management fees (June 30, 2018 - $nil).

Subsequent Events

On July 15, 2019, Killam announced a distribution of $0.055 per unit, payable on August 15, 2019, to unitholders of record on July 31, 2019.

On July 26, 2019, Killam waived conditions on the purchase of a 48-unit apartment building in Fredericton New Brunswick for $9.2 million. The transaction is expected to close on August 20, 2019 and the purchase price is expected to be funded through a $5.5 million CMHC insured mortgage, with the balance in cash.