Q3-2018 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 $2.7 billion portfolio of apartments and manufactured home community ("MHC") properties. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010 and made its first investment in Alberta ("AB") in 2014. Killam broke ground on its first development in 2010 and has completed ten projects to date.

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

1) increase earnings from the existing portfolio;

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

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

The apartment business is Killam's largest segment and accounted for 88.5% of Killam's net operating income ("NOI") for the nine months ended September 30, 2018. As at September 30, 2018, Killam's apartment portfolio consisted of 15,534 units, including 1,245 units jointly owned 50% with institutional partners. Killam's 194 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 14% share of multi-family rental units in its core markets. Killam plans to increase 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 5,304 sites in 36 MHCs, also known as land-lease communities or trailer parks, in Ontario and Atlantic Canada. Killam owns the land and infrastructure supporting these communities and leases sites to tenants who own their own homes and pay Killam site rent. The MHC portfolio accounted for 7.9% of Killam's NOI for the nine months ended September 30, 2018. Killam also owns six commercial properties that accounted for 3.6% of Killam's NOI for the nine months ended September 30, 2018.

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, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with Killam's 2017 Annual Information Form, are available on SEDAR at www.sedar.com.

The discussions in this MD&A are based on information available as at November 7, 2018. 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 November 7, 2018, 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 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 provided by 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 entities.

- Funds from operations ("FFO"), and applicable per unit amounts, are calculated by Killam as net income adjusted for depreciation on an owner-occupied building, fair value gains (losses), interest expense related to exchangeable units, gains (losses) on disposition, deferred tax expense (recovery), unrealized gains (losses) on derivative liability, internal commercial leasing costs, REIT conversion costs and non-controlling interest. FFO are calculated in accordance with the REALpac definition, except for the adjustment of REIT conversion costs as noted above; REALpac does not address this adjustment. A reconciliation between net income and FFO is included on page 21.
- 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), internal 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 22.
- 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 23. 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, adjusted for interest expense related to exchangeable units.
- Debt service coverage is calculated by dividing EBITDA by interest expense, adjusted for interest expense related to exchangeable units and principal mortgage repayments.
- Debt to EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA. Debt to normalized EBITDA is calculated by dividing interest-bearing debt (net of cash) by EBITDA that has been adjusted for a full year of stabilized earnings from recently completed acquisitions and developments.
- Same property results in relation to Killam are revenues and property operating expenses for stabilized properties that Killam has owned for equivalent periods in 2018 and 2017. Same property results represent 80% of the fair value of Killam's investment property portfolio as at September 30, 2018. Excluded from same property results in 2018 are acquisitions, dispositions and developments completed in 2017 and 2018, as well as non-stabilized commercial properties linked to development projects.

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 rate increases.
5) Occupancy – Management is focused on maximizing occupancy while also managing the impact of higher rental rents. 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) Debt to EBITDA – A common measure of leverage used by lenders, this measure considers Killam's financial health and liquidity. Generally, the lower the 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 September 30,			Nine months ended September 30,		
Operating Performance	**2018**	2017	Change (2)	**2018**	2017	Change (2)
Property revenue	**$55,532**	$48,595	14.3%	**$157,919**	$138,798	13.8%
Net operating income	**$36,484**	$31,746	14.9%	**$98,823**	$85,473	15.6%
Net income	**$27,120**	$14,649	85.1%	**$130,899**	$66,910	95.6%
FFO (1)	**$23,355**	$19,963	17.0%	**$61,198**	$51,805	18.1%
FFO per unit - diluted (1)	**$0.26**	$0.25	4.0%	**$0.71**	$0.67	6.0%
AFFO (1)	**$19,446**	$16,316	19.2%	**$49,834**	$40,938	21.7%
AFFO per unit - diluted (1)	**$0.22**	$0.21	4.8%	**$0.58**	$0.53	9.4%
ACFO (1)	**$20,467**	$16,952	20.7%	**$51,471**	$42,213	21.9%
Weighted average number of units outstanding - diluted (000s)	**89,176**	78,621	13.4%	**86,432**	77,923	10.9%
Distributions paid per unit	**$0.160**	$0.155	3.2%	**$0.477**	$0.462	3.2%
AFFO payout ratio - diluted (1)	**73%**	75%	(200) bps	**83%**	86%	(300) bps
AFFO payout ratio - rolling 12 months (1)	**83%**	87%	(400) bps			
Portfolio Performance						
Same property NOI (1)	**$30,561**	$29,412	3.9%	**$84,550**	$80,606	4.9%
Same property NOI margin	**65.5%**	65.0%	50 bps	**62.3%**	61.6%	70 bps
Same property apartment weighted average rental increase (3)	**2.5%**	1.8%	70 bps			
Same property apartment occupancy	**97.1%**	97.1%	— bps			

As at	**September 30, 2018**	December 31, 2017	Change (2)
Leverage Ratios and Metrics			
Debt to total assets	**49.1%**	48.7%	40 bps
Weighted average mortgage interest rate	**2.94%**	2.91%	3 bps
Weighted average years to debt maturity	**4.5**	4.0	0.5 years
Debt to EBITDA (1)(4)	**11.39x**	10.70x	6.4%
Debt service coverage (1)	**1.54x**	1.51x	2.0%
Interest coverage (1)	**3.16x**	3.13x	1.0%

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

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

(3) Year-over-year, as at September 30.

(4) Debt to normalized EBITDA, which includes a full year of earnings from recently completed acquisitions and the lease-up of Saginaw Park and The Alexander, is 10.4x.

Summary of Q3-2018 Results and Operations

FFO Growth per Unit of 4.0% and AFFO Growth per Unit of 4.8%
Killam generated FFO per unit of $0.26 in Q3-2018, 4.0% higher than $0.25 generated in Q3-2017, due primarily to the impact of $287 million of acquisitions completed in the last 12 months and 3.9% NOI growth from the existing portfolio. This growth was partially offset by a 13.4% increase in the weighted average number of units outstanding from an aggregate $134.6 million of equity issued in November 2017 and June 2018, along with higher interest expense.

AFFO per unit increased 4.8% in Q3-2018 to $0.22 compared to $0.21 in Q3-2017. The increase in AFFO per unit is attributable to Killam's accretive acquisition growth, same property NOI and the addition of newer high-quality assets to the portfolio, which require lower maintenance capital.

Portfolio Growth from Acquisitions
During the third quarter of 2018, Killam completed $102.4 million in acquisitions. Along with the purchase of a 137-site, 22-acre seasonal MHC property located in Carleton Place, ON in July, Killam added an additional 345 new apartment units to its portfolio in Q3. In August, Killam invested $47.0 million in a 178-unit multi-residential property in Edmonton, AB and $22.4 million in a 107-unit multi-residential property in Charlottetown, PE. In September 2018, Killam purchased a new 60-unit, five-storey, concrete apartment building located in Ottawa, ON for $20.7 million. These newly constructed properties contributed positively to FFO in the quarter and support Killam's strategy to expand the portfolio geographically, with an emphasis on newer properties.

Increasing Rental Rates Drive Same Property Revenue Growth
Same property revenue increased 3.1% compared to Q3-2017 as a result of a 2.5% increase in the average rental rate for the apartment portfolio, continued strong occupancy, a 30 bps decrease in rental incentives and 1.9% top-line growth within the MHC portfolio. With continued high occupancy levels, Killam believes there is an opportunity to move rental rates to meet market demand. Rental rates on unit turns and lease renewals both continue to improve, averaging 5.0% and 1.7% year-to-date, compared to 3.4% and 1.0% for the same periods of 2017.

Continued Strong Rental Demand in the Maritime Provinces Resulting in Strong NOI Growth
Rental rate growth was again strong in all the Maritime provinces, ranging from 2.5%–2.8% growth for same properties. Same property occupancy in the Maritime region was 97.7%, the highest occupancy for the third quarter in Killam's history. Same property revenue growth in Atlantic Canada included 4.8%, 4.9% and 5.7% in Moncton, Fredericton and Saint John, respectively, driving solid NOI growth of 8.7% for the combined New Brunswick cities in Q3-2018.

Modest Same Property Expense Growth of 1.7%
Killam's same property total operating expenses increased only 1.7% for Q3-2018, compared to Q3-2017. A 3.0% savings in utility and heating costs due to lower natural gas prices in Ontario and reduced consumption as Killam continues to reap the benefits from efficiency projects installed in the past two years offset by inflationary increases and timing in general operating expenses. Property tax expense remained relatively flat quarter-over-quarter as rising property assessments were offset by successful tax assessment appeals.

Higher NOI Drives Fair Value Gains
Killam recorded $14.7 million of fair value gains related to its investment property portfolio during the quarter. These fair value gains were attributable primarily to higher rental rates and NOI across Killam's core markets, and strong market fundamentals driving slight cap-rate compression in Killam's New Brunswick markets. Killam's weighted average cap-rate for its apartment portfolio is 5.19% and for MHCs is 6.77%.

Repositioning Program Contributing to NOI and NAV Growth
Killam's expanded unit repositioning program is on track to meet its budgeted investment of $3.0 million in 2018. Year-to-date, repositionings have generated monthly rental lifts averaging $253 per unit, resulting in an average return on investment ("ROI") of approximately 15%, based on an average cost of $22,000 per unit. Killam targets completing 200 repositionings during the year and estimates 2018 repositionings could generate an additional $0.6 million in NOI on an annualized basis and $11 million in net asset value ("NAV") growth.

Robust Development Activity Continues
The Alexander, Killam's 240-unit development in Halifax, NS, reached substantial completion on October 1, 2018. The property is currently 77% occupied and 92% leased, with the expectation to be fully leased by the end of the year.

Killam added to its development pipeline in Q3 with two purchases of development land in Charlottetown, a 1.9-acre downtown waterfront site (zoned for 99 units) for $2.2 million and a 1.2-acre waterfront site (zoned for 78 units) for $1.2 million. As well, Killam increased its multi-family development potential in Waterloo with the purchase of an additional 16,500 square-foot development site on Erb Street for $2.3 million, expanding the area of the Westmount residential development opportunity by 0.38 acres to 2.4 acres. Increased ownership in properties adjacent to Westmount Place is expected to allow for greater density and flexibility with Killam’s future multi-phase residential Westmount development, increasing the overall development opportunity from 560 units to approximately 800 units.

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

Strategic Targets

Growth in Same Property NOI	
2018 Target	Original Target: Same property NOI growth of 1% to 2%. Revised Target: Same property NOI growth of 3% to 5%.
2018 Performance to-date	Killam achieved same property NOI growth of 4.9% during the first nine months of 2018. Based on the continual strong top-line results year-to-date and projections for the fourth quarter, Killam expects to achieve NOI growth at the higher end of its targeted range of 3% to 5%.

Expanded Portfolio through Accretive Acquisitions	
2018 Target	Original Target: A minimum of $125 million of acquisitions. Revised Target: A minimum of $225 million of acquisitions.
2018 Performance to-date	Killam completed $226.4 million of acquisitions for the nine months ended September 30, 2018. Subsequent to quarter-end, Killam completed an additional $44.5 million of acquisitions.

Geographic Diversification	
2018 Target	At least 75% of acquisitions made outside Atlantic Canada and to earn at least 26% of 2018 NOI outside Atlantic Canada.
2018 Performance to-date	Year-to-date, 77% of acquisitions are located outside Atlantic Canada. Following these acquisitions, Killam is on track to meet its 2018 target, forecasting approximately 27% of NOI to be generated outside Atlantic Canada in 2018 compared to 23% in 2017.

Development of High-Quality Properties	
2018 Target	To complete The Alexander and Saginaw Park developments, and break ground on one additional development project.
2018 Performance to-date	The Saginaw Park development was completed on schedule and opened in April 2018. The Alexander development was substantially complete in October 2018. Killam remains on schedule with the 228-unit Frontier development in Ottawa. In October 2018, Killam broke ground on a 78-unit development in Charlottetown, PE. As well, Killam has received final approval from the City of Mississauga for its Silver Spear II joint development project and expects to break ground in late 2018/early 2019.

Strengthened Balance Sheet	
2018 Target	Maintain debt as a percentage of total assets ratio below 52%.
2018 Performance to-date	Debt as a percentage of total assets was 49.1% as at September 30, 2018, 40 bps higher than debt as a percentage of total assets as at December 31, 2017 and 230 bps lower than September 30, 2017.

Outlook

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

With one of the newest and highest-quality apartment portfolios in Canada, Killam is well positioned to respond to the increasing demand for quality rental housing. Management expects to grow revenue by maximizing rental rates while maintaining high occupancy levels. With the majority of Killam's portfolio not exposed to rent controls, Management has the flexibility to move rents to market on lease renewals on an annual basis. In rent-controlled Ontario, Management expects to maximize the rental rates on unit turns as extremely tight rental markets are expected to lead to demand-driven rental rate growth. Beyond 2018, Killam expects to continue to see strong revenue growth, with expectations to sustain or exceed the current revenue growth rate.

Expanded Suite Repositioning Program
Killam is accelerating its suite repositioning program, tripling its investment in 2017 to a minimum of $3.0 million in 2018. Management is committed to investing a further $5–6 million in 300 repositioned suites in 2019 to meet market demand and enhance revenue growth and the net asset value of its portfolio. Suite repositionings represent unit upgrades above $10,000. Killam targets a return on investment of at least 10% and monthly rental rate increases of 10% – 30% upon completion of the renovation. A review of Killam's portfolio has identified approximately 3,000 units with repositioning opportunities, and Killam plans to continue this program for the foreseeable future.

2018 Expected to be Killam's Most Active Year for Acquisitions
Year-to-date, Killam has completed an aggregate of $270.9 million in acquisitions, making 2018 the largest acquisition year in Killam's history.

Acquisitions completed subsequent to quarter-end include:

- The Treo at Sherwood, two new four-storey, concrete and wood-frame apartment buildings located in Calgary's Sherwood neighbourhood. The fully occupied, 158-unit Treo was acquired for a purchase price of $39.0 million ($247,000 per unit), representing an all-cash yield of 4.9%. The property is located adjacent to Killam's recently announced 10% interest in the 13.6-acre Nolan Hill development.
- A 123-site MHC property located in New Minas, NS for $2.7 million.
- 15 Dietz Road, an 8-unit apartment, adjacent to Westmount Place, for $2.9 million. This 0.86-acre site increases Killam's multi-family development potential in Waterloo.

Killam has also committed to acquire the remaining 50% equity interest in its recently completed development, The Alexander, in Halifax, NS.

Continuing to Increase the Portfolio in Ontario and Alberta
Management is focused on increasing its presence in Ontario and Alberta. Based on its current portfolio and acquisitions completed subsequent to quarter-end in Ontario and Alberta, 27% of Killam's 2018 NOI is forecasted to be generated outside Atlantic Canada, up from 23% in 2017. Looking forward, Killam has a strong acquisition pipeline and developments planned in both Ontario and Alberta, expecting to meet its goal to generate 30% of its NOI outside Atlantic Canada by 2020.

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 second full year of a five-year, $25 million program to reduce the carbon footprint of its buildings through the installation of low-flow water fixtures, boiler, ventilation and cooling system upgrades, and the retrofit of temperature and lighting systems. Killam has expanded its operations team to bring energy specialists in-house to optimize this capital investment. Management is forecasting investments of $5.0 million in 2018 on projects with an average payback of approximately four years. A similar investment is expected in 2019. 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, use increased data analytics to maximize returns and implement rent maximization software. Management is implementing enhancements to its online marketing and leasing platform to make potential tenants' online experience seamless from initial contact to lease signing. Technology enhancements in the coming months also include upgrading the tenant mobile and online communication experience.

Driving NAV Growth with Developments

Development remains an important component of Killam's growth strategy. Having completed two development projects in 2018, Killam has two additional projects underway in Ottawa and Charlottetown. The Frontier, the first building (228 units) of a four-phase project in Ottawa, is planned to open in mid-2019. The Shorefront development, a 78-unit project in Charlottetown, broke ground in October and is scheduled to be completed by mid-2020. The Alexander development, which has 240 units, was substantially completed on October 1, 2018. Once stabilized, these projects, along with the recently completed 94-unit Saginaw Park in Cambridge, are expected to contribute approximately $0.03 per unit of FFO growth.

Additionally, Killam has land supporting a development pipeline of approximately 2,900 units, representing a potential investment of $850 million. One of these projects, Silver Spear II, in Mississauga, ON, received final municipal approval in April 2018, and construction is expected to start in late 2018/early 2019. The second phase of the Ottawa project is scheduled for a mid-2019 start. Killam is moving forward with development planning for its recently acquired development land in Waterloo and Kitchener, and targets beginning construction in 2020.

Developments reinforce Killam's position as the owner of one of the newest and highest-quality apartment portfolios in Canada. See further discussion on land held for future development in the “Investment Properties” section of this MD&A.

Expecting Rising Interest Rates to Lead to Higher Interest Expense Beyond 2018

Management expects to refinance mortgage maturities in 2019 at higher interest rates. Killam has $157.6 million of apartment mortgages maturing through to the end of 2019 having a weighted average interest rate of 2.82%, approximately 40 bps and 60 bps lower than prevailing 5-year and 10-year CMHC-insured rates. MHC mortgages of $20.0 million are also maturing through to the end of 2019 at a weighted average interest rate below current market rates.

Beyond 2019, Killam may also face higher interest rates on mortgage refinancings. The average interest rate on mortgages maturing between 2020 and 2022 is approximately 60 bps below current market rates. Management has laddered its debt maturities and reduced its overall leverage to lessen its exposure to potentially rising interest rates. As well, Management is continually reviewing opportunities to hedge and lock in rates early for larger debt maturities, minimizing exposure in the current rising interest rate environment. Management plans to maintain its conservative debt levels and continues to flatten out its debt maturity schedule as mortgages mature.

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

PART III

Portfolio Summary

The following table summarizes Killam's apartment, MHC and commercial portfolios by market as at September 30, 2018:

Apartment Portfolio				
	Units [1]	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia				
Halifax	5,570	64	$35,525	35.9%
Sydney	139	2	951	1.0%
	5,709	66	$36,476	36.9%
New Brunswick				
Fredericton	1,422	21	$7,155	7.2%
Moncton	1,629	31	7,165	7.3%
Saint John	1,202	14	4,462	4.5%
Miramichi	96	1	454	0.5%
	4,349	67	$19,236	19.5%
Ontario				
Ottawa	1,124	10	$6,141	6.2%
London	523	5	3,784	3.8%
Toronto	378	2	2,811	2.8%
Kitchener-Waterloo-Cambridge	440	4	3,337	3.4%
	2,465	21	$16,073	16.2%
Newfoundland & Labrador				
St. John's	915	12	$5,490	5.6%
Grand Falls	148	2	580	0.6%
	1,063	14	$6,070	6.2%
Prince Edward Island				
Charlottetown	1,015	19	$4,811	4.9%
Summerside	86	2	396	0.4%
	1,101	21	$5,207	5.3%
Alberta				
Edmonton	474	3	$2,597	2.6%
Calgary	373	2	1,735	1.8%
	847	5	$4,332	4.4%
Total Apartments	**15,534**	**194**	**$87,394**	**88.5%**
Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) [2]	NOI [2] (% of Total)
Nova Scotia	2,626	16	$3,299	3.3%
Ontario	2,284	17	4,067	4.1%
New Brunswick	224	1	170	0.2%
Newfoundland & Labrador	170	2	259	0.3%
Total MHCs	**5,304**	**36**	**$7,795**	**7.9%**
Commercial Portfolio [3]				
	Square Footage	Number of Properties	NOI ($) [2]	NOI [2] (% of Total)
Halifax, NS	254,000	5	$1,418	1.4%
Waterloo, ON	297,000	1	2,216	2.2%
Total Commercial	**551,000**	**6**	**$3,634**	**3.6%**
Total Portfolio		**236**	**$98,823**	**100.0%**

(1) Unit count includes properties held through Killam's joint arrangements. Killam has a 50% ownership interest in one property in Alberta and two properties in Ontario, representing a proportionate ownership of 623 units of the 1,245 units in these properties. Killam manages the operations of all the co-owned properties. In addition, Killam acquired a 158-unit property and transferred 185 units of The Alexander, a development property, to investment properties in October 2018, increasing the unit count to 15,877.

(2) For the nine months ended September 30, 2018.

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

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

Q3-2018 Financial Overview
Consolidated Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$55,532**	$48,595	14.3%	**$46,642**	$45,228	3.1%	**$8,890**	$3,367	164.0%
Property operating expenses									
General operating expenses	**8,800**	7,620	15.5%	**7,554**	7,173	5.3%	**1,246**	447	178.7%
Utility and fuel expenses	**3,838**	3,658	4.9%	**3,366**	3,471	(3.0)%	**472**	187	152.4%
Property taxes	**6,410**	5,571	15.1%	**5,161**	5,172	(0.2)%	**1,249**	399	213.0%
Total operating expenses	**$19,048**	$16,849	13.1%	**$16,081**	$15,816	1.7%	**$2,967**	$1,033	187.2%
NOI	**$36,484**	$31,746	14.9%	**$30,561**	$29,412	3.9%	**$5,923**	$2,334	153.8%
Operating margin %	**65.7%**	65.3%	40 bps	**65.5%**	65.0%	50 bps	**66.6%**	69.3%	270 bps

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$157,919**	$138,798	13.8%	**$135,752**	$130,862	3.7%	**$22,167**	$7,936	179.3%
Property operating expenses									
General operating expenses	**24,454**	22,403	9.2%	**21,165**	20,906	1.2%	**3,289**	1,497	119.7%
Utility and fuel expenses	**16,067**	14,442	11.3%	**14,532**	13,914	4.4%	**1,535**	528	190.7%
Property taxes	**18,575**	16,480	12.7%	**15,505**	15,436	0.4%	**3,070**	1,044	194.1%
Total operating expenses	**$59,096**	$53,325	10.8%	**$51,202**	$50,256	1.9%	**$7,894**	$3,069	157.2%
NOI	**$98,823**	$85,473	15.6%	**$84,550**	$80,606	4.9%	**$14,273**	$4,867	193.3%
Operating margin %	**62.6%**	61.6%	100 bps	**62.3%**	61.6%	70 bps	**64.4%**	61.3%	310 bps

Same property results included properties owned during comparable 2018 and 2017 periods. Same property results represent 80% of the fair value of Killam's investment property portfolio as at September 30, 2018. Non-same property results include acquisitions, dispositions and developments completed in 2017 and 2018, commercial assets acquired for future residential development, as well as adjustments to normalize for non-operational revenues or expenses.

Same property revenue grew by 3.1% and 3.7% for the three and nine months ended September 30, 2018, as compared to the same periods of 2017. This growth is attributable to higher rental rates, improved occupancy and lower rental incentive offerings as a result of strong market fundamentals. Total same property operating expenses increased a modest 1.7% and 1.9% for the three and nine months ended September 30, 2018. In the quarter this expense growth was driven by a 5.3% increase in general operating expenses partially offset by savings in utility and fuel expenses and relatively flat property tax expense quarter-over-quarter. Overall, same property NOI grew by 3.9% and 4.9% for the three and nine months ended September 30, 2018, as compared to 2017, and Killam's operating margin improved by 50 bps and 70 bps.

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

Apartment Results

For the three months ended September 30,

	Total			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$47,363**	$42,555	11.3%	**$41,657**	$40,337	3.3%	**$5,706**	$2,218	157.3%
Property operating expenses									
General operating expenses	**7,095**	6,247	13.6%	**6,410**	6,039	6.1%	**685**	208	229.3%
Utility and fuel expenses	**3,269**	3,147	3.9%	**3,006**	3,069	(2.1)%	**263**	78	237.2%
Property taxes	**5,622**	5,204	8.0%	**5,004**	5,035	(0.6)%	**618**	169	265.7%
Total operating expenses	**$15,986**	$14,598	9.5%	**$14,420**	$14,143	2.0%	**$1,566**	$455	244.2%
NOI	**$31,377**	$27,957	12.2%	**$27,237**	$26,194	4.0%	**$4,140**	$1,763	134.8%
Operating margin %	**66.2%**	65.7%	50 bps	**65.4%**	64.9%	50 bps	**72.6%**	79.5%	(690) bps

For the nine months ended September 30,

	Total			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$138,671**	$123,682	12.1%	**$123,729**	$119,161	3.8%	**$14,942**	$4,521	230.5%
Property operating expenses									
General operating expenses	**20,181**	18,664	8.1%	**18,326**	18,137	1.0%	**1,855**	527	252.0%
Utility and fuel expenses	**14,495**	12,981	11.7%	**13,513**	12,824	5.4%	**982**	157	525.5%
Property taxes	**16,601**	15,363	8.1%	**15,032**	14,996	0.2%	**1,569**	367	327.5%
Total operating expenses	**$51,277**	$47,008	9.1%	**$46,871**	$45,957	2.0%	**$4,406**	$1,051	319.2%
NOI	**$87,394**	$76,674	14.0%	**$76,858**	$73,204	5.0%	**$10,536**	$3,470	203.6%
Operating margin %	**63.0%**	62.0%	100 bps	**62.1%**	61.4%	70 bps	**70.5%**	76.8%	(630) bps

Apartment Revenue

Total apartment revenue for the three and nine months ended September 30, 2018, was $47.4 million and $138.7 million, an increase of 11.3% and 12.1% over the same periods in 2017. Revenue growth was augmented by contributions from recently acquired properties, improved occupancy and higher rental rates.

Non-same property revenue consists of properties acquired in 2017 and 2018, development projects completed in 2017 and 2018, and other adjustments to normalize for non-operational revenue or expense items.

Same property apartment revenue increased 3.3% and 3.8% for the three and nine months ended September 30, 2018, with strong fundamentals and leasing activity contributing to a 70 bps improvement in same property occupancy year-to-date and a 2.5% increase in average rental rates. As well, rental incentives for the three and nine months ended September 30, 2018, were considerably lower than the same periods of 2017, as fewer incentives were offered, given strong market conditions.

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

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

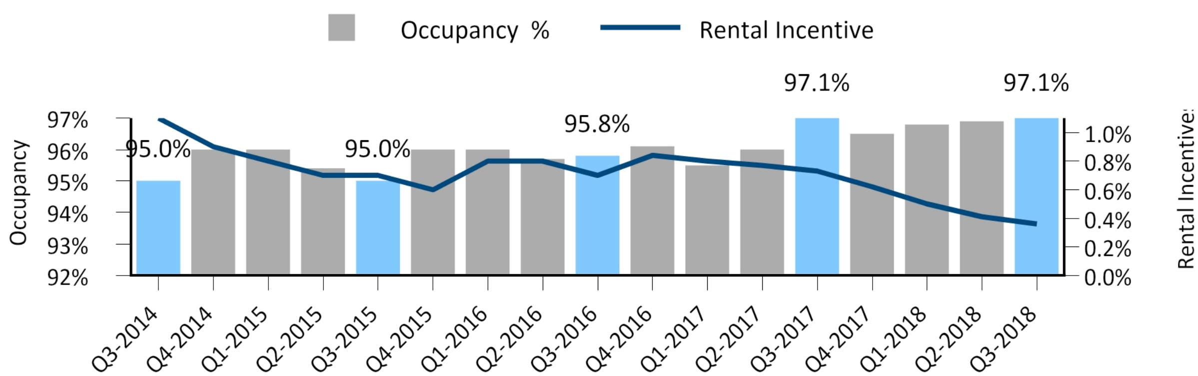
		Total Occupancy			Same Property Occupancy		
For the three months ended September 30,	# of Units	**2018**	2017	Change (bps)	**2018**	2017	Change (bps)
Halifax, NS	5,570	**97.4%**	97.6%	(20)	**97.4%**	97.7%	(30)
Ontario [2]	2,465	**95.4%**	96.9%	(150)	**97.0%**	97.0%	—
Moncton, NB	1,629	**97.8%**	96.8%	100	**97.8%**	96.8%	100
Fredericton, NB	1,422	**97.9%**	97.1%	80	**97.9%**	97.1%	80
Saint John, NB	1,202	**97.2%**	95.8%	140	**97.2%**	95.8%	140
St. John's, NL	915	**92.6%**	93.7%	(110)	**92.6%**	93.7%	(110)
Charlottetown, PE	1,015	**99.3%**	99.2%	10	**99.3%**	99.2%	10
Alberta [2]	847	**90.5%**	90.6%	(10)	**95.7%**	97.1%	(140)
Other Atlantic locations	469	**95.7%**	96.3%	(60)	**95.7%**	96.3%	(60)
Total Apartments (weighted average)	15,534	**96.6%**	96.8%	(20)	**97.1%**	97.1%	—

(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 for Ontario and Alberta in Q3-2018 was lower than Q3-2017 to due to a new development, Saginaw Park, and a new acquisition, The Vibe, which are both currently in lease-up phase.

For discussion on changes in occupancy levels during the quarter, refer to page 15 of this MD&A under section "Apartment Same Property NOI by Region".

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



Average Rent Analysis by Core Market

As at September 30,

		Average Rent			Same Property Average Rent		
	# of Units	**2018**	2017	% Change	**2018**	2017	% Change
Halifax, NS	5,570	**$1,092**	$1,007	8.4%	**$1,035**	$1,007	2.8%
Ontario	2,465	**1,413**	1,394	1.4%	**1,370**	1,334	2.7%
Moncton, NB	1,629	**862**	839	2.7%	**862**	839	2.7%
Fredericton, NB	1,422	**956**	933	2.5%	**956**	933	2.5%
Saint John, NB	1,202	**799**	778	2.7%	**799**	778	2.7%
St. John's, NL	915	**979**	971	0.8%	**979**	971	0.8%
Charlottetown, PE	1,015	**1,003**	921	8.9%	**945**	921	2.6%
Alberta	847	**1,359**	1,148	18.4%	**1,138**	1,129	0.8%
Other Atlantic	469	**887**	870	2.0%	**887**	870	2.0%
Total Apartments (weighted average)	15,534	**$1,067**	$1,035	3.1%	**$1,011**	$986	2.5%

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

Same Property Rental Increases - Tenant Renewal versus Unit Turn

Killam turns approximately 32%–35% of its units each year. Upon turn, Killam will typically generate rental increases by raising rates to market and where market demand exist, by upgrading units for returns of 10-15% on capital invested. 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 nine months ended September 30,	**2018**	2017	Change (bps)
Upon lease renewals	**1.7%**	1.0%	70
Upon unit turns	**5.0%**	3.4%	160
Weighted average rental increase	**2.5%**	1.8%	70

Apartment Expenses

Total operating expenses for the three and nine months ended September 30, 2018, were $16.0 million and $51.3 million, 9.5% and 9.1% increases over the same periods of 2017, due primarily to incremental costs associated with recent acquisitions. Killam increased its apartment operating margin by 50 bps and 100 bps for the three and nine months ended September 30, 2018, as revenues associated with additions to the portfolio and higher occupancy more than offset the incremental costs of operating the portfolio.

Total same property operating expenses for the three and nine months ended September 30, 2018, were both 2.0% higher than the same periods of 2017. The increase year-to-date was driven by higher utility and fuel costs resulting from increases in both consumption and variable pricing during the heating season. Property tax expense remained relatively flat for the three and nine months ended September 30, 2018 and 2017, as Killam continues to appeal tax assessment increases whenever possible. Killam realized general operating expense increases of 6.1% and 1.0% for the three and nine months ended September 30, 2018, due to general inflationary cost pressures partially offset by lower insurance premiums and operating cost management initiatives. Timing of general operating expenses resulted in higher than normal costs in Q3-2018. In total, the same property margin improved by 50 bps and 70 bps during the three and nine months ended September 30, 2018.

Apartment Utility and Fuel Expenses - Same Property

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Natural gas	**$342**	$410	(16.6%)	**$4,007**	$3,405	17.7%
Electricity	**1,385**	1,421	(2.5%)	**5,187**	5,236	(0.9)%
Water	**1,117**	1,121	(0.4%)	**3,374**	3,375	– %
Oil & propane	**149**	108	38.0%	**914**	785	16.4%
Other	**13**	9	44.4%	**31**	23	34.8%
Total utility and fuel expenses	**$3,006**	$3,069	(2.1%)	**$13,513**	$12,824	5.4%

Killam's apartments are heated with natural gas (58%), electricity (32%), oil (7%), steam (2%) and propane (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 21% of Killam's total apartment same property operating expenses in Q3-2018 and 29% year-to-date. Total same property utility and fuel expenses realized savings of 2.1% in Q3-2018 but were 5.4% higher for the nine months ended September 30, 2018.

Same property natural gas expense decreased by 16.6% compared to Q3-2017, but was 17.7% higher in the nine months ended September 30, 2018. Savings in this quarter are relatively small ($68 thousand) and relate to the average variable natural gas price of $0.12 per m3 being 22% lower in Ontario than Q3-2017 and reduced consumption at certain properties as Killam continues to reap the benefits from efficiency projects installed in the past twelve months. Year-to-date, the increased costs compared to the prior period were primarily attributable to higher distribution and commodity prices in Nova Scotia and New Brunswick of 8.5% and 23.5%, along with higher consumption due to colder 2018 temperatures year-to-date compared to 2017 in most regions. Ontario gas pricing decreased by 13.2% year-to-date, partially offsetting higher consumption realized in that province.

Electricity costs for the three and nine months ended September 30, 2018, were 2.5% and 0.9% lower than the same periods of 2017, primarily due to lower rates in Ontario and savings from LED lighting retrofits. Killam has retrofit over 80 properties with LED technology since 2017, saving an estimated 3.4 million kWh of electricity annually and generating approximately $0.5 million of annualized electricity cost savings.

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

Water expense decreased slightly by 0.4% in Q3-2018 and is flat year-to-date. Despite water rate increases of 2% to 15% in Killam's regions in the past year, these increases have been offset by the additional 2,500 low-flow toilets installed over the past 18 months.

Heating oil and propane costs increased by 38.0% and 16.4% in the three and nine months ended September 30, 2018, compared to the same periods of 2017 as a result of a rise in global oil prices.

Apartment Same Property NOI by Region

Three months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Halifax	**$16,161**	$15,678	3.1%	**($5,181)**	($5,014)	3.3%	**$10,980**	$10,664	3.0%
Ontario	**6,887**	6,689	3.0%	**(2,371)**	(2,339)	1.4%	**4,516**	4,350	3.8%
Moncton	**4,466**	4,260	4.8%	**(1,884)**	(1,895)	(0.6)%	**2,582**	2,365	9.2%
Fredericton	**4,171**	3,978	4.9%	**(1,571)**	(1,527)	2.9%	**2,600**	2,451	6.1%
Saint John	**2,944**	2,786	5.7%	**(1,170)**	(1,200)	(2.5)%	**1,774**	1,586	11.9%
St. John's	**2,540**	2,537	0.1%	**(711)**	(716)	(0.7)%	**1,829**	1,821	0.4%
Charlottetown	**2,565**	2,502	2.5%	**(902)**	(847)	6.5%	**1,663**	1,655	0.5%
Alberta	**632**	635	(0.5)%	**(179)**	(193)	(7.3)%	**453**	442	2.5%
Other Atlantic locations	**1,291**	1,272	1.5%	**(451)**	(412)	9.5%	**840**	860	(2.3)%
	$41,657	$40,337	3.3%	**($14,420)**	($14,143)	2.0%	**$27,237**	$26,194	4.0%

Nine months ended September 30,

	Property Revenue			Property Expenses			Net Operating Income		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Halifax	**$48,044**	$46,299	3.8%	**($17,046)**	($16,515)	3.2%	**$30,998**	$29,784	4.1%
Ontario	**20,477**	19,728	3.8%	**(7,212)**	(7,083)	1.8%	**13,265**	12,645	4.9%
Moncton	**13,237**	12,536	5.6%	**(6,072)**	(6,068)	0.1%	**7,165**	6,468	10.8%
Fredericton	**12,266**	11,701	4.8%	**(5,111)**	(4,971)	2.8%	**7,155**	6,730	6.3%
Saint John	**8,699**	8,157	6.6%	**(4,226)**	(4,099)	3.1%	**4,473**	4,058	10.2%
St. John's	**7,681**	7,622	0.8%	**(2,192)**	(2,246)	(2.4)%	**5,489**	5,376	2.1%
Charlottetown	**7,676**	7,475	2.7%	**(3,029)**	(2,938)	3.1%	**4,647**	4,537	2.4%
Alberta	**1,842**	1,823	1.0%	**(553)**	(623)	(11.2)%	**1,289**	1,200	7.4%
Other Atlantic locations	**3,807**	3,820	(0.3)%	**(1,430)**	(1,414)	1.1%	**2,377**	2,406	(1.2)%
	$123,729	$119,161	3.8%	**($46,871)**	($45,957)	2.0%	**$76,858**	$73,204	5.0%

Halifax
Halifax which accounts for 40% of Killam’s same property NOI generated same property apartment revenue growth of 3.1% and 3.8% for the three and nine months ended September 30, 2018, compared to the same periods of 2017, due to a 2.8% increase in average rent, higher commercial occupancy and 30 bps improvement in bad debts, despite a 30 bps decline in occupancy to 97.4% in the quarter. Year-to-date, Halifax has realized a 70 bps improvement in occupancy from 96.7% in 2017 to 97.4% in 2018.

Total operating expenses for the three and nine months ended September 30, 2018, were 3.3% and 3.2% higher than the same periods of 2017. The increased expenses were driven by higher natural gas prices and fuel consumption, higher repairs and maintenance expense and increases in garbage removal contracts. These increased costs were partially offset by lower snow removal costs, as less snow hauling was required in 2018, and lower insurance premiums. The net impact was 3.0% and 4.1% growth in NOI for the three and nine months ended September 30, 2018.

Ontario
Revenue increased by 3.0% and 3.8% for the three and nine months ended September 30, 2018, due to a 2.7% increase in average rental rates and increased parking revenues. Rental rate increases on turns have been above Killam's portfolio average, with increases of 6.3% at the Ottawa properties and 6.9% at Killam's Southwestern Ontario properties. As well, this market maintained occupancy at 97.0%

quarter-over-quarter and realized occupancy gains of 70 bps year-to-date as a result of the lease-up and stabilization of the Kanata Lakes portfolio in mid-2017 and improved occupancy in Killam's Ottawa portfolio.

Total operating expenses were 1.4% higher for the quarter and 1.8% higher year-to-date than the same periods in 2017. Increases in contract services across the properties in this region offset the lower maintenance costs and utility rate savings. In aggregate, same property NOI was 3.8% and 4.9% higher than the three and nine months ended September 30, 2017.

New Brunswick
The NB portfolio achieved strong NOI growth of 8.7% and 8.9% over the same periods of 2017. This growth was driven by same property revenue increases of 5.1% and 5.6%, due to occupancy gains of 100 bps and 150 bps for the quarter and year-to-date, as well as rental rate growth in Saint John, Moncton, and Fredericton of 2.7%, 2.7% and 2.5%, respectively.

Total operating expenses for the quarter were 0.1% and 1.8% higher than the same periods in 2017 due primarily to higher natural gas costs and higher consumption (see the "Apartment Utility and Fuel Expenses - Same Property" section for more details). This increase was partially offset by focused spend management, which lowered maintenance costs, contract service costs and insurance premiums. Killam's NB properties benefited from successful realty tax appeals in the quarter and year-to-date.

Newfoundland and Labrador
Same property revenue increased 0.1% and 0.8% for the three and nine months ended September 30, 2018, as compared to the same periods of 2017. Rental rates have increased by 0.8% year-to-date 2018 compared to 2017, offsetting the decline in occupancy of 110 bps for the quarter and 30 bps year-to-date. This lower occupancy is due to softness in the economy, driven by reduced activity in the offshore oil sector.

Total operating expenses for the three and nine months ended September 30, 2018, were 0.7% and 2.4% lower than the same periods of 2017 primarily due to net savings from internalizing property management for this portfolio effective April 1, 2017, less maintenance costs and lower insurance premiums. In aggregate, same property NOI growth was 0.4% and 2.1% for the three and nine months ended September 30, 2018.

Prince Edward Island
Charlottetown achieved 2.5% and 2.7% revenue growth for the three and nine months ended September 30, 2018, compared to the same periods in 2017, due to rental rate growth and close to maximum occupancy of 99.3%, a 10 bps increase over Q3-2017. Total operating expenses for the three and nine months ended September 30, 2018 were 6.5% and 3.1% higher due primarily to increased heating oil expenses in 2018 as a result of higher oil prices. Overall, Charlottetown achieved 0.5% and 2.4% NOI growth in the three and nine months ended September 30, 2018, compared to the same periods in 2017.

Alberta
Grid 5, a 307-unit building in downtown Calgary, accounted for 1.7% of Killam's apartment same property NOI. Grid 5 recorded a 0.5% decline in net revenue in Q3-2018 and a 1.0% increase in revenue for the nine months ended September 30, 2018, compared to the same periods of 2017. Currently the property is 96.1% occupied, with positive increases in rents upon turn and little to no incentive offerings. Year-to-date, Grid 5 earned more commercial revenue, as approximately 75% of its ancil commercial space is now leased.

Same property operating expenses for the three and nine months ended September 30, 2018, were 7.3% and 11.2% lower than the same periods of 2017, due primarily to lower property taxes and property administrative expenses, driving a 2.5% and 7.4% increase in NOI for the three and nine months ended September 30, 2018.

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

MHC Results

For the three months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$5,239**	$4,892	7.1%	**$4,985**	$4,892	1.9%	**$254**	$—	— %
Property operating expenses									
General operating expenses	**1,212**	1,105	9.7%	**1,145**	1,133	1.1%	**67**	(28)	(339.3)%
Utility and fuel expenses	**397**	403	(1.5)%	**360**	403	(10.7)%	**37**	—	— %
Property taxes	**159**	136	16.9%	**157**	136	15.4%	**2**	—	— %
Total operating expenses	**$1,768**	$1,644	7.5%	**$1,662**	$1,672	(0.6)%	**$106**	$(28)	(478.6)%
NOI	**$3,471**	$3,248	6.9%	**$3,323**	$3,220	3.2%	**$148**	$28	(428.6)%
Operating margin %	**66.3%**	66.4%	(10) bps	**66.7%**	65.8%	90 bps	**58.3%**	—%	—

For the nine months ended September 30,

	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$12,281**	$11,700	5.0%	**$12,022**	$11,700	2.8%	**$259**	$—	— %
Property operating expenses									
General operating expenses	**2,954**	2,769	6.7%	**2,838**	2,769	2.5%	**116**	—	— %
Utility and fuel expenses	**1,056**	1,090	(3.1)%	**1,020**	1,090	(6.4)%	**36**	—	— %
Property taxes	**476**	440	8.2%	**473**	440	7.5%	**3**	—	— %
Total operating expenses	**$4,486**	$4,299	4.3%	**$4,331**	$4,299	0.7%	**$155**	$—	NA
NOI	**$7,795**	$7,401	5.3%	**$7,691**	$7,401	3.9%	**$104**	$—	NA
Operating margin %	**63.5%**	63.3%	20 bps	**64.0%**	63.3%	70 bps	**40.2%**	—%	—

The MHC business generated 7.9% of Killam's NOI for the nine months ended September 30, 2018. 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 1.9% and 2.8% for the three and nine months ended September 30, 2018, compared to the same periods in 2017. Rents rose by 2.8%, to $253 per site from $246 per site in September 2017, due primarily to rental increases at permanent communities as well as strong revenue growth in the seasonal communities. Occupancy increased to 98.0% in Q3-2018, a 40 bps increase from Q3-2017. These gains were partially offset by a decrease in short-term (or transient) revenue at Killam's seasonal communities.

Total same property expenses decreased by 0.6% in Q3-2018 as compared to Q3-2017 primarily due to decreased water consumption at several parks and timing of electricity recoveries at the seasonal parks in the third quarter. Total operating costs for the nine months ended September 30, 2018, increased modestly by 0.7% as lower water consumption partially offset higher property tax assessments. Overall, the MHC portfolio generated same property NOI growth of 3.2% and 3.9% for the three and nine months ended September 30, 2018.

Commercial Results

Killam's commercial property portfolio contributed $3.6 million, or 3.6%, of Killam's total NOI for the nine months ended September 30, 2018. Occupancy was 99.4% during the quarter and 98.8% year-to-date, compared to 94.1% and 96.5% for the same periods of 2017.

Killam completed the acquisition of Westmount Place on March 29, 2018, a 297,000-square-foot office and retail complex. This property is 98% occupied and NOI generated during the third quarter was in line with Killam's expectations.

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

PART IV

Other Income and Expenses

Other Income

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$237	$228	3.9%	**$749**	$630	18.9%

Other income includes property management fees, interest on bank balances and home sales. The 3.9% increase for the comparative three-month period is due to increased interest income earned on higher bank balances partially offset by lower home sale revenue. The 18.9% increase for the comparative nine-month period is primarily due to higher property management fees from an additional property under management that was acquired in March 2017 and increased interest income on higher bank balances.

Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Mortgage, loan and construction loan interest	**$9,666**	$8,156	18.5%	**$27,465**	$24,090	14.0%
Interest on credit facilities	**94**	—	—%	**556**	—	—%
Interest on exchangeable units	**609**	599	1.7%	**1,826**	1,784	2.4%
Amortization of fair value adjustments on assumed debt	**28**	7	300.0%	**67**	(224)	129.9%
Amortization of loss on interest rate hedge	**7**	15	(53.3%)	**37**	45	(17.8%)
Unrealized gain on derivative asset	**(86)**	(206)	(59.2%)	**(116)**	(327)	(64.6)%
Convertible debenture interest	**—**	—	—%	**—**	715	(100.0)%
Capitalized interest	**(908)**	(550)	65.1%	**(2,544)**	(1,273)	99.8 %
	$9,410	$8,021	17.3%	**$27,291**	$24,810	10.0%

Total financing costs increased $1.4 million, or 17.3%, and $2.5 million, or 10.0%, for the three and nine months ended September 30, 2018, as compared to the same periods of 2017.

Mortgage and loan interest expense was $9.7 million for the three months ended September 30, 2018, an increase of $1.5 million, or 18.5%, compared to the same period of 2017, while year-to-date mortgage loan and construction interest increased $3.4 million, or 14.0%. Killam's mortgage, loan and construction loan liability balance increased by $202.3 million over the past twelve months as Killam refinanced its existing portfolio's maturing mortgages and obtained financing for various acquisitions and developments. The average interest rate on refinancings in the nine months ended September 30, 2018, was 3.47%, 29 bps lower than the average interest rate on expiring debt.

Interest expense on credit facilities was $0.1 million and $0.6 million for the three and nine months ended September 30, 2018, compared to $nil in the comparable prior periods due to timing of acquisitions.

There was no interest expense associated with the convertible debentures in the nine months ended September 30, 2018, compared to $0.7 million in the comparative period of 2017, following the redemption of $46 million of convertible debentures in April 2017.

Capitalized interest increased $0.4 million and $1.3 million for the three and nine months ended September 30, 2018, compared to the same periods of 2017. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

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

Depreciation Expense

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$238	$207	15.0%	**$693**	$562	23.3%

Depreciation expense relates to Killam's head office building, vehicles, heavy equipment and office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered investment properties and are depreciated for accounting purposes. The increase in depreciation expense for the three and nine months ended September 30, 2018, compared to the same periods in 2017, was primarily due to costs associated with website upgrades, vehicles, computer equipment and upgrades to Killam's head office building.

Amortization of Deferred Financing Costs

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
	$628	$431	45.7%	**$1,675**	$1,276	31.3%

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

Deferred financing amortization costs increased 45.7% and 31.3% for the three and nine months ended September 30, 2018, following $114 million of mortgage refinancings, as well as deferred financing costs associated with property acquisitions, and completed development projects over the past 12 months.

Administration Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Administration (including REIT conversion costs)	**$3,712**	$3,783	(1.9)%	**$10,594**	$9,458	12.0%
REIT conversion costs	**—**	—	—%	**—**	(236)	(100.0)%
Administration (excluding REIT conversion costs)	**$3,712**	$3,783	(1.9)%	**$10,594**	$9,222	14.9%
As a percentage of total revenues	**6.7%**	7.7%	(100) bps	**6.7%**	6.6%	10 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 September 30, 2018, total administration expenses decreased by $0.1 million, or 1.9%. For the nine months ended September 30, 2018, administration expenses increased $1.4 million, or 14.9%, compared to the comparable period of 2017, due to increased variable compensation and restricted trust unit ("RTU") related expenses from stronger REIT performance and introducing a new executive compensation program that improves the ties between pay and performance.

Management is targeting annualized administrative costs of approximately 6.5% of total revenues for 2018.

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

Fair Value Adjustments

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Investment properties	**$14,685**	$—	—%	**$99,758**	$32,718	204.9%
Convertible debentures	**—**	—	—%	**—**	690	(100.0)%
Deferred unit-based compensation	**(698)**	(81)	761.7%	**(641)**	(404)	58.7%
Exchangeable units	**(4,393)**	(1,739)	152.6%	**(7,299)**	(4,831)	51.1%
	$9,594	($1,820)	(627.1)%	**$91,818**	$28,173	225.9%

Killam recognized $14.7 million in fair value gains on investment properties in Q3-2018 as a result of higher rental rates across Killam's core markets and therefore higher annualized NOI. As well, Killam recognized cap-rate compression in its New Brunswick markets, reflecting strength in these markets. Year-to-date, Killam has realized $99.8 million in fair value gains, recognizing the strength of the accelerated revenue growth achieved year-to-date and therefore strong NOI performance across the portfolio. The weighted average cap-rate for the apartment portfolio has declined 18 bps to 5.19%, compared to 5.37% as at December 31, 2017. The MHC portfolio fair value has remained relatively unchanged year-to-date 2018.

RTUs governed by Killam's RTU Plan are awarded to certain members of management as a portion of their compensation. Non-executive members of the Board of Trustees have the right to receive a percentage of their annual retainer in the form of RTUs. This aligns the interests of Management and the Trustees with those of unitholders. For the nine months ended September 30, 2018, there was an unrealized loss of $0.6 million, versus a $0.4 million loss in the nine months ended September 30, 2017, 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 and nine months ended September 30, 2018, there was an unrealized loss on remeasurement of $4.4 million and $7.3 million, compared to an unrealized loss of $1.7 million and $4.8 million in the same period of 2017, due to an increase in the market price of Killam's trust units.

Deferred Tax Expense

Killam converted to a real estate investment trust effective January 1, 2016, and as such qualifies as a REIT pursuant to the *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.

PART V

Per Unit Calculations

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

	Weighted Average Number of Units (000s)						Outstanding Number of Units (000s) as at September 30,
	Three months ended September 30,			Nine months ended September 30,			
	2018	2017	% Change	**2018**	2017	% Change	**2018**
Trust units	**85,124**	74,525	14.2%	**82,342**	72,689	13.3%	**85,268**
Exchangeable units	**3,812**	3,863	(1.3)%	**3,854**	3,864	(0.3)%	**3,793**
Basic number of units	**88,936**	78,388	13.5%	**86,196**	76,553	12.6%	**89,061**
Plus:							
Convertible debentures	**—**	—	—	**—**	1,178	(100.0)%	**—**
Units under RTU plan	**240**	233	3.0%	**236**	192	22.9%	**—**
Diluted number of units	**89,176**	78,621	13.4%	**86,432**	77,923	10.9%	**89,061**

Funds from Operations

FFO are recognized as an industry-wide standard measure of real estate entities' operating performance, and Management considers FFO per unit to be a key measure of operating performance. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. Killam calculates FFO in accordance with the REALpac definition, with the exception of the add-back of REIT conversion costs as REALpac does not address this specific type of adjustment. Notwithstanding the foregoing, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. FFO for the three and nine months ended September 30, 2018 and 2017 are calculated as follows:

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Net income	**$27,120**	$14,649	85.1%	**$130,899**	$66,910	95.6%
Fair value adjustments	**(9,594)**	1,820	(627.1%)	**(91,818)**	(28,173)	225.9%
Loss on disposition	**—**	—	—%	**183**	238	(23.1)%
Non-controlling interest	**1**	(4)	(125.0%)	**(12)**	(10)	20.0%
Internal commercial leasing costs	**66**	—	—%	**66**	—	—%
Deferred tax expense	**5,207**	3,063	70.0%	**20,055**	11,022	82.0 %
Interest expense on exchangeable units	**609**	599	1.7%	**1,826**	1,784	2.4%
Unrealized gain on derivative asset	**(86)**	(206)	(58.3%)	**(116)**	(327)	(64.5%)
Depreciation on owner-occupied building	**32**	42	(23.8%)	**115**	125	(8.0%)
REIT conversion costs	**—**	—	—%	**—**	236	(100.0)%
FFO	**$23,355**	$19,963	17.0%	**$61,198**	$51,805	18.1%
FFO unit - basic	**$0.26**	$0.25	4.0%	**$0.71**	$0.68	4.4%
FFO unit - diluted	**$0.26**	$0.25	4.0%	**$0.71**	$0.67	6.0%

Killam earned FFO of $23.4 million, or $0.26 per unit (diluted), for the three months ended September 30, 2018, compared to $20.0 million, or $0.25 per unit (diluted), for the three months ended September 30, 2017. The 4.0% increase in FFO per unit is primarily attributable to contributions from acquisitions ($2.6 million) and same property NOI growth ($0.9 million). These increases were partially offset by higher deferred financing costs ($0.2 million) and an 13.4% increase in the weighted average number of units outstanding from the equity raises completed in November 2017 and June 2018.

Killam earned FFO of $61.2 million, or $0.71 per unit (diluted), for the nine months ended September 30, 2018, compared to $51.8 million, or $0.67 per unit (diluted), for the nine months ended September 30, 2017. The 6.0% increase in FFO per unit is primarily attributable to contributions from acquisitions ($6.2 million), same property NOI growth ($3.8 million), interest expense savings on the redemption of the convertible debentures ($0.7 million) and increase in other income ($0.6 million). These increases were partially offset by higher administration costs ($1.4 million), higher deferred financing costs ($0.4 million) and a 10.9% increase in the number of weighted average number of units outstanding from the equity raises completed in November 2017 and June 2018.

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

Adjusted Funds from Operations

AFFO is a non-IFRS supplemental measure used by real estate analysts and investors to assess FFO after taking into consideration capital spent to maintain the earning capacity of a portfolio. AFFO may not be comparable to similar measures presented by other real estate trusts or companies. Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining 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 ($970 per unit in 2017) and $300 per MHC site ($225 per site in 2017). Details regarding the maintenance capex calculation are included in Killam's 2017 MD&A.

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

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 September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
FFO	**$23,355**	$19,963	17.0%	**$61,198**	$51,805	18.1%
Maintenance capital expenditures						
Apartments	**(3,304)**	(3,357)	(1.6%)	**(9,842)**	(9,996)	(1.5)%
MHCs	**(396)**	(290)	36.6%	**(1,171)**	(871)	34.4%
Commercial	**(96)**	—	– %	**(193)**	—	– %
Commercial straight-line rent adjustment	**(65)**	—	—%	**(110)**	—	—%
Internal commercial leasing costs	**(48)**	—	– %	**(48)**	—	– %
AFFO	**$19,446**	$16,316	19.2%	**$49,834**	$40,938	21.7%
AFFO per unit - basic	**$0.22**	$0.21	4.8%	**$0.58**	$0.53	9.4%
AFFO per unit - diluted	**$0.22**	$0.21	4.8%	**$0.58**	$0.53	9.4%
AFFO payout ratio - diluted	**73%**	75%	(200) bps	**83%**	86%	(300) bps
AFFO payout ratio - rolling 12 months (1)	**83%**	87%	(400) bps			

(1) Based on Killam's annual distribution of $0.6317 for the 12-month period ended September 30, 2018, and $0.6117 for the 12-month period ended September 30, 2017. The calculation uses a maintenance capex reserve of $900 for the rolling 12 months ended September 30, 2018, and an average of $918 for the 12 months ended September 30, 2017.

The payout ratio of 73% in Q3-2018, compared to the rolling 12-month payout ratio of 83%, 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 improvement in the AFFO payout ratio year-to-date is attributable to a 21.7% increase in AFFO driven by contributions from same property NOI growth, recent acquisitions and developments, partially offset by the impact of the increase in the weighted average number of units outstanding.

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

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

Adjusted Cash Flow from Operations

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

Killam calculates ACFO in accordance with the REALpac definition but may differ from other REITs' methods and, accordingly, its calculation of ACFO 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 nine months ended September 30, 2018 and 2017) to ACFO is as follows:

	Three months ended September 30,			**Nine months ended September 30,**		
	2018	2017	% Change	**2018**	2017	% Change
Cash provided by operating activities	**$27,987**	$24,611	13.7%	**$71,925**	$56,054	28.3%
Adjustments:						
Changes in non-cash working capital not indicative of sustainable cash flows	**(3,118)**	(3,577)	(12.8%)	**(7,582)**	(1,688)	349.2%
Maintenance capital expenditures						
Apartments	**(3,304)**	(3,357)	(1.6%)	**(9,842)**	(9,996)	(1.5%)
MHCs	**(396)**	(290)	36.6%	**(1,171)**	(871)	34.4%
Commercial	**(96)**	—	– %	**(193)**	—	– %
Internal commercial leasing costs	**21**	—	– %	**21**	—	– %
Amortization of deferred financing costs	**(628)**	(431)	45.7%	**(1,675)**	(1,276)	31.3%
Non-controlling interest	**1**	(4)	(125.0%)	**(12)**	(10)	20.0%
ACFO	**$20,467**	$16,952	20.7%	**$51,471**	$42,213	21.9%
Distributions declared (1)	**14,414**	12,311	17.1%	**41,818**	35,902	16.5%
Excess of ACFO over cash distributions	**$6,053**	$4,641	30.4%	**$9,653**	$6,311	53.0%
ACFO payout ratio - diluted (2)	**70%**	73%	(300) bps	**81%**	85%	(400) bps

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 35.

(2) Based on Killam's monthly distribution of $0.05333 per unit for March-September 2018, $0.05167 per unit from March 2017 to February 2018 and $0.05 per unit from January-February 2017.

Killam's ACFO payout ratio is 70% and 81% for the three and nine months ended September 30, 2018, an improvement of 300 bps and 400 bps from the payout ratio for the three and nine months ended September 30, 2017. Similar 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.

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

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 September 30,		**Nine months ended September 30,**	
	2018	2017	**2018**	2017
Net income	**$27,120**	$14,649	**$130,899**	$66,910
Cash provided by operating activities	**$27,987**	$24,611	**$71,925**	$56,054
Total distributions declared	**$14,414**	$12,311	**$41,818**	$35,902
Excess of net income over total distributions declared	**$12,706**	$2,338	**$89,081**	$31,008
Excess of net income over net distributions paid	**$16,286**	$5,636	**$100,131**	$39,630
Excess of cash provided by operating activities over total distributions declared	**$13,573**	$12,300	**$30,107**	$20,152

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

PART VI

Investment Properties

As at

	September 30, 2018	December 31, 2017	% Change
Investment properties	**$2,532,422**	$2,171,372	16.6%
Investment properties under construction ("IPUC")	**100,093**	80,226	24.8%
Land for development	**55,786**	28,165	98.1%
	$2,688,301	$2,279,763	17.9%

Continuity of Investment Properties

	Three months ended September 30, 2018			**Nine months ended September 30, 2018**		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$2,409,317**	$1,983,069	21.5%	**$2,171,372**	$1,887,302	15.1%
Acquisition of properties	**96,168**	59,946	60.4%	**205,856**	128,179	60.6%
Disposition of properties	**—**	—	—%	**—**	(24)	(100.0)%
Transfer to assets held for sale	**—**	—	—%	**—**	(16,592)	(100.0)%
Transfer from IPUC	**—**	—	—%	**28,330**	—	—%
Capital expenditures	**12,874**	7,997	61.0%	**30,303**	19,429	56.0%
Fair value adjustment - Apartments	**11,158**	—	—%	**89,575**	33,221	169.6%
Fair value adjustment - MHCs	**208**	—	—%	**(323)**	(214)	50.9%
Fair value adjustment - Other	**2,697**	—	—%	**7,309**	(289)	(2,629.1)%
Balance, end of period	**$2,532,422**	$2,051,012	23.5%	**$2,532,422**	$2,051,012	23.5%

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 September 30, 2018 and 2017, and December 31, 2017, is as follows:

Capitalization Rates

	September 30, 2018			December 31, 2017			September 30, 2017		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**3.75%**	**8.00%**	**5.19%**	3.75%	8.00%	5.37%	4.12%	8.00%	5.35%
MHCs	**5.75%**	**8.00%**	**6.77%**	5.75%	8.00%	6.84%	5.75%	8.00%	6.79%

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

2018 Acquisitions - Investment Properties

					Purchase Price (1)	
Property	Location	Acquisition Date	Ownership Interest	Property Type	Income-producing Properties	Land for Development
The Killick	Halifax, NS	28-Feb-18	100%	Apartment	**$33,000**	—
4th Avenue Land	Calgary, AB	28-Feb-18	40%	Development land	—	**$7,200**
Weber Scott Pearl	Kitchener, ON	12-Mar-18	100%	Development land	**1,200**	**4,800**
Westmount Place	Waterloo, ON	29-Mar-18	100%	Retail/office complex and development land	**72,900**	**4,900**
Mississippi Lakes	Carleton Place, ON	16-Jul-18	100%	Seasonal resort	**2,000**	—
Nolan Hill	Calgary, AB	25-Jul-18	10%	Development land	—	**2,200**
Haviland Street	Charlottetown, PE	3-Aug-18	100%	Development land	—	**2,150**
Erb Street	Waterloo, ON	10-Aug-18	100%	Development land	—	**2,300**
Harley Street	Charlottetown, PE	14-Aug-18	100%	Apartment	**22,400**	—
The Vibe	Edmonton, AB	27-Aug-18	100%	Apartment	**47,000**	—
Shorefront	Charlottetown, PE	7-Sep-18	100%	Development land	—	**1,200**
151 Greenbank	Ottawa, ON	26-Sep-18	100%	Apartment	**20,700**	—
180 Mill Street (2)	London, ON	28-Sep-18	100%	Parking garage	**2,400**	—
Total Acquisitions					**$201,600**	**$24,750**

(1) Purchase price does not include transaction costs.

(2) Parking lot connected to existing apartment building.

Investment Properties Under Construction

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$91,614**	$67,152	36.4%	**$80,226**	$34,611	131.8%
Capital expenditures	**8,027**	15,263	(47.4)%	**44,044**	39,352	11.9%
Interest capitalized	**452**	422	7.1%	**1,560**	874	78.5%
Acquisitions	—	—	—%	—	8,000	(100.0)%
Fair value adjustment	—	—	—%	**2,593**	—	—%
Transfer to investment property/land for development	—	—	—%	**(28,330)**	—	—%
Balance, end of period	**$100,093**	$82,837	20.8%	**$100,093**	$82,837	20.8%

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

Saginaw Park
In April 2018, Killam's Saginaw Park, a 94-unit, seven-storey development in Cambridge, reached substantial completion. This project was completed on time and on budget, with $4.9 million in fair value gains recognized on this property year-to-date 2018. The building is 100% leased and is expected to be fully occupied by the end of the year.

The Alexander
This 240-unit development located in downtown Halifax reached substantial completion on October 1, 2018. This project is currently 77% occupied and 92% leased, with the expectation to be fully leased by early Q1-2019. The estimated cost of the project is approximately $83.1 million, resulting in an expected all-cash yield of approximately 4.5%. Management's estimated

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

total cost of completion has increased from the original budget due primarily to municipal delays in the approvals, municipal building code changes related to exterior cladding that led to delays in the schedule, plus labour and material inflation.

As Killam has control over the development for accounting purposes, 100% of the investment property and development costs are included in IPUC. Following completion of construction and the achievement of certain leasing conditions, Killam has a commitment in place to purchase the remaining 50% equity interest in the 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 ($16.0 million at 100%). Killam and RioCan each own a 50% interest in the land and participate on the same basis in this development. RioCan is the development manager, and upon completion, Killam will be the residential property manager. The site has zoning approval for four residential towers with an aggregate total of 840 units.

The first phase of the development, Frontier, a 23-storey tower containing 228 units, is currently under construction. The total cost to develop Phase I is budgeted at $73 million ($36.5 million for Killam's 50% interest). As at September 30, 2018, Killam has invested $26.7 million in the first phase of the project, which is scheduled to be completed mid-2019. Construction of Phase II, containing 208 units, is expected to commence in mid 2019.

Land for Development

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Balance, beginning of period	**$45,827**	$25,806	77.6%	**$28,165**	$20,896	34.8%
Fair value adjustment	**500**	—	—%	**500**	—	—%
Capital expenditures	**710**	417	70.3%	**2,161**	1,006	114.8%
Interest capitalized	**463**	128	261.7%	**1,014**	399	154.1%
Acquisitions	**8,286**	—	—%	**25,406**	4,050	527.3%
Dispositions	**—**	—	—%	**(1,460)**	—	—%
Balance, end of period	**$55,786**	$26,351	111.7%	**$55,786**	$26,351	111.7%

Shorefront

Killam closed a 1.2-acre waterfront site in Charlottetown, PE for $1.2 million in Q3-2018 and commenced construction on a 5-storey, concrete and wood frame 78-unit building in October 2018. The construction budget for this project is $20.8 million, or $267,000 per door, with an anticipated all-cash yield of 5.6%.

Silver Spear II

In April 2018, Killam received final approval from the City of Mississauga to proceed with its Silver Spear II development on land adjacent to its existing 199-unit building. Killam will have a 50% ownership in this 128-unit development and expects to break ground in late 2018/early 2019. The budget for this project is $49.0 million (100%), or $383,000 per door, with an anticipated all-cash yield of 5.0%, approximately a 125 bps premium over the market cap-rate for a similar quality asset.

In addition, Killam added to its development pipeline in the quarter with the purchase of land in Charlottetown, a 1.9-acre downtown waterfront site (zoned for 99 units) for $2.2 million.

Killam increased its residential development opportunity at Westmount Place in Waterloo by purchasing an adjacent 16,500-square-foot site on Erb Street for $2.3 million during the quarter. As well, subsequent to quarter-end, Killam purchased an 8-unit apartment building (0.86 acres), adjacent to Westmount Place on Dietz Avenue, for $2.9 million. These acquisitions will allow for greater density and flexibility with Killam’s future multi-phase residential Westmount Development, increasing the overall development opportunity to approximately 800 units.

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

Killam has a robust $850 million development pipeline, which consists of the following land available for future development:

Property	Location	Killam's Interest	Development Potential (# of Units) (1)	Status	Est Year of Completion
Developments expected to start in the next 24 months					
Shorefront	Charlottetown, PE	100%	78	Approved; broke ground in October 2018	2020
Silver Spear II	Mississauga, ON	50%	64	Approved; to break ground in early January 2019	2020
Weber Scott Pearl	Kitchener, ON	100%	178	In design	2021
Grid 5/Plaza 54 (Ph 1)	Calgary, AB	40%	132	In design and approval process	2021
Gloucester (Ph 2)	Ottawa, ON	50%	104	In design	2021
Cameron Heights	Edmonton, AB	100%	172	In design and approval process	2021
Westmount (Ph 1)	Waterloo, ON	100%	120	In design	2022
Developments expected to start in 2021-2025					
Gloucester (Ph 3-4)	Ottawa, ON	50%	185	In design	2024
Grid 5/Plaza 54 (Ph 2-3)	Calgary, AB	40%	276	In design and approval process	2024
Westmount Place (Ph 2-5)	Waterloo, ON	100%	680	In design	2028
Additional future development projects					
The Governor	Halifax, NS	100%	48	In design and approval process	TBD
Carlton Terrace	Halifax, NS	100%	104	In design and approval process	TBD
Kanata Lakes	Ottawa, ON	50%	40	In design and approval process	TBD
Haviland Street	Charlottetown, PE	100%	99	In design	TBD
Medical Arts (Spring Garden)	Halifax, NS	100%	200	Future development	TBD
Carlton Houses	Halifax, NS	100%	80	Future development	TBD
Topsail Road	St. John's, NL	100%	225	Future development	TBD
Block 4	St. John's, NL	100%	80	Future development	TBD
Total Development Opportunities			**2,865**		

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

Killam's development pipeline has over 2,800 potential units, and approximately 70% are outside Atlantic Canada (50% in Ontario and 20% in Alberta). Killam targets yields of 5.0% to 6.0% on development, 50–150 bps higher than expected cap-rate value on completion. Building out the $850 million pipeline at a 100 bps spread would create approximately $200 million in net asset value for unitholders.

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 and/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 nine months ended September 30, 2018, Killam invested $12.9 million and $30.3 million, compared to $8.0 million and $19.4 million for the three and nine months ended September 30, 2017. Killam expects to invest between $40 and $45 million during 2018 in capital improvements.

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Apartments	**$11,417**	$6,871	66.2%	**$26,986**	$17,168	57.2%
MHCs	**982**	983	(0.1)%	**2,103**	1,932	8.9%
Commercial	**475**	143	232.2%	**1,214**	329	269.0%
	$12,874	$7,997	61.0%	**$30,303**	$19,429	56.0%

Apartments - Capital Spend

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

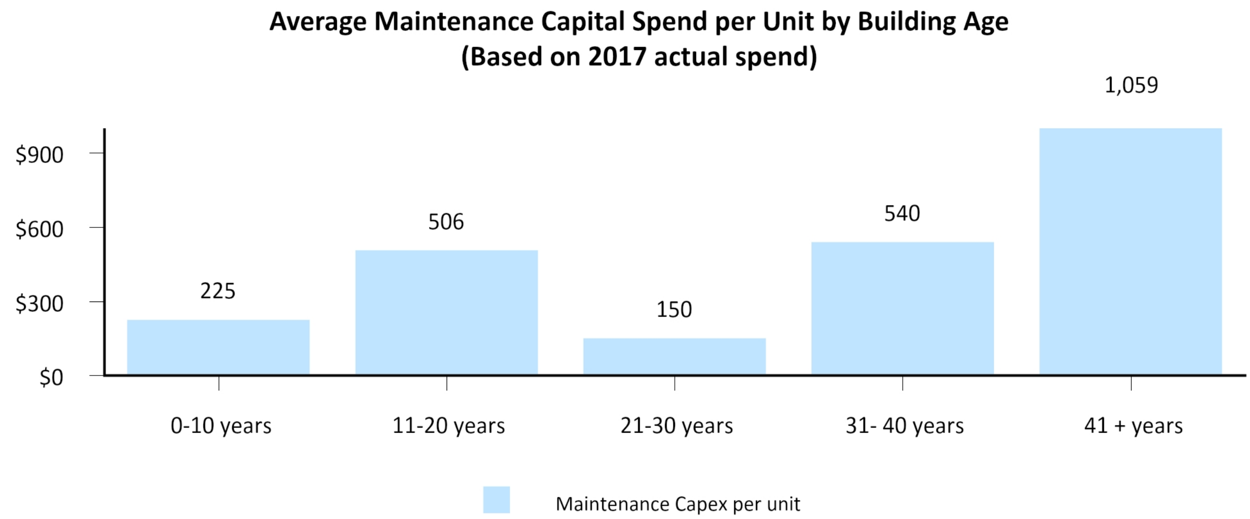
	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Building improvements	**$6,144**	$2,815	118.3%	**$14,806**	$7,578	95.4%
Suite renovations	**3,630**	3,171	14.5%	**8,393**	6,870	22.2%
Appliances	**410**	419	(2.1)%	**986**	1,333	(26.0)%
Boilers and heating equipment	**792**	302	162.3%	**1,894**	1,016	86.4%
Other	**441**	164	168.9%	**907**	371	144.5%
Total capital spend	**$11,417**	$6,871	66.2%	**$26,986**	$17,168	57.2%
Average number of units outstanding (1)	**14,686**	13,845	6.1%	**14,581**	13,787	5.8%
Capital spend - $ per unit	**$777**	$496	56.7%	**$1,851**	$1,245	48.7%

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

Killam invested $777 and $1,851 per unit for the three and nine months ended September 30, 2018, compared to $496 and $1,245 per unit for the same periods of 2017. Killam averaged a lower capital investment in 2017 as a result of timing of multi-phase projects. The 2018 year-to-date investment is more in line with Killam's 2016 capital spend per unit.

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-one percent of Killam's apartments, as a percentage of 2018 forecasted NOI, have been 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 each property. As the following chart illustrates, the approximate 2017 maintenance capex for properties built in the past 10 years was $225 per unit vs. $1,059 per unit for units that were 40+ years old.



Building Improvements
Of the $11.4 million and $27.0 million total capital investment in the apartment segment for the three and nine months ended September 30, 2018, approximately 52% and 55% was invested in building improvements, compared to 41% and 44% of the total capital spend for the three and nine months ended September 30, 2017. These investments include exterior cladding and brick work, balcony refurbishments, roof upgrades/replacements, common area renovations and energy and water efficiency investments 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
Killam invested $3.6 million and $8.4 million in suite renovations during the three and nine months ended September 30, 2018, a 14.5% and 22.2% increase over the total investment of $3.2 million and $6.9 million for the three and nine months ended September 30, 2017 due to the recent acceleration of Killam's suite repositioning program. Killam continues to focus on unit upgrades to maximize occupancy and rental increases. Killam targets a minimum 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. In addition, the length of time that Killam has owned a property and the age of the property also impact capital requirements.

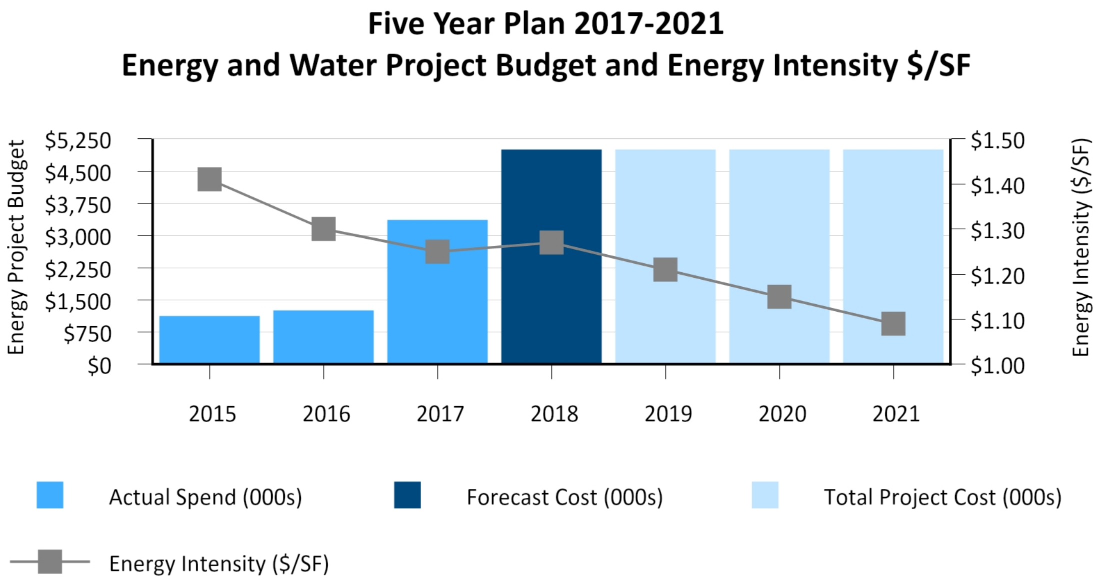
Suite Repositions
In 2018, Killam is accelerating its suite repositioning program, tripling its investment from 2017 to $3.0 million to $4.0 million in 2018. Killam is targeting a return on investment of at least 10% with monthly rental rate increases of 10%–30% upon completion of the renovation and lease-up. Management is committed to investing further in repositioning its suites to increase revenue growth and the net asset value of the portfolio. The repositioning program is ramping up across all regions. Year-to-date, 134 unit repositionings have been completed and leased up, at an average cost of $22,000 per suite, with an average ROI of 14% and average monthly rental increase of $253 per unit.

Killam is on target to complete 200 repositioned units in 2018 and targets 300 units for 2019, which Management expects to generate $1.5 million additional annualized revenue. The opportunity to reposition units within Killam's current portfolio is approximately 3,000 units, with an estimated $9.0 million in additional annualized revenue and approximately $170 million in increased net asset value. The average cost to reposition a unit is expected to be approximately $20,000.

Energy Efficiencies
Through a comprehensive review in 2016, Killam identified approximately 700 projects to reduce water, heating fuel and electricity consumption. The total budget for these projects is $25 million, and once complete, aggregate annual savings of $7 million are expected. At a 5% average cap-rate, execution of these initiatives could increase the net asset value of Killam's portfolio by $140 million.

These projects are expected to reduce Killam's energy intensity from $1.41 per square foot at the time of the review in 2016, to $1.10 per square foot by the end of 2021, a 23% reduction. Energy intensity measures all energy sources (including water) used within a property, converted to a single common measurement of dollars per square foot. This $0.31 decline represents an estimated $4.3 million in annual energy costs, which should more than offset rising energy rates and other operating pressures.

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



Killam is on target with its $5.0 million 2018 energy efficiency plan and projected annualized savings of $1.1 million. 2018 projects have included the installation of ultra-low flow toilets ($0.6 million), LED lighting retrofits ($1.9 million), and heating efficiency ($2.5 million).

By the end of 2018, Killam expects to have upgraded all the water fixtures in its portfolio with low-flow devices. In total, over 9,100 low-flow toilets have been installed since 2015, saving an estimated 600 million litres of water annually and generating approximately $1.2 million of annualized water cost savings. As well, Killam has retrofit over 80 properties with LED technology since 2017, saving an estimated 3.4 million kWh of electricity annually and generating approximately $0.5 million of annualized electricity cost savings.

MHCs - Capital Spend

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

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Water and sewer upgrades	**$416**	$502	(17.1)%	**$942**	$905	4.1%
Site expansion and land improvements	**169**	240	(29.6)%	**226**	639	(64.6)%
Other	**238**	93	155.9%	**638**	185	244.9%
Roads and paving	**108**	3	3,500.0%	**200**	14	1,328.6%
Equipment	**51**	145	(64.8)%	**97**	189	(48.7)%
Total capital spend - MHCs	**$982**	$983	(0.1%)	**$2,103**	$1,932	8.9%
Average number of sites	**5,280**	5,165	2.2%	**5,203**	5,165	0.7%
Capital spend - $ per site	**$186**	$190	(2.1%)	**$404**	$374	8.0%

Management expects to invest between $400 and $600 per MHC site annually. Consistent with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is considered value enhancing. Maintenance capital includes costs to support the existing infrastructure, and value-enhancing capital includes improvements to roadways, work to accommodate future expansion, and community enhancements, such as the addition of playgrounds. A portion of MHC capital may be recovered through above guideline increases in provinces with rent control, leading to increased NOI from the investments.

Total capital spend during the three and nine months ended September 30, 2018 was $1.0 million and $2.1 million, consistent with Q3-2018 and up from $1.9 million in the nine months ended September 30, 2017. The increase year-to-date in capital spend is due to timing of water and sewer upgrades. As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community.

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

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

As at	September 30, 2018	December 31, 2017	Change
Weighted average years to debt maturity	**4.5**	4.0	0.5 years
Total debt to total assets	**49.1%**	48.7%	40 bps
Interest coverage	**3.16x**	3.13x	1.0%
Debt service coverage	**1.54x**	1.51x	2.0%
Debt to EBITDA (1)	**11.39x**	10.70x	6.4%
Weighted average mortgage interest rate	**2.94%**	2.91%	3 bps
Weighted average interest rate of total debt	**3.03%**	2.96%	7 bps

(1) Ratio calculated net of cash.

Killam's long-term debt consists largely of fixed-rate, long-term mortgages. In certain cases, Killam will also utilize vendor-take-back mortgages as part of an acquisition. Mortgages are secured by a first or second charge against individual properties, and vendor financing is secured by a general corporate guarantee. Killam's weighted average interest rate on mortgages as at September 30, 2018, was 2.94%, 3 bps higher than the rate as at December 31, 2017.

Total debt as a percentage of total assets was 49.1% at September 30, 2018. Total debt as a percentage of total assets at June 30, 2018 was 100 bps lower due to the timing of funds from the June 2018 equity raise. 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 September 30, 2018 would have impacted the ratio of debt as a percentage of total assets by 90 bps.

Debt to EBITDA of 11.39x as at September 30, 2018, increased from 10.70x as at December 31, 2017, due to timing of acquisitions and increased construction financing on Killam's development projects. Debt to normalized EBITDA, which includes a full year of earnings from recently completed acquisitions and the lease-up of Saginaw Park and The Alexander, is 10.4x.

Refinancings

For the nine months ended September 30, 2018, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$73,020	3.71%	$99,647	3.38%	6.2 years	$26,627
MHCs	8,756	4.18%	15,068	4.08%	5.0 years	6,312
	$81,776	3.76%	$114,715	3.47%	6.0 years	$32,939

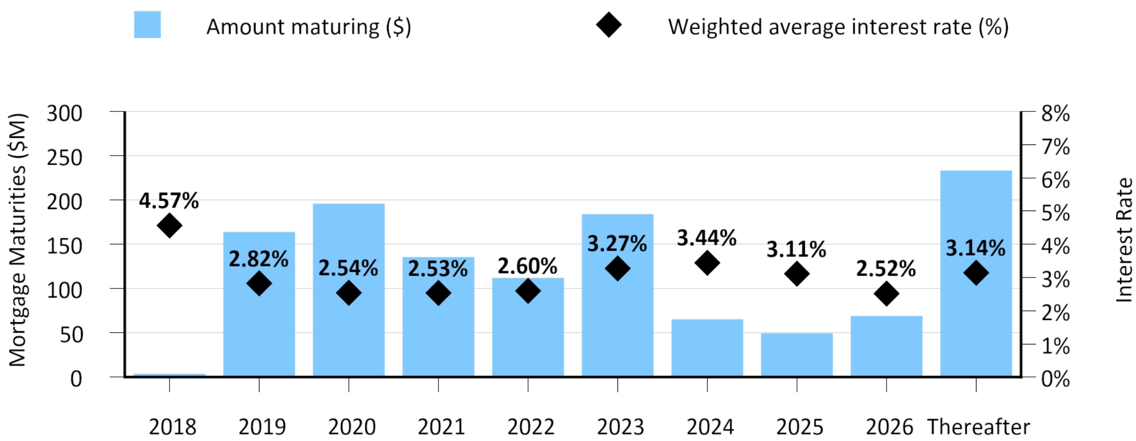
The following table details the maturity dates and average interest rates of mortgage and vendor debt, and the percentage of apartment mortgages that are CMHC-insured by year of maturity:

	Apartments			MHCs		Total	
Year of Maturity	Balance September 30	Weighted Avg Int. Rate %	% CMHC Insured	Balance September 30	Weighted Avg Int. Rate %	Balance September 30(1)	Weighted Avg Int. Rate %
2018	$3,560	4.57%	85.3%	$3,107	4.57%	$6,667	4.58%
2019	163,762	2.82%	90.9%	17,600	3.85%	181,362	2.92%
2020	195,677	2.54%	57.8%	6,480	3.52%	202,157	2.57%
2021	135,484	2.53%	85.5%	6,712	3.29%	142,196	2.56%
2022	111,861	2.66%	68.2%	23,972	3.67%	135,833	2.84%
2023	183,804	3.27%	76.3%	11,658	4.09%	195,462	3.32%
Thereafter	416,454	3.08%	100.0%	3,160	3.98%	419,614	3.09%
	$1,210,602	2.89%	83.8%	$72,690	3.78%	$1,283,292	2.94%

(1) Excludes $16.5 million in variable rate demand loans secured by development properties, which are classified as mortgages and loans payable as at September 30, 2018.

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

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 September 30, 2018, approximately 84% of Killam's apartment mortgages were CMHC-insured (79% of total mortgages, as MHC mortgages are not eligible for CMHC insurance) (December 31, 2017 - 80% and 75%). The weighted average interest rate on the CMHC-insured mortgages was 2.81% as at September 30, 2018 (December 31, 2017 - 2.71%).

The following tables present the NOI for properties that are available to Killam to refinance at debt maturity in 2018 and 2019:

Remaining 2018 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	3	$539	$3,536
MHCs with debt maturing	3	675	3,087
	6	$1,214	$6,623

2019 Debt Maturities	**Number of Properties**	**Estimated NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing	38	$20,349	$154,063
MHCs with debt maturing	7	2,409	16,887
	45	$22,758	$170,950

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

Future Contractual Debt Obligations

As at September 30, 2018, the timing of Killam's future contractual debt obligations is as follows:

Twelve months ending September 30,	Mortgage and Loans Payable	Construction Loans	Credit Facilities	Total
2019	$199,035	$53,778	$16,417	$269,230
2020	231,572	—	—	231,572
2021	137,874	—	—	137,874
2022	176,596	—	—	176,596
2023	170,851	—	—	170,851
Thereafter	383,849	—	—	383,849
	$1,299,777	**$53,778**	**$16,417**	**$1,369,972**

Credit Facilities

Killam has access to two credit facilities with credit limits of $70.0 million and $5.0 million (December 31, 2017 - $70.0 million and $1.5 million) that can be used for acquisition and general business purposes. Killam holds an accordion option to increase the $70.0 million facility by an additional $20.0 million.

The $70.0 million facility bears interest at prime plus 70 bps on prime rate advances or 170 bps over bankers' acceptances ("BAs"). Killam has the right to choose between prime rate advances and BAs based on available rates and timing. As at September 30, 2018, Killam has assets with a carrying value of $82.1 million pledged as first mortgage ranking and $329.0 million pledged as second mortgage ranking to the line and a balance outstanding of $16.4 million (December 31, 2017 - $nil). The agreement includes certain covenants and undertakings with which Killam is in compliance as at September 30, 2018.

During the third quarter, Killam increased its $1.5 million facility to $5.0 million. This facility bears interest at prime plus 125 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2018, Killam had assets with a carrying value of $1.8 million pledged as collateral (December 31, 2017 - $1.8 million) and letters of credit totaling $0.7 million outstanding against the facility (December 31, 2017 - $1.1 million). The agreement includes certain covenants and undertakings with which Killam is in compliance as at September 30, 2018.

As at September 30, 2018	Maximum Loan Amount	Amount Drawn	Letters of Credit	Amount Available
$70.0 million demand facility	$70,000	$16,417	—	$53,583
$5.0 million demand facility	5,000	—	719	4,281
Total	**$75,000**	**$16,417**	**$719**	**$57,864**

Construction Loans

As at September 30, 2018, Killam had access to two floating rate non-revolving demand construction loans, for the purpose of financing development projects, totaling $79.8 million. Payments are made monthly on an interest-only basis. The construction loans have interest rates of prime plus 0.63% or 125 bps above BAs. Once construction is complete and rental targets achieved, the construction loans will be repaid in full and replaced with conventional mortgages. The underlying assets are pledged as collateral against these loans.

As at September 30, 2018, $53.8 million was drawn on the construction loans (December 31, 2017 - $41.0 million on three non-revolving demand construction loans). The weighted-average interest rate was 4.07% (December 31, 2017 - 3.83%).

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

Unitholders' Equity

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

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

Unitholders have the right to redeem their units at the lesser of (i) 90% of the market price of the trust unit (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) the most recent closing market price (closing market price is defined as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of $50 thousand for all redemptions in a calendar month, or a note payable. For the three and nine months ended September 30, 2018, no unitholders redeemed units.

During Q1-2018, Killam increased its monthly distribution by 3.2% to $0.05333, effective for the March 2018 distribution ($0.64 per unit annualized). Killam's Distribution Reinvestment Plan ("DRIP") allows unitholders to elect to have all cash distributions from the trust reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3% of each cash distribution that was reinvested. The price per unit is calculated by reference to the 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 September 30,			Nine months ended September 30,		
	2018	2017	% Change	**2018**	2017	% Change
Distributions declared on trust units	**$13,729**	$11,653	17.8%	**$39,764**	$33,958	17.1%
Distributions declared on exchangeable units	**609**	599	1.7%	**1,827**	1,784	2.4%
Distributions declared on awards outstanding under RTU plan	**76**	59	28.8%	**227**	160	41.9%
Total distributions declared	**$14,414**	$12,311	17.1%	**$41,818**	$35,902	16.5%
Less:						
Distributions on trust units reinvested	**(3,504)**	(3,239)	8.2%	**(10,823)**	(8,461)	27.9%
Distributions on RTUs reinvested	**(76)**	(59)	28.8%	**(227)**	(161)	41.0%
Net distributions paid	**$10,834**	$9,013	20.2%	**$30,768**	$27,280	12.8%
Percentage of distributions reinvested	**24.8%**	26.8%		**26.4%**	24.0%	

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 provided by 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 provided by operating activities is expected to be sufficient to fund the current level of distributions and maintenance capex.

(ii) Killam's $70.0 million revolving credit facility supports acquisitions of approximately $150 million. The revolving facility has an accordion feature to increase the facility up to $90.0 million. Currently, Killam has $56 million available on its credit facilities (including the accordion feature), and when combined with cash on hand, has approximately $160 million in acquisition capacity.

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

Killam is in compliance with all financial covenants contained in the DOT and through its credit facilities. Under the DOT, total indebtedness of Killam is limited to 70% of gross book value determined as the greater of (i) the value of the assets of Killam as shown on the most recent condensed consolidated interim statements of financial position and (ii) the historical cost of the assets of Killam. Total debt as a percentage of assets as at September 30, 2018 was 49.1%.

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 2017 Annual Report and in Killam's Annual Information Form, both filed on SEDAR. These factors still exist at the end of this quarter and remain relatively unchanged.

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding Killam's business and financial statement presentation. In particular, Killam's significant accounting policies were presented in note 2 to the audited consolidated financial statements for the year ended December 31, 2017, 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 nine months ended September 30, 2018.

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 2017 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred income taxes.

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

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

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

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

The following new accounting standard under IFRS has been issued by the IASB; however, it is not yet effective and as such has not been applied to the condensed consolidated interim financial statements.

Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16. The objective of the new standard is to provide financial statement users with information to assess the amount, timing and uncertainty of cash flows arising from lease obligations. This standard introduces a single lessee accounting model and is effective for Killam's annual periods beginning after January 1, 2019, with early adoption permitted. To assess the impact of this new standard, Killam has formed an internal working group and continues to progress on its in-depth assessment of IFRS 16 on its consolidated financial statements. Killam does not expect a significant impact to its consolidated financial statements on adoption of this IFRS standard. Killam intends to adopt the new standard on the required effective date.

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, procedures or internal controls.

Related Party Transactions

Halkirk Properties Limited ("Halkirk") is a company that is partially owned by a Trustee of Killam. Since 2016, Killam and Halkirk have been developing a 240-unit building adjacent to the Brewery Market in Halifax, Nova Scotia with a total development budget of $83.1 million. Construction of the development is managed by Killam and the cost of construction is funded 50/50 by each partner. Killam has a commitment in place to purchase the other 50% interest in this development. The building reached substantial completion in October 2018.

On September 10, 2018, Killam acquired a 1.2-acre development site in Charlottetown, PE for $1.2 million. Killam has entered into a construction management agreement with APM Construction, a company owned by a Trustee of Killam, to provide construction services and APM Construction will be paid a market rate development and construction management fee.

Subsequent Events

On October 1, 2018, Killam acquired a 158-unit property located in Calgary, Alberta. The purchase price of $39.0 million was funded with a $28.5 million mortgage.

On October 15, 2018, Killam acquired an 8-unit apartment, adjacent to Westmount Place, in Waterloo, ON for $2.9 million.

On October 17, 2018, Killam announced a distribution of $0.05333 per unit, payable on November 15, 2018, to unitholders of record on October 31, 2018.

On October 22, 2018, Killam acquired a 123-site MHC property located in New Minas, NS for $2.7 million.