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 $2.8 billion portfolio of apartments and manufactured home community ("MHC") properties. Killam was founded in 2000 to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam entered the Ontario ("ON") apartment market in 2010 and made its first investment in Alberta ("AB") in 2014. Killam broke ground on its first development in 2010 and has completed ten projects to date.

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

1) increase earnings from the existing portfolio;

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

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

The apartment business is Killam's largest segment and accounted for 89% of Killam's net operating income ("NOI") for the year ended December 31, 2018. As at December 31, 2018, Killam's apartment portfolio consisted of 15,883 units, including 1,125 units owned 50% with institutional partners. Killam's 196 apartment properties are located in Atlantic Canada's six largest urban centres (Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown), Ontario (Ottawa, London, Toronto and Kitchener-Waterloo-Cambridge), and Alberta (Calgary and Edmonton). Killam is Atlantic Canada's largest residential landlord, owning a 13% share of multi-family rental units in its core markets. Killam plans to continue increasing its presence in Ontario and Alberta through acquisitions and developments and will continue to invest strategically in Atlantic Canada to maintain its market presence.

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

Basis of Presentation

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

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

Declaration of Trust

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

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

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

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

Forward-looking Statements

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

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

Non-IFRS Financial Measures

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

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

PART II

Key Performance Indicators

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

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

Financial and Operational Highlights

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

For the years ended December 31,

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

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

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

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

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

Summary of 2018 Results and Operations

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

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

Strong Rental Demand Drove Same Property Revenue Growth and Highest NOI Growth Since 2010
Killam achieved 4.8% NOI growth during 2018, generated by a 3.6% increase in same property revenue coupled with modest expense growth of only 1.6%. Same property NOI growth was solid in Killam's core markets, with highlights including 4.1% in Halifax, 5.4% in Ontario and an aggregate 8.1% for New Brunswick. Killam realized strong rental rate growth on unit turns and lease renewals, averaging 5.3% and 1.7%, compared to 3.4% and 1.0% in 2017. Same property occupancy for the portfolio was 97.1%, the highest annual occupancy in Killam's history.

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

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

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

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

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

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

Strategic Targets

Growth in Same Property NOI	
2018 Target	Original Target: Same property NOI growth of 1% to 2%. Revised Target: Same property NOI growth of 3% to 5%.
2018 Performance	Target met. Same property NOI grew by 4.8% in 2018 due to strong top-line results and moderate expense growth.
2019 Target	Same Property NOI growth of 3% to 5%.
Longer-term Target	Same Property NOI growth averaging over 3%.

Expanded Portfolio	
2018 Target	Original Target: A minimum of $125 million of acquisitions. Revised Target: A minimum of $225 million of acquisitions.
2018 Performance	Target exceeded. Killam completed $315 million of acquisitions in 2018. A summary of the acquisitions is shown on page 30.
2019 Target	Grow the portfolio to over $3.0 billion by the end of 2019, with a minimum acquisition target of $100 million.
Longer-term Target	Grow the portfolio to over $3.5 billion by the end of 2021.

Geographic Diversification	
2018 Target	At least 75% of acquisitions made outside Atlantic Canada and to earn at least 26% of 2018 NOI outside Atlantic Canada.
2018 Performance	Target partially met. 66% of acquisitions in 2018 were located outside Atlantic Canada. Excluding the acquisition of the remaining 50% interest in the joint Halifax-based Alexander development in December, 77% of acquisitions were outside Atlantic Canada. 27% of 2018 NOI was generated by properties located in Alberta and Ontario.
2019 Target	Earn at least 30% of 2019 NOI outside Atlantic Canada.
Longer-term Target	Over 35% of NOI generated outside Atlantic Canada by 2021.

Development of High-Quality Properties	
2018 Target	To complete The Alexander and Saginaw Park developments, and break ground on one additional development project.
2018 Performance	Target met. The Saginaw Park development was completed on schedule and opened in April 2018. The Alexander development was substantially complete in October 2018. Killam remains on schedule with the 228-unit Frontier development in Ottawa. In October 2018, Killam broke ground on a 78-unit development in Charlottetown. Killam received final approval from the City of Mississauga for its Silver Spear II joint development project and expects to break ground in Q2-2019.
2019 Target	To complete phase one (Frontier) of the Ottawa development, break ground on Silver Spear II and one additional development project.
Longer-term Target	To create a minimum of $20 million of value from developments completed between 2019 through 2021.

Strengthened Balance Sheet	
2018 Target	Maintain debt as a percentage of total assets ratio below 52%.
2018 Performance	Target met. Debt as a percentage of total assets was 49.8% as at December 31, 2018.
2019 Target	Manage debt as a percentage of assets ratio below 49%.
Longer-term Target	Reduce debt as a percentage of assets below 45% by the end of 2021.

Outlook

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

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

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

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

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

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

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

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

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

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

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

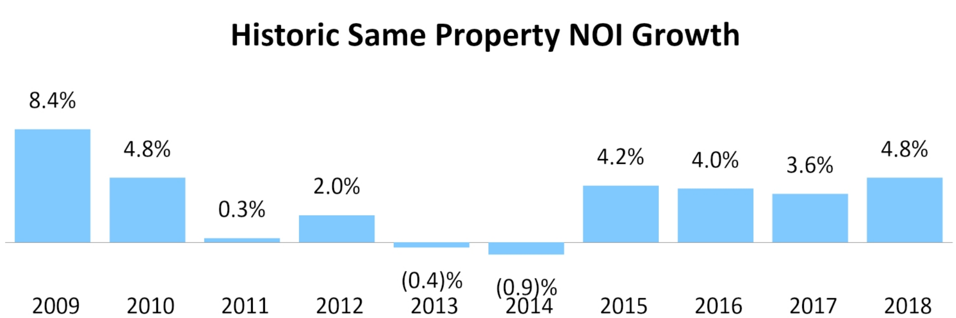
Higher Interest Expense Expected
Management expects to refinance mortgage maturities in 2019 at higher interest rates. Killam has $154.1 million of apartment mortgages maturing through to the end of 2019 having a weighted average interest rate of 2.82%, approximately 10 bps and 30 bps lower than prevailing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

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

PART III

Business Strategy

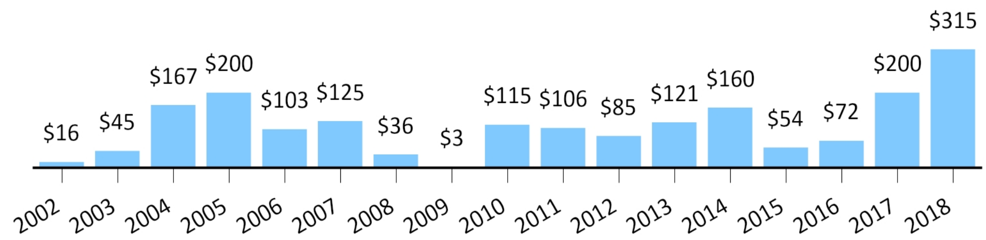
Increase Earnings from the Existing Portfolio
Killam increases the value of its portfolio by maximizing revenue and managing expenses. To achieve NOI growth, Killam must address three critical factors: occupancy, rental rates and operating costs. Killam focuses on providing superior customer service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



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

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

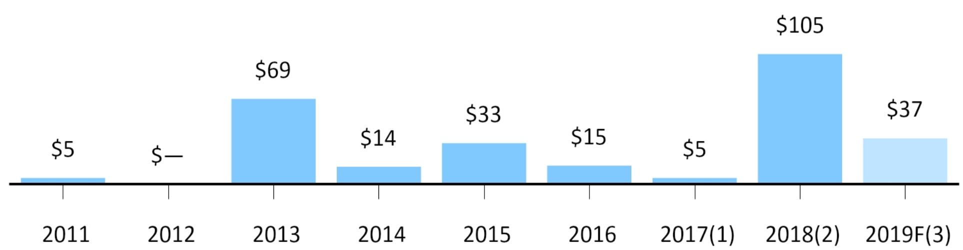
Annual Acquisitions ($ millions)



Develop High-Quality Properties in Core Markets

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

Apartment Developments Completed ($ millions)

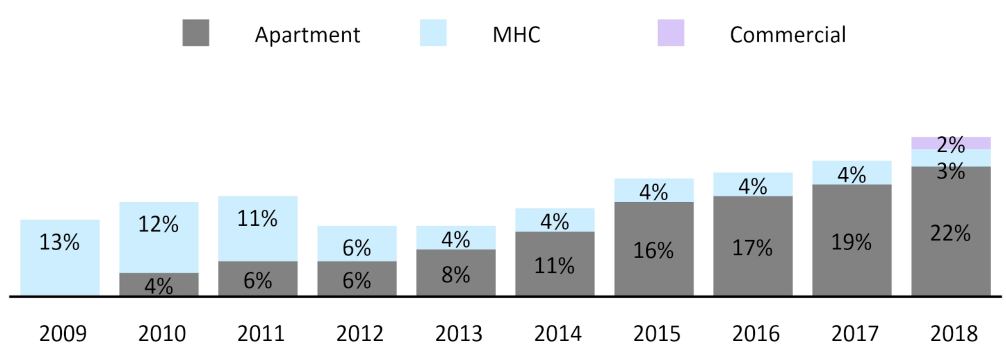


(1) Relates to Killam's 50% interest in the podium portion (55 units) of The Alexander.
(2) 2018 includes Saginaw Park and The Alexander. Killam was the development manager for 100% of the $85 million Alexander development and purchased the remaining 50% interest in December 2018.
(3) 2019 estimate includes Killam's 50% interest in the Frontier.

Diversify Geographically through Accretive Acquisitions

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

% of Killam's NOI Generated Outside Atlantic Canada



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

Portfolio Summary

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

Apartment Portfolio				
	Units (1)	Number of Properties	NOI ($)(2)	NOI(2) (% of Total)
Nova Scotia				
Halifax	5,753	64	$48,309	35.6%
Sydney	139	2	$1,311	1.0%
	5,892	66	$49,620	36.6%
New Brunswick				
Moncton	1,629	31	$10,113	7.5%
Fredericton	1,422	21	$9,677	7.1%
Saint John	1,202	14	$6,339	4.7%
Miramichi	96	1	$614	0.5%
	4,349	67	$26,743	19.8%
Ontario (3)				
Ottawa	1,124	10	$8,639	6.4%
London	523	5	$5,081	3.7%
Toronto	378	2	$3,764	2.8%
Kitchener-Waterloo-Cambridge	448	5	$4,779	3.5%
	2,473	22	$22,263	16.4%
Newfoundland & Labrador				
St. John's	915	12	$7,224	5.3%
Grand Falls	148	2	$776	0.6%
	1,063	14	$8,000	5.9%
Prince Edward Island				
Charlottetown	1,015	19	$6,982	5.1%
Summerside	86	2	$530	0.4%
	1,101	21	$7,512	5.5%
Alberta (3)				
Edmonton	474	3	$3,699	2.7%
Calgary	531	3	$2,834	2.1%
	1,005	6	$6,533	4.8%
Total Apartments	**15,883**	**196**	**$120,671**	**89.0%**

Manufactured Home Community Portfolio				
	Sites	Number of Communities	NOI ($) (2)	NOI (2) (% of Total)
Nova Scotia	2,749	17	$4,420	3.3%
Ontario	2,284	17	$4,854	3.6%
New Brunswick	170	1	$139	0.1%
Newfoundland & Labrador	224	2	$342	0.3%
Total MHCs	**5,427**	**37**	**$9,755**	**7.3%**

Commercial Portfolio				
	Square Footage	Number of Properties	NOI ($) (2)	NOI(2) (% of Total)
Halifax, NS	254,000	5	$3,070	2.2%
Waterloo, ON	297,000	1	$2,216	1.5%
Total Commercial	**551,000**	**6**	**$5,286**	**3.7%**
Total Portfolio		**239**	**$135,712**	**100.0%**

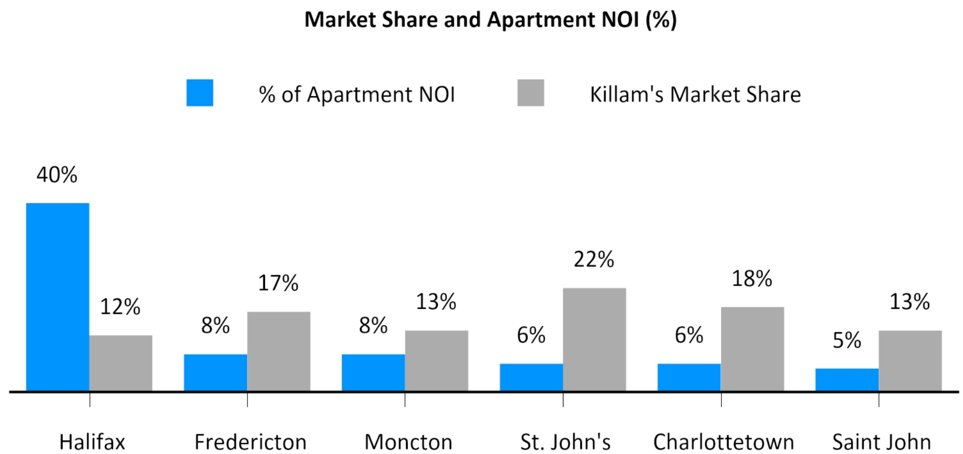
(1) Unit count includes properties held through Killam's joint arrangements. Killam has a 50% ownership interest in one property in Alberta and two properties in Ontario, representing a proportionate ownership of 563 units of the 1,125 units in these properties. Killam manages the operations of all the co-owned properties.

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

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

Unique Portfolio Features

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



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

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

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

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

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

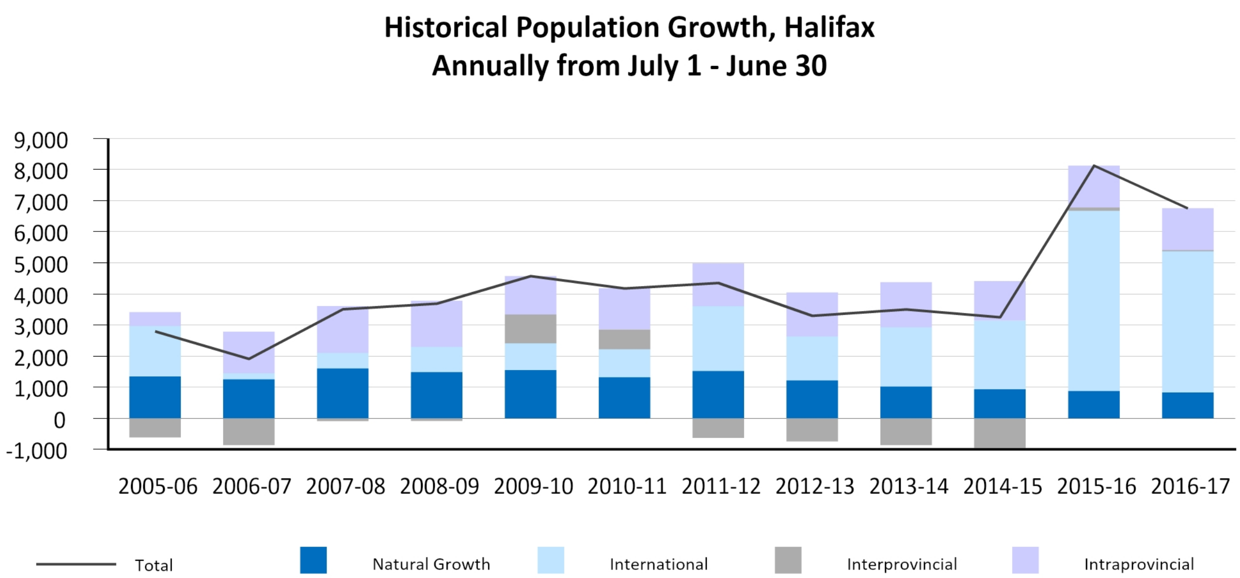
Core Market Update

Halifax

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

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

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

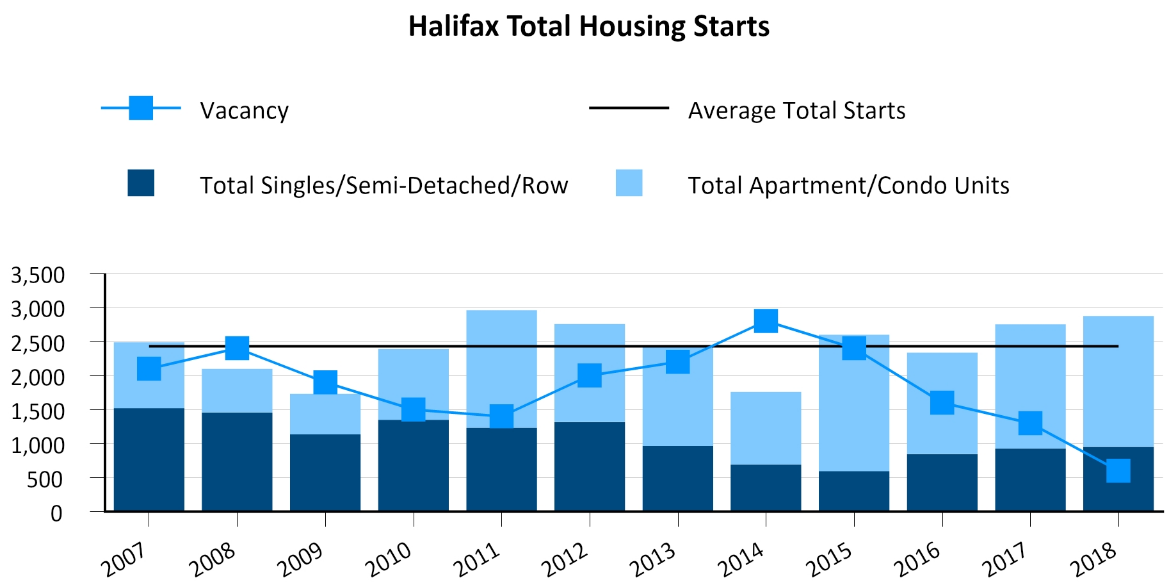


Source: Statistics Canada

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

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

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



Source: CMHC

New Brunswick

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

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

St. John's, Newfoundland

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

Prince Edward Island

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

Ontario

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

Ottawa

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

Kitchener-Cambridge-Waterloo

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

London

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

Greater Toronto Area

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

Alberta

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

Calgary

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

Edmonton

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

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

PART IV

2018 Financial Overview

Consolidated Results

For the years ended December 31,

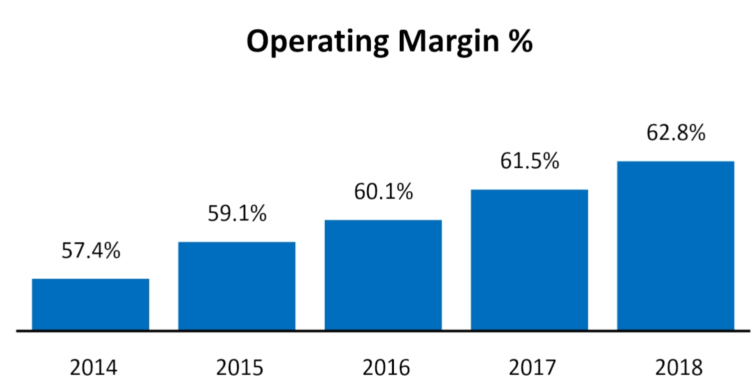
	Total Portfolio			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$215,959**	$187,377	15.3%	**$181,491**	$175,236	3.6%	**$34,468**	$12,141	183.9%
Property operating expenses									
General operating expenses	**33,447**	30,444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

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

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

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

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



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

Apartment Results

For the years ended December 31,	Total			Same Property			Non-Same Property		
	2018	2017	% Change	**2018**	2017	% Change	**2018**	2017	% Change
Property revenue	**$190,048**	$167,718	13.3%	**$165,975**	$160,136	3.6%	**$24,073**	$7,582	217.5%
Property operating expenses									
General operating expenses	**27,533**	25,470	8.1%	**24,745**	24,528	0.9%	**2,788**	942	196.0%
Utility and fuel expenses	**19,523**	17,772	9.9%	**17,985**	17,436	3.1%	**1,538**	336	357.7%
Property taxes	**22,321**	20,525	8.8%	**20,093**	19,835	1.3%	**2,228**	690	222.9%
Total operating expenses	**$69,377**	$63,767	8.8%	**$62,823**	$61,799	1.7%	**$6,554**	$1,968	233.0%
NOI	**$120,671**	$103,951	16.1%	**$103,152**	$98,337	4.9%	**$17,519**	$5,614	212.1%
Operating margin %	**63.5%**	62.0%	150 bps	**62.1%**	61.4%	70 bps	**72.8%**	74.0%	(120) bps

Apartment Revenue

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

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

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

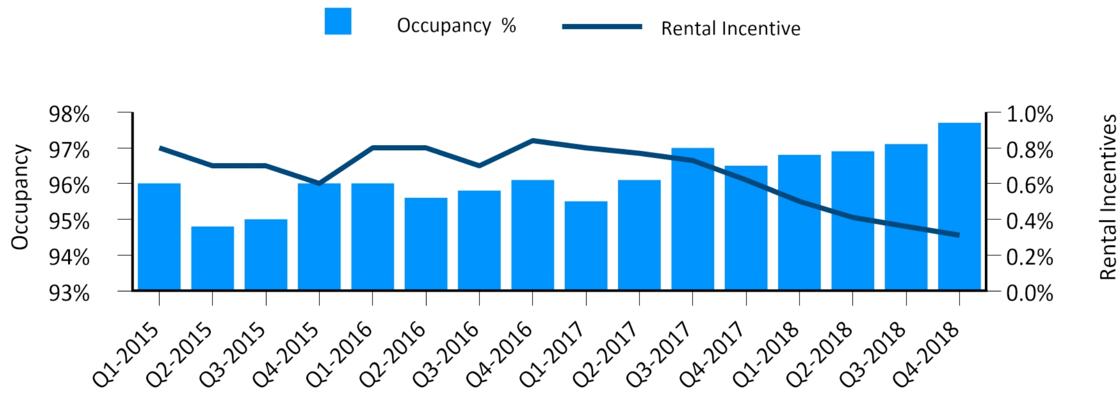
		Total Occupancy			Same Property Occupancy		
For the years ended December 31,	# of Units	**2018**	2017	Change (bps)	**2018**	2017	Change (bps)
Halifax, NS	5,753	**96.9%**	97.0%	(10)	**97.6%**	97.1%	50
Ontario	2,473	**95.8%**	96.3%	(50)	**97.2%**	96.4%	80
Moncton, NB	1,629	**97.4%**	96.0%	140	**97.4%**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

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

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

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

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



Average Rent Analysis by Core Market

As at December 31,		Average Rent			Same Property Average Rent		
	# of Units	**2018**	2017	% Change	**2018**	2017	% Change
Halifax, NS	5,753	**$1,100**	$1,027	7.1%	**$1,043**	$1,011	3.2%
Ontario	2,473	**$1,425**	$1,362	4.6%	**$1,382**	$1,343	2.9%
Moncton, NB	1,629	**$868**	$843	3.0%	**$868**	$843	3.0%
Fredericton, NB	1,422	**$960**	$937	2.5%	**$960**	$937	2.5%
Saint John, NB	1,202	**$807**	$786	2.7%	**$807**	$786	2.7%
St. John's, NL	915	**$980**	$971	0.9%	**$980**	$971	0.9%
Charlottetown, PE	1,015	**$1,005**	$925	8.6%	**$948**	$925	2.5%
Alberta	1,005	**$1,354**	$1,350	0.3%	**$1,147**	$1,131	1.4%
Other Atlantic	469	**$889**	$874	1.7%	**$889**	$874	1.7%
Total Apartments (weighted average)	15,883	**$1,076**	$1,017	5.8%	**$1,018**	$990	2.7%

Same Property Rental Increases - Lease Renewal versus Unit Turn

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

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

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

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

Apartment Expenses

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

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

Apartment Utility and Fuel Expenses - Same Property

For the years ended December 31,

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

Killam’s apartments are heated with natural gas (60%), electricity (32%), oil (6%), steam (2%) and propane (less than 1%). Electricity costs relate primarily to common areas as unit electricity costs are typically paid by tenants, reducing Killam’s exposure to the majority of the 5,000 units heated with electricity. Fuel costs associated with central natural gas or oil-fired heating plants are paid by Killam.

Utility and fuel expenses accounted for approximately 29% of Killam’s total apartment same property operating expenses for the year ended December 31, 2018. Total same property utility and fuel expenses were 3.1% higher than the year ended December 31, 2017.

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

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

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

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

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

Apartment Same Property NOI by Region

For the years ended December 31,

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

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

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

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

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

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

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

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

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

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

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

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

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

MHC Results

For the years ended December 31,

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

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

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

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

Commercial Results

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

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

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

PART V

Other Income and Expenses

Other Income

For the years ended December 31,

	2018	2017	% Change
	$965	$847	13.9%

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

Financing Costs

For the years ended December 31,

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

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

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

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

Capitalized interest increased $1.2 million for the year ended December 31, 2018, as compared to 2017. Capitalized interest will vary depending on the number of development projects underway and their stages in the development cycle. Interest costs associated with development projects are capitalized to the respective development property until substantial completion.

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

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

Depreciation Expense

For the years ended December 31,

	2018	2017	% Change
	$859	$787	9.1%

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

Administration Expenses

For the years ended December 31,

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

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

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

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

Fair Value Adjustments

For the years ended December 31,

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

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

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

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

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

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

Deferred Tax Expense

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

PART VI

Per Unit Calculations

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

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

Funds from Operations

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

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

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

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

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

Adjusted Funds from Operations

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

Details of Killam's total actual capital expenditures by category are included in the Capital Improvements section on page 33, and Killam's sources of funding are disclosed in the Liquidity and Capital Resources section on page 40 of this MD&A.

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

Maintenance Capex Reserve - Apartments

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

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

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

Maintenance capex includes all structural work and suite renovation investment required to maintain current revenues. For the year ended December 31, 2018, Killam updated its maintenance capex reserve to reflect the actual capital investment for the most recent three years (2016 - 2018), which is equivalent to $900 per unit. Based on this calculation, Management has selected $900 per unit for its maintenance capex reserve for 2018, which is consistent with the 2017 reserve of $900 per unit. Management will maintain this reserve in its calculation of AFFO throughout 2019 until the three-year average is updated at year-end with actual results.

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

Maintenance Capex Reserve - MHCs and Commercial

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

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

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

For the years ended December 31,	2018	2017	% Change
FFO	**$81,808**	$69,873	17.1%
Maintenance capital expenditures			
Apartments	**(13,216)**	(12,341)	7.1%
MHCs	**(1,731)**	(1,550)	11.7%
Commercial	**(289)**	—	—%
Commercial straight-line rent adjustment	**(143)**	—	—%
Commercial leasing costs	**(154)**	—	—%
AFFO	**$66,275**	$55,982	18.4%
AFFO per unit - basic	**$0.76**	$0.72	5.6%
AFFO per unit - diluted	**$0.76**	$0.72	5.6%
AFFO payout ratio - diluted(1)	**84%**	86%	(200) bps
Weighted average number of units - basic (000s)	**86,949**	77,575	12.1%
Weighted average number of units - diluted (000s)(2)	**87,185**	77,777	12.1%

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

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

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

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

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

Adjusted Cash Flow from Operations

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

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

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

For the years ended December 31,

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

(1) Includes distributions on trust units, exchangeable units and restricted trust units, as summarized on page 39.
(2) Based on Killam's monthly distribution of $0.05333 per unit from March 2018 to December 2018 and $0.05167 per unit from March 2017 to February 2018.

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

Cash Flows from Operating Activities and Distributions Declared

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

For the years ended December 31,

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

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

PART VII

Investment Properties

As at December 31,

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

Continuity of Investment Properties

For the years ended December 31,

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

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

Capitalization Rates

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

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-Sept-18	100%	IPUC	—	1,200
151 Greenbank	Ottawa, ON	26-Sept-18	100%	Apartment	20,700	—
180 Mill Street[2]	London, ON	28-Sept-18	100%	Parking garage	2,400	—
Treo	Calgary, AB	1-Oct-18	100%	Apartment	39,000	—
Dietz House	Waterloo, ON	15-Oct-18	100%	Development land	—	2,900
Parkwood Court	New Minas, NS	22-Oct-18	100%	MHC	2,675	—
The Alexander[3]	Halifax, NS	19-Dec-18	50%	Apartment	44,500	—
Total Acquisitions					$287,775	$27,650

[1] Purchase price does not include transaction costs.

[2] Parking lot connected to existing apartment building.

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

Investment Properties Under Construction

For the years ended December 31,

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

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

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

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

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

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

Gloucester City Centre
In 2017, Killam and RioCan REIT ("RioCan") formed a joint venture to develop a residential rental community at Gloucester City Centre in Ottawa, with Killam acquiring a 50% interest in a 7.1-acre development site for $8.0 million ($16 million at 100%). Killam and RioCan each own a 50% interest in the land and participate on the same basis in this development. RioCan is the development manager, and upon completion, Killam will be the residential property manager. The site has zoning approval for four residential towers with an aggregate total of 840 units.

The first phase of the development, Frontier, a 23-storey tower containing 228 units, is currently under construction. The total cost to develop Phase I is budgeted at $73 million ($36.5 million for Killam's 50% interest). As at December 31, 2018, Killam has invested $31.3 million in the first phase of the project, which is scheduled to be completed mid-2019. Leasing has began at the Frontier, with approximately 60 leases signed to date. Construction of Phase II, containing 208 units, is expected to commence in mid-2019.

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

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

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

Land for Development

For the years ended December 31,

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

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

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

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

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

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

Property	Location	Killam's Interest	Development Potential (# of Units)[1]	Status	Estimated Year of Completion
Developments expected to start in the next 24 months					
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
Gloucester (Ph 2)	Ottawa, ON	50%	104	In design	2021
Westmount (Ph 1)	Waterloo, ON	100%	120	In design	2022
Developments expected to start in 2021-2025					
Gloucester Park (Ph 3-4)	Ottawa, ON	50%	185	In design	2024
Grid 5/Plaza 54 (Ph 1-3)	Calgary, AB	40%	408	In design and approval process	2024
Cameron Heights	Edmonton, AB	100%	172	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			**2,787**		

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

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

Capital Improvements

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

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

For the years ended December 31,

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

Apartments - Capital Spend

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

For the years ended December 31,

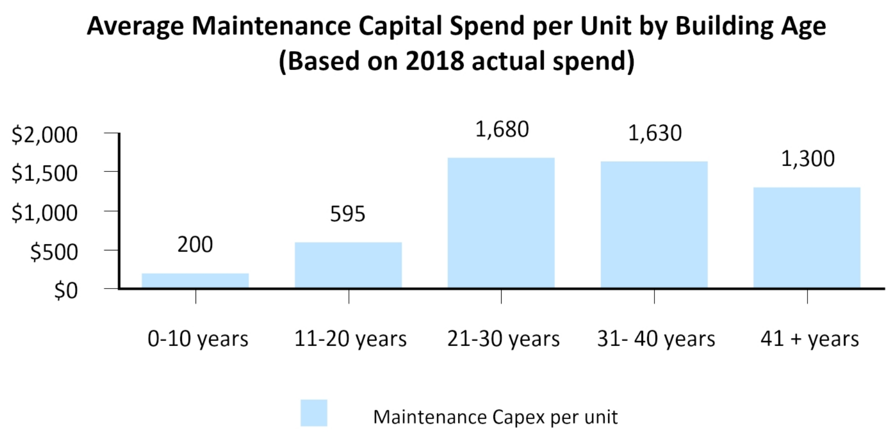
	2018	2017	% Change
Building improvements	**$22,222**	$12,493	77.9%
Suite renovations	**12,421**	9,972	24.6%
Appliances	**1,625**	1,355	19.9%
Boilers and heating equipment	**2,246**	2,501	(10.2)%
Other	**960**	405	137.0%
Equipment	**29**	201	(85.6)%
Parking lots	**398**	30	1,226.7%
Land improvements	**11**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

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

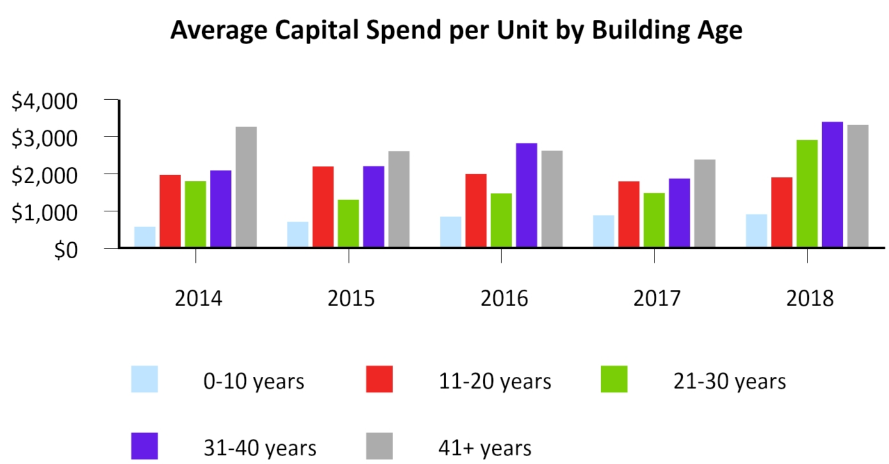
Killam invested $2,718 per unit for the year ended December 31, 2018, compared to $1,966 per unit for year ended December 31, 2017. The variance year over year is a result of timing of multi-phased projects and an enhanced capital program to drive NOI and NAV growth with repositionings, energy efficiency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

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

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



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



Building Improvements

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

Suite Renovations

Killam invested $12.4 million in suite renovations during the year ended December 31, 2018, a 25% increase over the total investment of $10.0 million for the year ended December 31, 2017, due to recent acceleration of Killam's suite repositioning program. Killam continues to focus on unit upgrades to maximize occupancy and rental increases. Killam targets a minimum ROI of 10% for its suite renovations. The timing of suite renovation investment is influenced by tenant turnover, market conditions and individual property requirements. In addition, the length of time that Killam has owned a property and the age of the property also impact capital requirements.

Suite Repositions

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

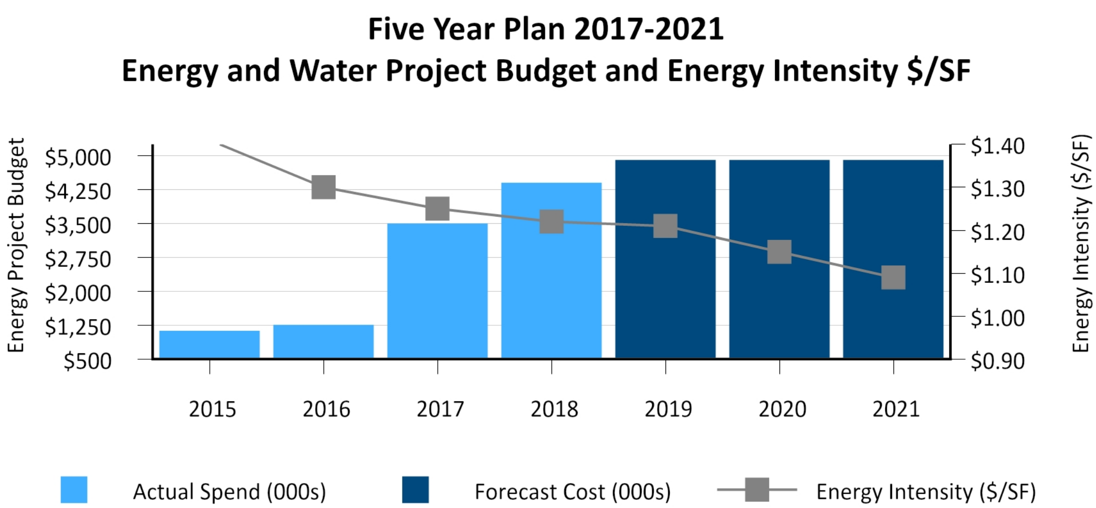
Dollar amounts in thousands of Canadian dollars (except as noted)

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

Energy Efficiencies

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

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



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

MHCs - Capital Spend

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

For the years ended December 31,

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

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

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

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

Commercial - Capital Spend

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

Mortgages and Other Loans

Below outlines Killam's key debt metrics:

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

(1) Ratio calculated net of cash

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

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

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

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering maturity dates. Additionally, Killam may enter into forward interest rate hedges. Approximately $180 million (or 14%) of Killam's fixed mortgages mature in the next year. If maturing mortgages are refinanced on similar terms, with the exception of a 100 bps increase/(decrease) in interest rates, financing costs would increase/(decrease) by $1.8 million per year.

Refinancings

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

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

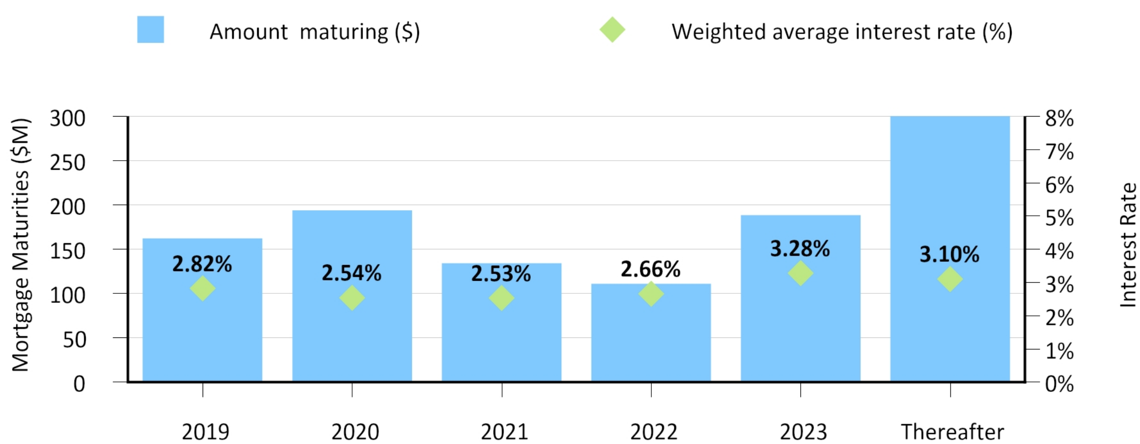
Dollar amounts in thousands of Canadian dollars (except as noted)

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

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

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

Apartment Mortgages Maturities by Year



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

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

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

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

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

Future Contractual Debt Obligations

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

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

[1] Killam's $70 million credit facility expires in December 2020.

Convertible Debentures

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

Credit Facilities

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

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

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

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

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

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

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

Construction Loans

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

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

Unitholders' Equity

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

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

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

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

Distribution Reinvestment Plan and Net Distributions Paid

For the years ended December 31,

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

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

Liquidity and Capital Resources

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

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

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

(ii) Currently, Killam has $36.7 million available on its credit facility, including the accordion feature. Combined with cash on hand, Killam has flexibility for approximately $100 million of acquisitions.

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

(iv) Construction facilities to fund development projects.

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

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

As at December 31,

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

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

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

PART VIII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

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

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

Q4 Consolidated Results

For the three months ended December 31,

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

Q4 Same Property NOI

For the three months ended December 31,

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

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

Apartment Same Property

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

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

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

Q4-2018 Occupancy by Region

For the three months ended December 31,

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

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

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

Q4-2018 Same Property Apartment NOI by Region

For the three months ended December 31,

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

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

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

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

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

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

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

MHC Same Property

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

Q4 FFO and AFFO

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

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

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

Selected Consolidated Financial Information

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

PART IX

Risk Management

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

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

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

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

As at December 31, 2018, $130.4 million of Killam's debt had variable interest rates, including two construction loans for $60.5 million, a credit facility balance 0f $53.4 million, and six demand loans totaling $16.4 million. These loans and facilities have interest rates of prime plus 0.63% - 2.0% (December 31, 2017 - prime plus 0.63% - 2.0%).

Liquidity Risk

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

Increased Supply Risk

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

Credit Risk

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

Cyber Security Risk

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

Development Risk

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

Environmental Risk

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

General Uninsured Losses

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

Rent Control Risk

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

Utility, Energy and Property Tax Risk

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

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

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

Fluctuation and Availability of Cash Distributions

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

Ability of Unitholders to Redeem Units

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

Exchangeable Units

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

Taxation-related Risks

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

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

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

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

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

- At each time in the taxation year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;

- Not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";

- Not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages on real or immovable properties, from dispositions of real or immovable properties that are capital properties;

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

- Investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

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

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

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

Other Canadian Tax Matters

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

Competition for Real Property Investments

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

Future Acquisitions of Real Property Investments

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

Zoning and Approval

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

Dependence on Key Personnel

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

Market for Securities and Price Volatility

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

Co-ownership

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

Ground Leases

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

Critical Judgments in Applying Accounting Policies

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

(i) Income taxes

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

(ii) Investment property and internal capital program

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

(iii) Financial instruments

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

(iv) Basis of consolidation

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

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

Key Accounting Estimates and Assumptions

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

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

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

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

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

Future Accounting Policy Changes

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

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

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

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

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

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

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

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

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

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

Related Party Transactions

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

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

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

Subsequent Events

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

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

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

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